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TFS CORPORATION LTD

A.B.N. 97 092 200 854

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

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TFS CORPORATION LTD
A.B.N. 97 092 200 854
AND CONTROLLED ENTITIES

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CORPORATE DIRECTORY

DIRECTORS

Mr Frank Wilson (Executive Chairman)
Mr Ronald Eacott
Mr Adam Gilchrist
Mr Julius Matthys
Mr Stephen Atkinson (Appointed 12 July 2012)
Mr Richard Alston (Resigned 3 October 2012)
Mr Ian Thompson (Resigned 12 July 2012)
Mr Timothy Croot (Resigned 12 July 2012)

COMPANY SECRETARY

Mr Quentin Megson
Mr Simon Storm

AUDITORS
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PRINCIPAL PLACE OF BUSINESS

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TFS CORPORATION LTD
A.B.N. 97 092 200 854
AND CONTROLLED ENTITIES

DIRECTORS' REPORT

Your Directors present the financial report on the company and its controlled entities ("the economic entity" or "the Group") for the financial year ended 30 June 2013.

Directors:

The names of the Directors in office any time during or since the end of the year are:-

Frank Cullity Wilson	Executive Chairman and Chief Executive Officer
Qualifications:	Bachelor of Laws
Experience:	Mr Wilson is the founding Chairman of the TFS group having been appointed on 28 March 2000. In December 2006 he was appointed to the role of Executive Chairman, a role which he held until 10 November 2011 when he resigned from the Board of Directors. On 12 June 2012 he was re-appointed to the Board of Directors in the role of executive director followed by the appointment as Executive Chairman on 3 October 2013. He was previously the Managing Partner of the legal firm Wilson & Atkinson, which specialises in taxation, property and commercial law. Mr Wilson is an experienced businessman, who has a long standing involvement in the forestry industry. He is also a governor of the University of Notre Dame.
Interest in shares and options:	45,801,493 ordinary shares in TFS Corporation Ltd (16.38% of the company) at 13 September 2013.
Interests in TFS Projects:	106.16Ha (2012: 186.7Ha) of interests held in TFS Indian Sandalwood projects.
Special responsibilities:	Director of Gulf Natural Supply Co.
Directorships held in other listed entities:	None
Ronald Lionel Eacott	Director (Non-executive)
Qualifications:	Diploma of Mechanical Engineering; Diploma of Export Management & Marketing
Experience:	Mr Eacott was appointed to the Board on 28 March 2000. He is the current Managing Director of Expo Document Copy Centre (WA) Pty Ltd, a leading company in the reprographic industry. Mr Eacott is highly experienced in company management with previous positions including State Manager of Union Steel (seven years) and National Manager (New Zealand) for Elders Pastoral (three years). Mr Eacott was the former State Manager (Western Australia) of Boral Steel and later Boral Cyclone over an 18 year period and plays an active role in the community. Mr Eacott is a Fellow of the Australian Institute of Export and is a past State President for the institute.
Interest in shares and options:	4,841,201 ordinary shares in TFS Corporation Ltd (1.73% of the company) at 13 September 2013.
Interests in TFS Projects:	4.83Ha (2012: 4.83Ha) of interests held in TFS Indian Sandalwood projects.
Special responsibilities:	Chairman of Remuneration and Audit & Risk Committee and board member representative on Compliance Committee
Directorships held in other listed entities:	None

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DIRECTORS' REPORT (continued)

Adam Craig Gilchrist — Director (Non-Executive)

Qualifications: Nil

Experience: Mr Gilchrist was appointed to the Board on 1 July 2011. He is one of Australia's best known international cricketers (retired from international cricket since 2008) and is the only wicketkeeper in Australia to have captained the Australian Test and One Day teams. He is acknowledged for his leadership, sportsmanship and outstanding contribution to the Australian cricket industry. As the Global Ambassador for TFS Corporation since June 2010, he has been involved in the promotion of sandalwood-based products in high-growth countries on the sub-continent such as India, and has an understanding of TFS products and their potential in new markets. He was a member of the Local Steering Committee for the Commonwealth Business Forum, and is currently Chairman of the National Australia Day Council, appointed by the Prime Minister in 2008. He was a Non-Executive Director of Travelex Australasia from 2003-2008.

Interest in shares and options: 2,125,083 ordinary shares in TFS Corporation Ltd (0.76% of the company) at 13 September 2013.

Interests in TFS Projects: 1.3Ha (2012: 1.3Ha) of interests held in TFS Indian Sandalwood projects.

Special responsibilities: Member of Remuneration Committee.

Directorships held in other listed entities: None

Julius Luke Matthys — Director (Non-executive)

Qualifications: Bachelor Commerce

Experience: Mr Matthys was appointed to the board on 23 December 2011 and is an experienced senior executive with BHP Billiton. He has held senior roles in Iron Ore and Aluminium marketing with responsibility for global sales and customer relationships. From 2008 to 2011 he managed the Worsley Alumina Joint venture between BHP Billiton, Japan Alumina Associates and Sojitz Corporation. Worsley Alumina is one of the largest alumina refineries in the world producing 3.5 million tonnes of alumina per annum. He has just recently taken up the role of Vice President External Affairs WA for the BHP Billiton Group.

Interest in shares and options: 3,342,500 ordinary shares in TFS Corporation Ltd (1.20% of the company) at 13 September 2013.

Interests in TFS Projects: 1.3Ha (2012: 1.3Ha) of interests held in TFS Indian Sandalwood projects.

Special responsibilities: Member of Audit & Risk Committee and Remuneration Committee.

Directorships held in other listed entities: None

DIRECTORS' REPORT (continued)

Stephen Lee Atkinson	Director (Non-executive)
Qualifications:	Bachelor of Laws; Bachelor of Jurisprudence
Experience:	Mr Atkinson was appointed to the board on 12 July 2012 and was a founding director and shareholder instrumental in the establishment of TFS in 1997. He was responsible for the provision of legal advice across all corporate and commercial matters relating to the establishment and day-today running of the company. Previously a partner of the legal firm Wilson & Atkinson and in 2002 he established a sport management consultancy business ATK Consultants.
Interest in shares and options:	3,866,668 ordinary shares in TFS Corporation Ltd (1.38% of the company) at 13 September 2013.
Interests in TFS Projects:	1.5Ha (2012: 1.5Ha) of interests held in TFS Indian Sandalwood projects.
Special responsibilities:	Member of Audit & Risk Committee.
Directorships held in other listed entities:	None

Other Directors who held office during the financial year were:-

Richard Kenneth Robert Alston	Chairman of the Board (Non-Executive) - Resigned 3 October 2012
Qualifications:	Bachelor degrees in Law, Arts and Commerce, Masters degrees in Law and Business Administration.
Experience:	Mr Alston was appointed to the Board on 1 July 2011. He is a non-executive director of UK listed public company Chime PLC and a director of Australian based companies CQS (Investment Management) Australia Pty Ltd, Nanuk Asset Management Pty Ltd and Balmoral Gardens Pty Ltd. He is also a member of the International Advisory Board of London based hedge fund CQS LLP and a member of the Asia-Pacific Regional Advisory Board of Alcatel-Lucent. Since 2004 he has been an Adjunct Professor of Information Technology at Bond University, Queensland. From 2005-08 he was Australian High Commissioner (Ambassador) to the United Kingdom and from 1996-2003 he was the Federal Minister for Communications, IT and the Arts in the Australian Parliament. He served as a Senator for Victoria from 1986-2004 and was Deputy Leader in the Senate for more than ten years. Prior to taking up his London post he was a director of Hansen Technologies Ltd, UCMS Pty Ltd and Broadcasting Services Australia Ltd, of which he served as Chairman.
Ian Ross Thompson	Director (Executive Director of Communications) – Resigned 13 July 2012
Qualifications:	Nil
Experience:	Mr Thompson was appointed to the Board on 27 February 2006. He is a former senior executive of News Corporation in the capacities as chief executive officer of Community Newspapers Perth Print and chief executive director of Super League Perth. Among his achievements was the building and commissioning of a $100m printing works for Perth Print.

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DIRECTORS' REPORT (continued)

Timothy Croot — Director (Non-executive) – Resigned 13 July 2012

Qualifications: Nil

Experience: Mr Croot was appointed to the Board on 18 October 2007. He holds over 40 years of experience in the agricultural industry developing a range of horticultural, agricultural, wholesaling, nursery and pastoral businesses throughout Australia. Since 1991 Mr Croot has lived in Kununurra and has been an active member of the Kununurra community, holding senior positions on a variety of regional agricultural organisations. He is part owner of a large nursery business that supplies Indian Sandalwood seedlings to the Kununurra Indian Sandalwood industry.

Company Secretary

The following persons held the position of company secretary at the end of the financial year:

Mr Quentin Heath Megson

Mr Megson joined the TFS Group in January 2005 as Chief Financial Officer. Prior to that he was a partner in the tax and business services division of chartered accounting firm - Pitcher Partners. He has been a chartered accountant for approximately 20 years.

Mr Simon Jonathan Storm (appointed 16 January 2013)

Mr Storm is a Chartered Accountant with over 25 years of Australian and international experience in the accounting profession and commerce. He has held various senior finance and/or company secretarial roles with listed and unlisted entities in the banking, resources, construction, telecommunications and property development industries. In the last 11 years he has provided consulting services covering accounting, financial and company secretarial matters to various companies in these sectors.

Meetings of Directors

During the financial year, 17 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	Directors Meeting		Committee Meetings			
			Audit Committee		Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Richard Kenneth Alston	2	2	3	3	-	-
Frank Culity Wilson	15	15	-	-	-	-
Ronald Lionel Eacott	15	15	2	2	2	2
Adam Craig Gilchrist	15	14	-	-	2	2
Julius Luke Matthys	15	12	5	4	2	2
Stephen Lee Atkinson	15	15	5	3	-	-

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DIRECTORS' REPORT (continued)

Principal Activities

The principal activities during the year of entities within the Group were:

- promotion of sandalwood plantation investment to institutional offshore investors,
- promotion of sandalwood managed investment schemes,
- management and maintenance of sandalwood plantations,
- manufacture and distribution of Australian sandalwood oil and related products,
- ownership, sale and leasing of land,
- ownership of sandalwood plantations, and
- provision of finance.

There have been no significant changes in the nature of activities undertaken during the year.

Review of results and operations

The operations and results of the Company for the financial year are reviewed below. This review includes information on the financial position of the Company, and its business strategies and prospects for future financial years.

Group Overview

TFS Corporation Ltd was incorporated on 28 March 2000. On 1 May 2000, TFS Corporation Ltd acquired 100% of the shares in TFS Properties Ltd, Tropical Forestry Services Ltd, Arwon Finance Pty Ltd and TFS Leasing Pty Ltd. Sandalwood International Pty Ltd and Fieldpark Pty Ltd were subsequently acquired by TFS Corporation. Both of those companies are currently dormant. TFS Corporation Ltd was listed on the Australian Stock Exchange on 21 December 2004.

TFS Corporation Ltd acquired the Mt Romance Holdings Ltd group on 24 July 2008. The Mount Romance results have been consolidated as part of the TFS group since acquisition.

The Group also acquired a 50% interest in incorporated joint ventures - Northern Development Corporation Pty Ltd and Gulf Natural Supply Co. during the 30 June 2009 year. Subsequent to year end, the balance of the latter company was acquired. During the 30 June 2012 year the Group acquired a 50% interest in a US incorporated entity called Santalis Pharmaceuticals Inc. These investments are accounted for in the economic entity's financial statements in accordance with the equity accounting method.

Operating Results

The consolidated comprehensive income of the Group for the financial year after providing for income tax increased 115% to $55.729m (2012: $25.878m).

Operating Revenue

Total revenue from ordinary activities increased 48.0% to $187.688m. In particular cash revenues increased 37.7% to $121.670m (2012:$88.401m), reflecting three institutional investors agreeing to re-invest in additional Indian sandalwood hectares, and strong sales to high net worth Australian investors.

Establishment and land sale fees from Institutional investors totalled $59.656m (2012: $43.400m). Establishment fee revenue from private high net worth investors was $18.386m (2012: Nil) while MIS retail investors totalled $5.122m (2012: $7.800m). Revenue from recurring maintenance fees increased 10.8% to $11.367m (2012: $10.257m). Wholesale sales volume increased 92.8% to 1,118 hectares, whereas the retail MIS and High Net Worth Investor products experienced an upward trend of 389.8% to 557.4 hectares (MIS 63.1ha, HNW 494.3ha).

Non-cash revenues increased 71.8% to $66.019m (2012: $38.437m). This largely reflected a gain of $50.506m received on settlement of a debtor, whereby the Company resumed ownership of an investor's Indian sandalwood plantation.

DIRECTORS' REPORT (continued)

The non-cash increase in recognition of deferred management fees was $3.037m as compared to $17.970m in 2012. This increment was less than the prior year as the valuation of deferred interests in the MIS growers plantations were impacted by applying revised yield expectations, which reduced what would otherwise be the impact of the normal plantation growth rate. This decrease is mainly attributable to the earlier plantations and does not factor in recent price rises in Indian sandalwood.

The biological asset, representing plantations owned by the Company, increased 22.9% to $12.475m (2012: $10.153m). This increase was also negatively impacted by revised yield expectations on earlier plantations; however it was positively impacted by the significant increase in the number of plantations owned.

Cash flow from these fees will be realised as the harvest program commences.

Revenue from the production business of Mt Romance rose 13.0% to $18.412m (2012: $16.288m) with earnings before interest, tax and depreciation ("EBITDA") of $3.152m (2012: $2.935m). This was a very encouraging result given the adverse impact of the higher Australian dollar throughout the reporting period.

Operating Costs

Operating costs on core activities (excluding D&A, interest, finance cost, loss of sale of loan book, and unrealised foreign exchange movements) increased 0.25% to $65.658m (2012: $64.064m), mainly due to:

- the cost of servicing a larger forestry estate (Company owned plantation estate now covers over 7,580 ha with plantings in the last season of 1,152ha);
- the capitalisation of approximately $2.4m of research and development expenditure, which will ultimately be recovered through the product development with Santalis.

Interest and Financing Expenditure

Interest and finance costs for the year totalled $16.870m (2012: $17.181m). This related to the US$150m secured notes that were issued in 2011 and are due to expire in 2018.

The company incurred an unrealised foreign exchange loss of $15.119m, primarily as a result of translating the U.S. denominated notes into Australian dollars at year-end. As the ultimate sale of the company's sandalwood plantations will be denominated in US dollars, the view at this stage is this provides a suitable hedge for the overall foreign exchange risk.

Statement of cash flows

Cash and cash equivalents at 30 June 2013 increased by 2.5% to $56.517m (2012: $55.124m).

Operating cash flows

Cash flow from operating activities increased by 136% to $21.833m (2012: Cash used in operations $60.512m).

The Group expects positive operating cash flow in 2013/14 with several Beyond Carbon settlements expected in the first half of the financial year. The high net worth investors who invested in new plantations in 2012/13 were funded by Arwon Finance and as such cash will be received in accordance with the terms of their loan agreements. Since balance date some of these investors have repaid their loans from proceeds received from TFS on sale of their mature plantations.

Operating cash flow improved through the partial sale of the company's loan book, which resulted in a net cash inflow of $22.092m in May 2013. This effective recycling of capital was one of the strategic capital management initiatives introduced during the year. The loan book was not considered a core asset of the business and it was decided the funds could be put to better use, including the acquisition of mature Indian sandalwood plantations.

Investing cash flows

Cash outflow for investing activities increased by 3.4% to $20.425m (2012: $19.750m).

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DIRECTORS' REPORT (continued)

Financing cash flows

Cash flow from financing activities decreased by $58.498m to $0.015m due to there being no proceeds from a drawdown in borrowings in the current year.

Statement of financial position

Current assets

Current assets increased by 4.9% to $188.343m (2012: $179.497m). Trade receivables increased by 30.7% to $106.293m (2012: $81.317m) due primarily to an increase in loans to growers and this was partially offset by a 40% decrease in inventories, which primarily related to a decrease in land inventory held for resale.

Non-current assets

Non-current assets increased by 36.6% to $426.718m (2012: $312.358m) mainly due to the re-acquisition of plantations and increase in fixed asset acquisitions.

Current liabilities

Current liabilities increased by 55.4% to $48.460m (2012: $31.188m) mainly due to unearned income increasing $11.831m along with smaller increases in the current tax liability of $3.138m and trade and other payables of $2.087m.

Non-current liabilities

Non-current liabilities increased by 26.2% to $241.969m (2012: $191.777m). Financial liabilities increased $17.649m due to the restatement of the US$ denominated secured notes at year end and deferred tax liability increasing $25.954m mainly arising as a consequence of the unrealised gain on the plantation.

Operations Review

Promotion of Wholesale Agricultural Projects and Retail Managed Investment Schemes

During the year the Group entered into contracts to establish and manage a further 1,118 hectares (2012: 580 hectares) of Indian sandalwood plantation for institutional wholesale investors. In addition the Group promoted its new project titled TFS Sandalwood Project 2013, as well as a product for Australian-based High Net Worth investors. A total of 557.4 hectares was subscribed for by MIS and High Net Worth investors during the 2013 year (2012: 113.8 hectares).

Manufacture and Distribution of Australian sandalwood oil and related products

The Mount Romance business was acquired in July 2008. The Mount Romance group is in the business of manufacture and distribution of Australian sandalwood oil and related products to the international market.

Management and Maintenance of Plantations

The trees in each of the plantations are growing well with no major concerns. Though the Group's earliest plantations have had poor survival rates, recent plantation establishment programs have resulted in high survival rates. Maintenance of the company's plantations is conducted in accordance with a detailed management plan. As previously advised, sample testing of Indian Sandalwood trees grown in Australia has been performed by the Group which show significant development of heartwood and oil in the trees. These results have also been used to create a model to predict the growth rate of sandalwood trees from 5 years of age. The Group conducted an inventory analysis of its plantations under management and has applied these results to its predictive model to more accurately estimate the heartwood and oil yield at different ages of maturity.

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DIRECTORS' REPORT (continued)

Ownership of land and plantations

TFS continues to expand its plantations under management by establishing over 1,150 hectares of new Indian Sandalwood plantations during the financial year.

TFS' geographic land and plantation composition (expressed in hectares) at 30 June 2013 is set out below.

	Established plantations			New plantations (2013)			Unplanted land (est.)		
	WA	QLD	NT	WA	QLD	NT	WA	QLD	NT
TFS owned	678	582	62	5	19	-	-	-	2,491
Beyond Carbon plantations	1,551	-	228	-	182	833	-		-
MIS plantations[1]	3,328	-	-	99	14	-	-	-	-
TOTAL (Ha)	**5,557**	**582**	**290**	**104**	**215**	**833**	**-**	**-**	**2,491**

[1] As at 30 June 2013, TFS was entitled under its deferred management fee arrangements to the cash proceeds from harvesting an estimated 738 hectares of MIS plantations.

During 2012/13, the Group increased its direct ownership of plantations by 110.0% to 1,346 hectares (2012: 641ha). A large part of this increase resulted from the reclamation of 580 hectares from a wholesale debtor who did not meet their agreed payment terms and TFS chose to terminate the contract. In addition, the estimated amount of TFS' indirect interest in MIS-owned plantations decreased by approximately four hectares during 2013 to 738 hectares. Since balance date, TFS has acquired a further 359 hectares of mature plantations from MIS investors and now has direct ownership of 1,705 hectares and total direct and indirect ownership of 2,443 hectares.

This increase in company-owned plantations coincides with the Board's desire to have a greater direct interest in the sandalwood plantation assets. This strategic direction was agreed upon by the Board as a result of the recognition of the very positive long term market fundamentals for Indian sandalwood. It is believed that to the extent that the company's cash flow will permit, having a greater direct holding in the sandalwood asset itself rather than simply being a supplier of plantation services will ultimately result in greater value to all shareholders.

It should be noted, that, our investor partnerships in the Beyond Carbon and MIS programs will continue to be a key platform of our operations and will further align each of our objectives to a common goal, being to maximise the returns from the sandalwood plantations. TFS expects to generate significant performance fees from the Beyond Carbon investors upon the harvest and sale of their plantations.

Provision of Finance

Arwon Finance Pty Ltd is a provider of finance, with the major focus being the provision of finance to persons investing in agricultural projects promoted and managed by the company. Arwon also continues to manage a loan portfolio that is owned by a subsidiary of the Commonwealth Bank of Australia. During the year the MIS loan portfolio was identified to not be a core asset of the Company and it announced the divestment of a portion of the portfolio of MIS loans to a large global credit fund for approximately $22.4 million. TFS agreed to continue to manage the sale portfolio on behalf of the acquirer for an ongoing management fee. The transaction was undertaken at a discount to the face value of the loan portfolio and resulted in a reduction to after-tax, non-cash earnings of approximately $2.5 million.

The Directors believe that the group is in a strong and stable financial position to expand and grow its current operations.

Risk Management

The Group takes a pro-active approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board. Following the completion of the US$150m Senior Secured Note facility, TFS Corporation Ltd has established an expert treasury committee to advise the board on managing the FX risk inherent in the facility and in particular review and monitor the natural currency hedge that exists in the Group's balance sheet.

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DIRECTORS' REPORT (continued)

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the parent company during the financial year:

Post Balance Date Events

As part of the Group's strategy to increase its direct plantation ownership the Group acquired 359 hectares of mature Indian sandalwood trees from six existing growers (including FC Wilson and associated entity – see Note 40 (c): Related Parties Transactions) to the amount of $44.85m (GST Inclusive). $36.47m of the proceeds due to the growers were offset against amounts they owed to the Group reducing the impact on the Group's cash flow, with the remaining $8.38m to be paid out in cash. The valuation method used in determining the purchase price for these trees were based on the same SGARA discounted cash flow model adopted by the Group to value its own trees for reporting purposes during the half year results, the September 2012 and March 2013 quarterly reports. This valuation model has been reviewed by the Group's auditors as part of the half year audit review.

The Group also settled on an agreement whereby it acquired the remaining 51% of Gulf Natural Supplies Co (an associated company – see Note 13) for AED 1,100,000 (UAE Dirham). Final Australian Dollar settlement amount, which occurred on 23 July 2013, was $323,597.

After balance date the Group declared a final fully franked dividend in respect of the year ended 30 June 2013 of 3.0 cents per share, to be paid on 8 November 2013. This equates to a total dividend of $8.389m.

Apart from the above no other events have occurred since balance date which have or may significantly affect the Group's operations, results of operations or state of affairs in future financial years.

Future Developments, Prospects and Business Strategies

The Directors foresee that for the 2014 financial year, the most significant areas for change will be in:

- the harvest of the Group's first Indian Sandalwood plantation,
- the continued expansion of the institutional wholesale plantation establishment and maintenance project. This project will be offered together with a retail MIS sandalwood project, and as a result diversify the forestry management base,
- the continued expansion of distribution markets for TFS sandalwood related products and oil via the Mount Romance brand, the Gulf Natural Supply joint venture in the UAE and the Santalis operations in the U.S.; and
- the continued development of the Group's infrastructure in Kununurra, Albany, Queensland and the Northern Territory.

Environmental Management

The Group's operations are subject to significant environmental regulations under the laws of the Commonwealth and various States and Territory where the Group operates.

The Directors have considered the National Greenhouse and Energy Reporting Act 2007 (the NGER Act) which introduces a single national reporting framework for the reporting and dissemination of information about the greenhouse gas emissions, greenhouse gas projects, and energy use and production of corporations. At the current stage of development, the Directors have determined that the NGER Act will have no effect on the company for the current or subsequent financial year. The directors will reassess this position as and when the need arises.

Dividends Paid

No dividends were declared or paid during the 2013 financial year.

After the balance date the following dividend was proposed by the directors. The dividend has not been provided for and there are no income tax consequences.

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DIRECTORS' REPORT (continued)

	Cents per share	Total amount $'000	Date of payment
Final ordinary	3 cents per share	8,389	8 November 2013

The financial effect of this dividend has not been brought to account in the consolidated financial statements for the year ended 30 June 2013 and will be recognised in subsequent financial reports.

Indemnifying Officers or Auditor

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer or auditor of the economic entity, other than the following:

The company has paid premiums to insure each of the directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company. The cover included professional indemnity as well as directors and officers insurance.

Options & Warrants

At the date of this report, the unissued ordinary shares of TFS Corporation Ltd under option or warrants are as follows.

Grant Date	Date of expiry	Exercise price	Number under option/warrants
21 February 2008	31 December 2014*	$1.80	1,000,000
1 August 2011	15 July 2018	$1.28	55,500,000

*The date of expiry is dependent upon when the first commercial delivery of sandalwood oil takes place and therefore the above date can change.

Option holders do not have any rights to participate in any issues of shares or other interest in the company or any other entity.

There have been no unissued shares or interests under option of any controlled entity within the Group during or since reporting date.

Non-Audit Services

The board of directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

During the year, there were non-audit services provided to the economic entity by the auditors of the company. The audit firm Bentleys was paid $9,000 (2012: Nil) for these services.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

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DIRECTORS' REPORT (continued)

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2013 has been received and can be found on page 22 of the annual report.

ASIC Class Order 98/100 Rounding of Amounts

The company is an entity to which ASIC Class Order 98/100 applies and accordingly, amounts in the financial statements and Directors' report have been rounded to the nearest thousand dollars.

Remuneration Report - Audited

This report, which forms part of the Directors' Report, outlines the remuneration arrangements in place for the Directors and for the key management personnel ("KMP") of TFS Corporation Limited (the "Company") for the financial year ended 30 June 2013. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

Remuneration Committee

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for the Directors, the CEO and the executive team.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of Directors and Executives on a periodic basis by reference to relevant employment market conditions with an overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

2012 Annual General Meeting
A message from the Remuneration Committee

The Company received its 'first strike' in respect of its Remuneration Report at last year's Annual General Meeting (AGM) where more than 25% of eligible shareholders voted against the resolution.

In response, and in formulating its refreshed remuneration programme, the company has undertaken a comprehensive review of its current executive remuneration practices. The Chairman of the Remuneration Committee, Ron Eacott and independent Directors, Julius Matthys and Adam Gilchrist have worked closely with Gerard Daniels as independent remuneration advisers to provide feedback on the Company's policies compared with current market practice.

Gerard Daniels has provided their suggestions, which have been incorporated into a revised remuneration policy for 2013 - 14, namely:

- Clear remuneration and incentive philosophy;
- Robust short term incentive and long term incentive program that demonstrates the link between executive performance and strategic intent, growth and shareholder value;
- Using remuneration and employment contracts as retention tools for key personnel;
- Restructured CEO pay; and
- Testing the affordability of the remuneration structure.

In taking Gerard Daniels suggestions on board, the Committee has recommended that along with competitive Total Fixed Remuneration, the following are introduced:-

- Short Term Incentives based on Key Performance Indicators; and
- Long Term Incentives comprising performance rights, based on ongoing employment and achievement of Relative Total Shareholder Return, with long horizon vesting dates and unvested portions forfeited if no longer in employment.

REMUNERATION REPORT – AUDITED (continued)

In connection with the CEO's remuneration of $750,000 per annum, the Committee is of the view that whilst this is approximately 7% higher than rates paid by comparator companies, unlike the market comparators on which the recommended range has been determined, this is not unreasonable in light of the 15 years experience the current CEO brings to the business and the professional relationships he has developed with key customers of the business.

The Company is committed to ensuring the remuneration policy supports its growth aspirations and business strategy by ensuring the retention of key Executives at a vital stage in the Company's development, and more importantly, ensuring it maintains its position as the world's largest vertically integrated manager and grower of sustainable Indian Sandalwood.

Ron Eacott
Chairman
Remuneration Committee

Remuneration Policy

The Company's policy for determining the nature and amount of emoluments of board members and senior executives of the company is as follows:

Non-Executive Director Remuneration

Applying best corporate governance practice the structure of Non Executive Director remuneration is distinct and separate from Executive remuneration. The remuneration of the Non-Executive directors is determined by the Board within the maximum amount approved by shareholders. The latest determination was at the Annual General Meeting held on 10 November 2011 when shareholders approved an aggregate remuneration of $500,000 per year.

Non Executive Directors receive a fee of cash and the statutory superannuation contribution. They have no entitlement to any performance based remuneration or participation in any share-based incentive schemes. They are not eligible for termination payments. The fees paid to a non-executive director recognise additional participation by them on committees. Any further services provided by Non-Executive Directors that they may be requested by the Chairman and are outside the normal expected duties of a Director are remunerated at an agreed arm's length rate.

Non Executive Directors received fees in the range of $38,150 and $48,370 inclusive of superannuation. Because of the onerous workload this year, directly attributable to three invalid notices received from minority shareholders attempting to requisition an extraordinary general meeting of the Group to replace the Board and CEO, the Directors also received a special exertion fee of $16,350 each.

The Board considers advice from external advisors and benchmarks the fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process.

Senior Manager and Executive Director Remuneration

The Chief Executive Officer and other Executives' remuneration packages are all subject to Board approval. The remuneration structure for the CEO and Executives is based on factors of qualifications, skill and experience of the individual concerned; Executive remuneration market conditions and the overall performance of the company. The current Executive remuneration structure contains the following key elements:

- A fixed component to attract and retain quality management. This is structured as cash salary and superannuation.
- A performance linked annual Short Term Incentive bonus for reaching or exceeding a range of key performance indicator measures. The bonus plan enables the senior executives to earn 0% to maximum 50% of their Total Fixed Remuneration.
- Eligibility for participation in the TFS employee share acquisition plan, as approved by shareholders.

The contracts for service between the Company and specified directors and executives are on a continuing basis. There are no conditions in the contracts that provide for any specific amounts payable on termination.

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REMUNERATION REPORT – AUDITED (continued)

The Remuneration Committee regularly reviews the level of Executive remuneration and in particular the level of any performance bonuses. In particular the Committee is undertaking the following activities in order to ensure an appropriate remuneration structure is determined that will adequately incentivise key Executives of the company, while ensuring the interests of the shareholders are maintained.

- Undertaking market reviews of Executive salary structures and adopting benchmarking for key management salaries and incentives;
- Introducing an executive long term incentive scheme based on relative total shareholder return and key employee retention;
- Updating the CEO and Executives' key performance indicators to reflect strategy and business milestones and ensure robust measurement for Short Term Incentives; and
- Reviewing the internal relativity of pay, bonuses and incentives and having these reviewed by the remuneration consultants.

Performance based remuneration

Current Policy

The TFS Group seeks to emphasise payment for results through its Short Term Incentive Scheme. The objective of the reward schemes is to both reinforce the short and long term goals of the company and to provide a common interest between management and shareholders. Payments are based on the achievement of key performance indicators of total shareholder return, net profit after tax, survival rates of its managed plantations and other specifically set key performance indicators. The CEO and Executives can achieve between 0% and a maximum of 50% of Total Fixed Remuneration based on annual performance.

No bonuses will be paid in connection with activities undertaken in the 30 June 2013 financial year (2012: Nil). The bonus reported in the 2012 financial accounts was for the satisfaction of targets set and met for the 30 June 2011 financial year.

2013/2014 Policy

Parameters have been set by the Remuneration Committee for remuneration design for the 30 June 2014 year. They are that:

The CEO's remuneration will be redesigned and introduce an incentive scheme of Short Term Incentives based on updated Key Performance Indicators and a Long Term Incentive of performance rights based on ongoing employment and achievement of Relative Total Shareholder Return targets, with long horizon vesting dates and unvested portions forfeited if no longer in employment.

Other Key Management Personnel will be provided with competitive Total Fixed Remuneration and a Short Term Incentive based on Key Performance Indicators and a Long Term Incentive of performance rights based on ongoing employment and achievement of Relative Total Shareholder Return, with long horizon vesting dates and unvested portions forfeited if no longer in employment.

The Key Performance Indicators for the CEO and Key Management Personnel and other managers in the Group will be composed of 50% achievement of financial performance (including achievement of cash EBITDA, cost management and financing and depending upon job role and span of control 50% achievement of tree survival targets, research and development integrity, integrating the Group, markets, quality, safety, leadership and stakeholder management.

The Board's underlying criteria for the payment of Short Term Incentives will be annual profitability. The Board retains discretion to withhold or increase individual's incentive (within the maximum cap).

All other employees will be provided with an annual cash bonus based on performance and may be invited to participate in the TFS Employee Share Acquisition Plan. The Management's underlying criteria for the payment of bonuses will be annual profitability.

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REMUNERATION REPORT – AUDITED (continued)

Company performance, shareholder wealth and director and executive remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. This has mainly been achieved through offering a performance based bonus based on key performance indicators. The Company believes this policy has been effective in increasing shareholder wealth and in particularly ensuring that the company is able to adapt to changes in its industry and take advantage of opportunities to improve its business model.

The following table shows the gross revenue, profits and dividends for the last four years as well as the share price at the end of the respective years.

The Board is of the opinion that despite the difficult economic environment, the underlying shareholder wealth should ultimately increase as a result of the actions taken during the financial year. In line with the philosophy determined by the Remuneration Committee, the intention is to recognise the achievements by way of performance remuneration to executives once shareholder wealth is recognised.

	2013	2012	2011	2010	2009
Total Revenue ($'000)	187,688	126,838	111,037	116,493	94,852
Net profit before tax ($'000)	79,842	36,006	25,461	47,928	49,016
Net profit after tax ($'000)	55,729	25,878	20,166	35,154	34,838
Share price at start of year ($)	0.50	0.89	0.84	1.18	1.15
Share price at end of year ($)	0.51	0.50	0.89	0.84	1.18
Interim fully franked dividend (cents)	-	-	1.25	1.25	1.25
Final fully franked dividend (cents) *	3.00	-	3.50	3.50	3.00
Basic earnings per share (cents)	19.93	9.29	8.36	16.98	18.40
Diluted earnings per share (cents)	19.93	9.29	8.33	16.90	18.31

* Declared after the end of reporting period and not reflected in the financial statements.

Employment details of Members of Key Management Personnel and Other Executives

The following table provides employment details of persons who were, during the financial year, members of key management personnel of the consolidated group. The table also illustrates the proportion of remuneration that was performance based and the proportion of remuneration received in the form of options

Key Management Personnel	Position held as at 30 June 2013 and any changes during the year	Contract details (duration & termination)	Proportion of elements of remuneration related to performance		Proportion of elements of remuneration notrelated to performance		
			Non-salary cash based incentives %	Options / Rights %	Shares / Units %	Fixed Salary / Fees %	Total %
Mr RL Eacott Mr AC Gilchrist Mr Matthys Mr SL Atkinson	Non-Executive Directors	No fixed term.	-	-	-	100.0%	100.0%
Mr FC Wilson	Chief Executive Officer	No fixed term. Normal contracted terms apply as detailed below.	-	-	-	100.0%	100.0%

REMUNERATION REPORT – AUDITED (continued)

Key Management Personnel	Position held as at 30 June 2013 and any changes during the year	Contract details (duration & termination)	Proportion of elements of remuneration related to performance		Proportion of elements of remuneration notrelated to performance		
			Non-salary cash based incentives %	Options / Rights %	Shares / Units %	Fixed Salary / Fees %	Total %
Mr QH Megson	Chief Financial Officer	No fixed term. Normal contracted terms apply as detailed below.	-	-	-	100.0%	100.0%
Mr P Correa	Operations General Manager	No fixed term. Normal contracted terms apply as detailed below.	-	-	1.5%	98.5%	100.0%

The employment terms and conditions of key management personnel and Group executives are formalised in contracts of employment. A contracted person deemed employed on a permanent basis may terminate their employment by providing notice in accordance with their contracted terms. Current notice period for Mr Wilson is 20 weeks, 12 weeks for Mr Megson and 4 weeks for Mr Correa. No amounts for termination have been agreed or contracted and therefore are up to the discretion of the Remuneration Committee.

Remuneration of Directors and Key Management Personnel

Directors and Key Management Personnel remuneration for the years ended 30 June 2013 and 30 June 2012

Details of remuneration for the year ended 30 June 2013

Directors	Short Term Benefits			Post Employment					
	Cash, Salary & Fees $	Cash profit share $	Other cash benefit(iii) $	Super-annuation $	Other $	Share based payments $	Termin-ation benefits $	Total $	Perfor-mance related %
Mr RK Alston (i)	43,250	-	-	3,893	-	-	-	47,143	-
Mr FC Wilson (ii)	712,781	-	138,273	37,219	-	-	-	888,273	-
Mr RL Eacott	43,000	-	15,000	5,220	-	-	-	63,220	-
Mr AC Gilchrist	35,000	-	15,000	4,500	-	-	-	54,500	-
Mr JL Matthys	38,000	-	15,000	4,770	-	-	-	57,770	-
Mr SL Atkinson	44,376	-	15,000	5,344	-	-	-	64,720	-
Mr IR Thompson (iv)	13,497	-	-	1,215	-	-	-	14,712	-
Mr T Croot (v)	1,091	-	-	98	-	-	-	1,189	-
	930,995	-	198,273	62,259	-	-	-	1,191,527	-
Other Key Management Personnel									
Mr QH Megson	299,038	-	-	25,000	-	-	-	324,038	-
Mr P Correa	342,875	-	-	25,000	-	5,556	-	373,431	-
	641,913	-	-	50,000	-	5,556	-	697,469	-
Total	1,572,908	-	198,273	112,259	-	5,556	-	1,888,996	-

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REMUNERATION REPORT – AUDITED (continued)

Notes

(i) Resigned as a director on 3 October 2012.

(ii) Other cash benefits includes additional pro-rata fees of $121,923 for assuming the Chairman's duties (will cease upon appointment of a new Chairman) and the special exertion fees referred to in (iii) below. .

(iii) Other cash benefit comprises special exertion fees paid for time spent dealing with minority shareholder actions concerning various requisition notices in November/December 2012 of $15,000 (excluding superannuation).

(iv) Resigned as a director on 12 July 2012 and is no longer classified as Key Management Personnel.

(v) Resigned as a director on 12 July 2012.

Details of remuneration for the year ended 30 June 2012

Directors	Short Term Benefits			Post Employment					
	Cash, Salary & Fees $	Cash profit share $	Other cash benefit $	Super-annuation $	Other $	Share based payments $	Termin-ation benefits $	Total $	Perfor-mance related %
Mr RK Alston	165,000	-	-	14,850	-	-	-	179,850	-
Mr FC Wilson	612,385	137,615	-	50,000	-	-	-	800,000	18.8%
Mr RL Eacott	43,000	-	-	3,870	-	-	-	46,870	-
Mr AC Gilchrist	33,250	-	-	2,993	-	-	-	36,243	-
Mr IR Thompson	389,908	-	-	35,092	-	-	-	425,000	-
Mr T Croot	263,363	-	-	2,880	-	-	-	266,243	-
Mr JL Matthys	15,833	-	-	1,425	-	-	-	17,258	-
Mr JS Craig	-	-	-	-	-	-	-	-	-
	1,522,739	137,615	-	111,110	-	-	-	1,771,464	8.5%
Other Key Management Personnel									
Mr QH Megson	287,614	137,615	-	24,771	-	-	-	450,000	33.3%
Mr P Correa (vi)	138,462	-	-	12,462	-	-	-	150,924	-
	426,076	137,615	-	37,233	-	-	-	600,924	25.0%
Total	1,948,815	275,230	-	148,343	-	-	-	2,372,388	12.6%

Notes

(vi) Appointed on 23 January 2012.

Share based payments granted as compensation for the current financial year

The Company operated an ownership-based scheme for executives and employees, the TFS Long Term Incentive Plan. The purpose of the incentive plan is to provide employees with an opportunity to acquire a financial interest in the Company, which will align their interests more closely with Shareholders, and provide greater incentive for them to focus on the Company's long term goals. The Directors consider that the incentive plan will assist in retaining and attracting high quality employees. Further details of the total number of shares issued pursuant to the TFS Long Term Incentive Plan are included in note 38.

No directors own shares through the incentive plan.

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REMUNERATION REPORT – AUDITED (continued)

During the financial year the following share-based payment arrangements were in existence for key management personnel:-

Share Plan Series	Exercise Price (cents)	Grant Date	Expiry Date	Grant Date fair value (cents)	Number on issue	Vesting Date
Share issue no. 1	0.56	9/03/2007	No fixed date	0.26	318,000	Fully vested
Share issue no. 6	0.52	10/05/2013	No fixed date	0.21	186,800	10/05/2014
					504,800	

During the financial year, the following share based payments were made to key management personnel under the TFS Long Term Incentive Plan:-

Name	During the finacial year				% of compensation for the year
	No. granted	No. vested	% of grant vested	% of grant forfeited	
Mr P Correa	186,800	-	0.0%	0.0%	1.5%

The following table summarises the value of shares granted to key management personnel, exercised or lapsed during the year:-

Name	Value of Shares granted at the grant date(i) $	Value of Shares exercised at the exercise date $	Value of Shares lapsed at the date of lapse $
Mr P Correa	39,788	-	0.0%

(i) – the value of the shares granted during the period is recognised in compensation over the vesting period of the grant, in accordance with Australian Accounting Standards.

During the financial year, no key management personnel repaid the non-recourse loan attached to the shares granted under the TFS Long Term Incentive Plan and therefore full rights attaching to share ownership remain restricted.

Services from remuneration consultants

The Remuneration Committee engaged Gerard Daniels Pty Ltd as the remuneration consultant to the Board to review the amount and elements of the directors' including Executive Chairman/ CEO remuneration and to provide recommendations. In addition Gerard Daniels provided Chairman search services to the Board. Gerard Daniels was paid $8,000 for remuneration recommendations. It was paid $32,500 for other services.

The Remuneration Committee is satisfied that all contact with the Company when the remuneration advisory services were provided were arms length from the Executive Chairman/ CEO and other key management personnel; and the Consultants had direct access to the Remuneration Committee. The Board is satisfied that the remuneration recommendations were made by Gerard Daniels free from undue influence of the key management personnel about whom the recommendations relate.

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REMUNERATION REPORT – AUDITED (continued)

Signed in accordance with a resolution of the Board of Directors.

On behalf of the Directors

____
Frank Wilson
Chairman of the Board

13 September 2013

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TFS CORPORATION LTD
A.B.N. 97 092 200 854
AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements;

(c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company; and

(d) the directors have been given the declarations required by section 295A of the Corporations Act 2001.

At the date of this declaration, the company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.
In the directors' opinion, there are reasonable grounds to believe that the company and the companies to which the ASIC Class Order applies, as detailed in note 32 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the Directors

____

Frank Wilson
Chairman of the Board

Dated this 13th day of September 2013.

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Bentleys
THINKING AHEAD

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To The Board of Directors

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

As lead audit director for the audit of the financial statements of T.F.S. Corporation Limited for the financial year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours faithfully

Bentleys

BENTLEYS
Chartered Accountants

Phil. J. Rix

PHILIP RIX FCA
Director

DATED at PERTH this 13th day of September 2013

KRESTON

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Accountants
Auditors
Advisors

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TFS CORPORATION LTD
A.B.N. 97 092 200 854
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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

	NOTE	2013 $'000	2012 $'000
Revenue	2	122,869	103,392
Other income	2	64,819	23,446
Raw materials and consumables used		(11,738)	(9,802)
Cost of land sold	3	(5,455)	(3,673)
Loss on sale of loan book		(4,110)	-
Depreciation and amortisation expenses	4	(6,090)	(4,831)
Finance costs	4	(368)	(237)
Interest paid	4	(16,502)	(16,944)
Unrealised foreign exchange gain / (loss)		(15,119)	(4,757)
Salaries and employees benefits expense		(17,227)	(14,903)
Consulting and professional fees		(2,441)	(2,518)
Bad debt (expense) / reversal	4	(1)	(3)
Provision for impairment of receivables	4	(2,872)	(2,461)
Commissions		(4,410)	(1,599)
Marketing costs		(1,406)	(1,514)
Direct plantation and nursery operations		(7,042)	(10,977)
Rent / rates / lease costs		(4,890)	(5,129)
Water		(1,387)	(1,178)
Repairs and maintenance		(2,376)	(1,559)
Research and development expenses		(211)	(1,615)
Research and development expenses recovered		1,460	-
Travel and accomodation		(1,356)	(1,463)
Insurance		(1,089)	(995)
Other expenses from ordinary activities		(3,216)	(4,693)
Share of net profits of associates	15	-	19
Profit before income tax expense		79,842	36,006
Income tax expense relating to ordinary activities	5	(24,113)	(10,128)
Profit for the period		55,729	25,878
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Transfers within comprehensive income			
Net gain on reclassification of land and buildings previously revalued		(58)	58
Transfer to retained earnings from asset revaluation reserve		58	(58)
Total comprehensive income for the period		55,729	25,878
Profit attributable to:			
Members of the parent entity		55,729	25,878
Total comprehensive income attributable to:			
Members of the parent entity		55,729	25,878
Earnings per share			
Basic earnings per share (cents per share)	29	19.93	9.29
Diluted earnings per share (cents per share)	29	19.93	9.29

The accompanying notes form part of these financial statements

TFS CORPORATION LTD
A.B.N. 97 092 200 854
AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	NOTE	2013 $'000	2012 $'000
CURRENT ASSETS			
Cash and cash equivalents	26(i)	56,517	55,124
Trade and other receivables	6	106,293	81,317
Inventories	7	23,192	38,899
Other financial assets	8	2,341	4,157
TOTAL CURRENT ASSETS		188,343	179,497
NON CURRENT ASSETS			
Trade and other receivables	9	21,270	48,527
Other financial assets	10	7,886	7,879
Property, plant and equipment	11	93,507	68,801
Deferred tax assets	5(d)	13,531	7,408
Biological assets	12	191,461	85,697
Intangible assets	13	85,512	84,056
Investments accounted for using equity method	14	674	674
Other	16	12,877	9,316
TOTAL NON-CURRENT ASSETS		426,718	312,358
TOTAL ASSETS		615,061	491,855
CURRENT LIABILITIES			
Trade and other payables	17	28,628	26,541
Financial liabilities	19	14	13
Current tax liabilities	5(d)	3,333	195
Provisions	18	1,685	1,470
Unearned income	20	14,800	2,969
TOTAL CURRENT LIABILITIES		48,460	31,188
NON-CURRENT LIABILITIES			
Provisions	21	5,975	-
Financial liabilities	22	164,140	146,490
Deferred tax liabilities	5(d)	68,886	42,933
Unearned income	23	2,968	2,354
TOTAL NON-CURRENT LIABILITIES		241,969	191,777
TOTAL LIABILITIES		290,429	222,965
NET ASSETS		324,632	268,890
EQUITY			
Issued capital	24	117,760	117,760
Asset revaluation reserve		8,106	8,048
Option/Warrant reserve		9,005	8,992
Retained earnings		189,761	134,090
TOTAL EQUITY		324,632	268,890

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

	NOTE	Issued Capital $'000	Retained Earnings $'000	Asset Revaluation Reserve $'000	Option / Warrant Reserve $'000	Total $'000
Balance at 1 July 2011		115,687	117,830	8,106	478	242,101
Profit for the period		-	25,878	-	-	25,878
Transfer to retained earnings from asset revaluation reserve		-	58	(58)		-
Total comprehensive income for the year		-	25,936	(58)	-	25,878
Transactions with owners, in their capacity as owners, and other transfers						
Shares issued during the year		2,073	-	-	-	2,073
Warrants issued during the year		-	-	-	8,514	8,514
Dividends recognised for the year	28	-	(9,676)	-	-	(9,676)
Balance at 30 June 2012		117,760	134,090	8,048	8,992	268,890
Balance at 1 July 2012		117,760	134,090	8,048	8,992	268,890
Profit for the period		-	55,729	-	-	55,729
Transfer to retained earnings from asset revaluation reserve			(58)	58		-
Total comprehensive income for the year		-	55,671	58	-	55,729
Transactions with owners, in their capacity as owners, and other transfers						
Employee share options issued during year		-	-	-	13	13
Balance at 30 June 2013		117,760	189,761	8,106	9,005	324,632

The accompanying notes form part of these financial statements.

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TFS CORPORATION LTD
A.B.N. 97 092 200 854
AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30 JUNE 2013

	NOTE	2013 $'000	2012 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from operations		100,771	50,328
Payments to suppliers and employees		(67,770)	(66,399)
Payments for land held for resale		(2,673)	(36,189)
Net provision of loans to growers		(19,222)	(4,489)
Proceeds from sale of loan book		22,092	-
Interest received		5,968	7,916
Dividends received		59	-
Interest paid		(16,248)	(9,756)
Income tax paid		(1,144)	(1,923)
Net cash generated / (used) by operating activities	26(ii)	21,833	(60,512)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant & equipment		83	48
Payments for plant & equipment		(13,072)	(10,084)
Payments for investment in own plantation		(7,983)	(2,812)
Payments for land development		-	(789)
Receipts from investments		442	1,160
Payments for investments		-	(2,016)
Receipts from MIS Custodian accounts		4,221	-
Payments to MIS Custodian accounts		(2,803)	(4,897)
Payments for land & buildings		(1,313)	(360)
Net cash used in investing activities		(20,425)	(19,750)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of borrowings		(11)	(96)
Proceeds from Borrowings		1	67,060
Dividends paid		(5)	(8,481)
Net cash provided by financing activities		(15)	58,483
Net increase / (decrease) in cash held		1,393	(21,779)
Cash at beginning of financial year		55,124	76,903
Cash at end of financial year	26(i)	56,517	55,124

The accompanying notes form part of these financial statements.

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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers TFS Corporation Ltd as an individual parent entity and TFS Corporation Ltd and controlled entities as an economic entity (hereafter referred to as "the economic entity" or "the Group"). TFS Corporation Ltd is a listed public company, incorporated and domiciled in Australia.

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards; including Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, except for the Group's sandalwood tree plantations (which are biological assets) and land. This report does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollar unless otherwise stated.

Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by TFS Corporation Limited at the end of the reporting period. A controlled entity is any entity over which TFS Corporation Ltd has the capacity to dominate the decision making in relation to the financial and operating policies of another entity so that the other entity operates with TFS Corporation Ltd to achieve the objectives of TFS Corporation Ltd. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where a controlled entity has entered or left the economic entity during the year, its operating results have been included from the date control was obtained or until the date control ceased. A list of controlled entities is contained in note 32 to the financial statements.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Business Combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the acquisition method.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities, and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination.

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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities, and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of profit or loss and other comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the statement of profit or loss and other comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of profit or loss and other comprehensive income.

(b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are shown within short term borrowings in current liabilities on the statement of financial position.

(c) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount, or the amount due, less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. The amount provided for is the portion deemed uncollectible after the value of trees as security has been taken into account. Bad debts are written off as incurred. Amounts due from growers are recognised and carried at the amount stated in the loan agreement plus accrued interest, less any principal repayments received.

(d) Inventories

Inventories are measured at the lower of cost and net realisable value.

Raw materials are valued at weighted average cost. Work in progress and finished goods are valued at weighted average cost of direct materials and an appropriate portion of fixed and variable overhead expenses

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories consist of tree seedlings and seed stock intended for sale as part of the woodlots, which form the managed investments, by a wholly owned subsidiary of the parent company. It also includes stock of sandalwood related products and raw materials which are available for sale as well as some components of the Group's land that has been identified for sale in the ordinary course of business.

(e) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

(f) Property plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the statement of profit or loss.

Plant & Equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciable on either a straight line or diminishing balance basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The depreciation rates used for each class of depreciable assets are:

Buildings	2-4%
Leasehold improvements	10-20%
Plant and equipment	5-67%

An asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of profit or loss and other comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial valuations by external independent valuers.

The revaluation of freehold land and buildings has taken into account the potential tax on capital gains on sale of assets.

Land will be transferred from being classified as property held for own use to inventory as and when it is determined that the land has been set aside for sale in the ordinary course of the Group's business. On transfer the fair value of the land will become the deemed cost for inventory valuation purposes. Land held as inventory is subsequently valued at the lower of cost (deemed) and net realisable value. Profits are brought to account on the signing of a contract of sale and the majority of the risk and reward of ownership of land has been transferred to the buyer.

(g) Biological Assets

The Group has interests in sandalwood tree plantations (the biological assets) through plantation areas established and maintained on its own account and interests in some of the managed investment schemes which have reverted to the economic entity as a result of default by an original grower and forfeiture of their plantation interest.

Sandalwood trees are measured at the Director's assessment of their net market value at each reporting date. The net market value is determined as being the net present value of the expected future cash flows (discounted at a risk adjusted rate).

Net increments or decrements in the market value of the sandalwood trees are recognised as income or expenses in the statement of profit or loss and other comprehensive income, determined as the difference between the total net market values of the trees recognised as at the beginning of the year and the total net market values of the trees recognised as at the reporting date.

Key assumptions used to value the trees are set out in Note 12.

Costs incurred in maintaining or enhancing trees are capitalised when incurred and is classified as additions at cost. These costs are not included in the determination of the net increment in net market values.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Trade and Other Payables

Liabilities for trade creditors and other amounts are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Payables to related parties are carried at the principal amount. Interest is recognised as an expense on an accruals basis. Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

(i) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the Group, are classified as finance leases.

Finance leases or Hire Purchase arrangements are capitalised by recording an asset and a liability at the lower of the amounts equal to fair value of the leased property or the present value of the minimum lease payments. Lease payments are allocated between the reduction of the lease or hire purchase liability and the lease interest for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods which they are incurred.

(j) Borrowings

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

(k) Revenue and Other Income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. All revenue is stated net of the amount of goods and services tax (GST). The following specific recognition criteria must also be met before revenue is recognised:

Operating Revenue

- Establishment fee revenues in connection with sale of timber lots under an MIS project or under other timber lot establishment contracts are recognised in proportion to the establishment work performed at balance date. In arriving at the proportion of work performed to balance date all activities relating to product development, marketing and distribution, land procurement and development, seed collection and propagation, planting, and other establishment activities are taken into account.

- Lease and Management Fees are recognised as revenue in the period to which they relate.

- Revenue from the sale of goods is recognised when the economic entity has transferred to the buyer the significant risks and rewards of ownership of the goods. For export sales revenue from sales made on commercial terms is recognised when title for the commodity transfers to the customer.

Deferred lease & management fees – Accrued Income receivable

The economic entity sells plantation investments where the investor has the option to pay lease and management fees either (i) annually, (ii) in advance as a prepayment, or (iii) to defer the payment of these fees as a proportion of the net harvest proceeds. The recognition of the deferred fees is classified as an intangible asset in these financial statements.

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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accrued income receivable is calculated as the amount of lease and/or management fees that would have been received up to balance date by the Company under the annual payment option had they not been deferred. The balance of the accrued income receivable should however not exceeds the sum of the net present value of future revenues, which is calculated by multiplying the expected net harvest proceeds from the investors plantations by the Groups proportional entitlement to those revenues as agreed with the investors. The key assumptions used in calculating the future revenues and their present day value are set out in Note 12.

The movement in the value of the accrued income receivable from period to period is brought to account as revenue from ordinary activities.

Interest Revenue

Interest revenue is recognised when control of a right to receive interest has been attained.

Dividend Revenue

Dividend revenue is recognised when a right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

(l) Unearned Income

The unearned portion of the establishment fees that are not recognised as revenue for the year based on the percentage of completion method disclosed at Note 1(k) is deferred and classified as unearned income.

Prepaid lease and management fees from growers are treated as earned based on time (over the term of the project) as this is considered to closely approximate services provided. The unearned portion is classified as unearned income.

(m) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.
Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.
Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Tax Consolidation

TFS Corporation Ltd and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The Group nominated to become consolidated for taxation purposes on 1 July 2003.

(n) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(o) Employee Benefits

Provision is made for the economic entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with benefits arising from wages and salaries and annual leave, which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs.

Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for these benefits. Consideration is given to current wage and salary levels to match as closely as possible, the estimated future cash outflows.

Contributions are made by the Group to employee superannuation funds and are charged as expenses when incurred. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Employee Benefits – Share Based Payments

(i) Equity settled transactions

The Group provides benefits to its employees (including Key Management Personnel) in the form of share- based payments. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of TFS Corporation Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of:
(i) The grant date fair value of the award.
(ii) The expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity. Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see Note 38).

The Group expenses equity-settled share-based payments such as share and option issues after ascribing a fair value to the shares and/or options issued. The fair value of option and share plan issues of option and share plan shares are recognised as an expense together with a corresponding increase in the share based payments reserve or the share option reserve in equity over the vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital when options are exercised.

The value of shares issued to employees financed by way of a non-recourse loan under the employee TFS Long Term Incentive Plan is recognised with a corresponding increase in equity when the company receives funds from either the employees repaying the loan or upon the loan termination. All shares issued under the plan with non-recourse loans are considered, for accounting purposes, to be options.

(q) Earnings per share

Basic earnings per share is determined by dividing the net result after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is determined by dividing the net result after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the sum of the weighted average number of ordinary shares and the weighted average number of dilutive options outstanding during the financial year.

(r) Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Finance instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances valuation techniques are adopted.

Amortised cost is calculated as:

a. The amount at which the financial asset or financial liability is measured at initial recognition;
b. Less principal payments;
c. Plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
d. Less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit and loss.

The Group does not designate any interest in subsidiaries, associates or joint ventures as being subject to the requirements of accounting standards specifically applicable to financial instruments.

Financial assets at fair value through profit and loss

A financial asset is classified in this category when they are either held for trading for the purpose of short term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluations where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets.)

Held-to-maturity investments

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost.

These investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other investments are classified as current assets.)

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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other investments are classified as current assets).

Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Derivative instruments

TFS Corporation Ltd and its controlled entities designate certain derivatives as either:

i. Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or

ii. Hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as the Group's risk management objective and strategy for undertaking various hedge transactions is documented.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items, are also documented.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the statement of profit or loss and other comprehensive income, together with any changes in the fair value of hedged assets or liabilities that are attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flows hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss and other comprehensive income.

Amounts accumulated in the hedge reserve in equity are transferred to the statement of profit or loss and other comprehensive income in the periods when the hedged item will affect profit or loss.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

(s) Investments in Associates

Associate companies are companies in which the Group has significant influence through holding, directly or indirectly, 20% or more of the voting power of the company. Investments in associate companies are recognised in the financial statements by applying the equity method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the associate company. In addition the Group's share of the profit or loss of the associate company is included in the Group's profit or loss.

Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the relation to the Group's investment in the associate.

When the reporting dates of the Group and the associate are different, the associate prepares, for the Group's use, financial statements as of the same date as the financial statements of the Group with adjustments being made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate. When the associate subsequently makes profits, the Group will resume the recognisation of its share of those profits once its share of the profits equals the share of the losses not recognised.

Details of the Group's investments in associates are shown at Note 15.

(t) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. If the effect of the time value of money is material, provisions are discounted using the pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

(u) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are expensed in the period in which they are incurred.

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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(w) Intangibles

Supply Agreements

Supply Agreements are recognised at cost of acquisition. The supply agreements have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. The supply agreements will be amortised over the life of the agreement, from the commencement of supply.

Research and Development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical studies identify that the project will deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

Goodwill

Goodwill is carried at cost less accumulated impairment losses. Goodwill is calculated as the excess of the sum of:
(i) the consideration transferred;
(ii) any non-controlling interest; and
(iii) the acquisition date fair value of any previously held equity interest,
over the acquisition date fair value of net identifiable assets acquired.

The value of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the aforementioned non-controlling interest. The Group can elect to measure the non-controlling interest in the acquiree either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (proportionate interest method). The Group determines which method to adopt for each acquisition.

Under the full goodwill method, the fair values of the non-controlling interests are determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interests is recognised in the consolidated financial statements.

Refer to Note 13 for information on the goodwill policy adopted by the Group for acquisitions.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash generating units or groups of cash generating units, which represent the lowest level at which goodwill is monitored but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying values of goodwill.

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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the income statement.

(y) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest $1,000.

(z) Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data obtained both externally and within the Group.

Key Estimate and Judgement – Provision for Impairment of Receivables

The Group assesses the likelihood of any impairment of the Group's receivables (including within the loan book) at each reporting date by evaluating those payments that are in arrears and making a judgement as to the likelihood of that receivable not being paid based on all knowledge available of the debtor. When recovery is assessed as doubtful, the Group estimates by how much the security held by the Group against the receivable will be insufficient to adequately cover the debt and records a provision accordingly.

The total provision for impairment of receivables at year end are shown in Notes 6 and 9. The value "and adequacy" of security is determined using the following key estimate for Biological Asset valuation.

Key Estimate – Biological Asset valuation

As referred to in Note 1(g), as required under Australian Accounting Standards the directors have made an estimate as to the market value of the standing sandalwood trees held by the Group. The carrying value of the sandalwood trees at the reporting date is shown in Note 12. The market value is calculated as the net present value of expected future cashflows. The estimates used in calculating the expected future cash flows include key assumptions on yields of heartwood and oil content of the trees, as well as assumptions as to the future price of sandalwood oil.

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NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group also include assumptions on the expected future harvesting and processing (oil extraction) costs. All estimates are based on the best information currently available and where there is any doubt the Group uses the more conservative estimates.

Key Estimate – Accrued Income Receivable

As detailed in Note 1(k) the Group recognises an estimate of future earnings from deferred fees as accrued income receivable in the financial statements.

Accrued income receivable is calculated as the amount of lease and/or management fees that would have been received up to balance date by the company under the annual payment option had they not been deferred. The balance of the accrued income receivable should however not exceed the sum of the net present value of future revenues, which is calculated by multiplying the expected net harvest proceeds from the investors plantations by the groups proportional entitlement to those revenues as agreed with the investors. The carrying value of the accrued income receivable at year end is shown in Note 13.

Key Estimate – Land valuation

At year end the directors are required to make an assessment as to the market value of land held. In assessing the market value of land held the directors referred to an independent market appraisal done at previous year end. The value of land at year end is shown in Note 11.

Key Estimate – Taxation

Balances disclosed in the financial statements and the notes thereto, related to taxation are based on the best estimates of directors. These estimates take into account both the financial performance and position of the Group as they pertain to current income tax legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by the Australian Taxation Office.

Key Estimate – Operating Revenue

As detailed in Note 1(k) the group recognises establishment fee revenues in connection with sale of timber lots under a MIS project or other timber lot establishment contracts based on the proportion of establishment work performed at balance date.

In arriving at the proportion of work performed to balance date all activities relating to product development, marketing and distribution, land procurement and development, seed collection and propagation, planting, and other establishment activities are taken into account.

Key Judgement – Environmental issues

Balances disclosed in the financial statements and notes thereto are not adjusted for any pending or enacted environmental legislation and the directors understanding thereof. At the current stage of the company's development and its current environmental impact the directors believe such treatment is reasonable and appropriate.

Key Judgement – Land restoration provision

As part of the Group's operations it has undertaken several land leases to establish and maintain Sandalwood plantations on behalf of growers or the Group. A requirement of these land lease agreements is that the Group has a legal obligation to restore the land to either its original condition or to that specified within the lease agreement upon the completion of the lease. The provision will arise upon disturbing the land from its original condition.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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The provision recognised represents the Group's best estimate of the present value of the future costs required to restore the land to its original condition, or to that specified within the contract. The total provision for land restoration at year end is shown in Notes 21.

Key Judgement – Goodwill impairment

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing an estimate is required of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at 30 June 2013 is set out in note 13 and no impairment losses have been recognised to date.

Key Judgement – Plantation re-acquired

On default on payment of a debtor the Group's policy is to extinguish the receivable and to reclaim the underlying security being the sandalwood plantation. This plantation's fair value is recognised on the same valuation principles outlined in note 12 (Biological Assets) of these financial statements. Any difference between the fair value and extinguished receivable is recognised as a gain on settlement of trade debtor in the statement of profit or loss.

(aa) **New Accounting Standards for Application in Future Periods**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2013, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2015	30 June 2016
AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 11 'Joint Arrangements' and AASB 2011- 7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 January 2013	30 June 2014
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2013	30 June 2015
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle'	1 January 2013	30 June 2014
AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'	1 January 2013	30 June 2014
Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine' and AASB 2011-12 'Amendments to Australian Accounting Standards arising from Interpretation 20'	1 January 2013	30 June 2014

The financial report was authorised for issue on 13 September 2013 by the board of directors.

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	NOTE	2013 $'000	2012 $'000
NOTE 2: REVENUE			
Sales revenue:			
Revenue from sales and services		100,290	80,777
Revenue from product sales		18,412	16,288
Revenue from farming operations		24	1,429
Interest on grower loans		4,143	4,898
Total sales revenue		122,869	103,392
Other income:			
Dividends received		59	-
Interest received - Other persons/Bank deposits		1,825	3,018
Profit / (Loss) on disposal of plant & equipment		(46)	(39)
Gain on revaluation of plantations	12	12,475	10,153
Gain on Settlement of Trade Debtor	31	50,506	10,314
Total other income		64,819	23,446
Total revenue and other income from continuing operations			
- Attributal to members of the parent entity		187,688	126,838
(a) Interest revenue from:			
- directors		268	243
- other persons		3,875	4,655
		4,143	4,898
(b) Dividend revenue from:			
- other corporations		59	-
		59	-

NOTE 3: COST OF LAND SOLD

		2013 $'000	2012 $'000
Cost of land sold		5,455	-
Write down of land		-	3,673
		5,455	3,673

NOTE 4: PROFIT FOR YEAR

The profit from ordinary operations before income tax includes the following items of expenditure whose disclosure is relevant in explaining the financial performance of the entity:

		2013 $'000	2012 $'000
Finance costs			
- External		16,870	17,181
Total finance costs		16,870	17,181

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NOTE 4: PROFIT FOR THE YEAR (continued)

	NOTE	2013 $'000	2012 $'000
Depreciation of non-current assets			
- Plant & equipment		3,834	4,042
- Leasehold improvements		19	20
Total depreciation of non-current assets		3,853	4,062
Amortisation of non current assets			
- Expenditure on land & buildings		2,237	769
Total amortisation of non current assets		2,237	769
Total depreciation & amortisation expenses		6,090	4,831
Operating lease rental			
- Minimum lease payments	27	3,819	4,170
Total operating lease rental		3,819	4,170
Bad debts and provision for impairment expense / (recouped)		2,873	2,464
Employee benefits - superannuation		1,207	1,040

NOTE 5: TAXATION

(a) Components of tax expense

	NOTE	2013 $'000	2012 $'000
The components of tax expense comprise:			
Current tax		4,501	3,050
Deferred tax	5(d)	19,612	9,241
(Over) / under provision in respect of prior years		-	(2,163)
Income tax expense attributable to entity		24,113	10,128

(b) Income Tax Expense

The prima facie tax payable on the operating profit / (loss) is reconciled to the income tax provided in the accounts as follows:

	2013 $'000	2012 $'000
Prima facie income tax from ordinary activities at 30% (2012 - 30%)	23,953	10,802
Adjusted for tax effect of the following:		
- (Over) / under provision of prior year	-	(2,163)
- Non assessable/ rebatable dividend	(18)	-
- Other	178	1,489
Income tax expense attributable to entity	24,113	10,128
The applicable weighted average effective tax rates are as follows:	30%	28%

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NOTE 5: TAXATION (continued)

(c) Tax effects relating to each component of comprehensive income

	2013			2012		
	Before tax amount $'000	Tax (expense) benefit $'000	Net of tax amount $'000	Before tax amount $'000	Tax (expense) benefit $'000	Net of tax amount $'000
Gain on realisation of revalued land	-	-	-	82	(24)	58
Gain on reallocation of revalued land to inventory	(82)	24	(58)	-	-	-
	(82)	24	(58)	82	(24)	58

(d) Tax assets and liabilities

	2013 $'000	2012 $'000
CURRENT		
Current tax liabilities	3,333	195

NON CURRENT

	Opening Balance $'000	Charged to Income $'000	Charged Directly to Equity $'000	Changes in tax rate $'000	Exchange Differences $'000	Closing Balance $'000
Deferred tax liabilities						
Sandalwood tree unrealised gain not assessable	13,270	3,835	-	-	-	17,105
Deferred income recognition	13,672	5,391	-	-	-	19,063
Unrealised foreign exchange / interest swap	34	(34)	-	-	-	-
Plant & equipment - tax depreciation allowance	1,956	1,008	-	-	-	2,964
Revaluation adjustments	3,801	-	-	-	-	3,801
Balance at 30 June 2012	32,733	10,200	-	-	-	42,933
Sandalwood tree unrealised gain not assessable	17,105	24,162	-	-	-	41,267
Deferred income accrual not assessable	19,063	437	-	-	-	19,500
Plant & equipment - tax depreciation allowance	2,964	1,354	-	-	-	4,318
Revaluation adjustments	3,801	-		-	-	3,801
Balance at 30 June 2013	42,933	25,953		-	-	68,886

NOTE 5: TAXATION (continued)

NON CURRENT

	Opening Balance $'000	Charged to Income $'000	Charged Directly to Equity $'000	Changes in tax rate $'000	Exchange Differences $'000	Closing Balance $'000
Deferred tax assets						
Provisions and accruals	1,182	1,261	-	-	-	2,443
Taxable unearned MIS income	505	362	-	-	-	867
Unrealised foreign exchange	23	1,393				1,416
Transaction costs on equity issue	815	-	(248)	-	-	567
Transaction costs on debt raising	4,172	(2,057)	-	-	-	2,115
Balance at 30 June 2012	6,697	959	(248)	-	-	7,408
Provisions and accruals	2,443	(1,325)	-	-	-	1,118
Taxable unearned MIS income	867	3,663	-	-	-	4,530
Unrealised foreign exchange	1,416	4,536	-	-	-	5,952
Transaction costs on equity issue	567	-	(219)	-	-	348
Transaction costs on debt raising	2,115	(532)	-	-	-	1,583
Balance at 30 June 2013	7,408	6,342	(219)	-	-	13,531

NOTE 6: TRADE & OTHER RECEIVABLES (CURRENT)

	2013 $'000	2012 $'000
Trade Debtors	72,080	71,825
Provision for impairment of receivables	(578)	(451)
	71,502	71,374
Loans to growers (a)	32,162	8,187
Bonds & deposits	7	5
Prepayments	2,622	1,751
	106,293	81,317
(a) Aggregate amounts payable by related parties included in loans to growers:		
Director and director-related entities		
- Director related	10,684	240
	10,684	240

(b) Terms & conditions

The terms & conditions relating to the above financial instruments:

(i) Trade debtors are non interest bearing and generally of terms between 30 days and 12 months.
(ii) Details of the terms & conditions of related party receivables are set out in Note 40.
(iii) Loans to growers and trade debtors are secured by the right, title and interest in the sandalwood trees until the loan and any outstanding accrued interest are discharged.

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NOTE 6: TRADE & OTHER RECEIVABLES (CURRENT) (continued)

	2013 $'000	2012 $'000
(c) Ageing of past due but not impaired		
60 - 90 days	873	1,660
90 - 120+ days	1,593	67,609
Total	2,466	69,269
(d) Movement in the provision for impairment of receivables (current)		
Balance at the beginning of the year	451	256
Impairment losses recognised on receivables	161	335
Amounts (written off) as uncollectible	-	-
Amounts recovered during the year	(27)	(131)
Impairment losses reversed	(7)	(9)
Balance at the end of the year	578	451

In determining the recoverability of a trade receivable, the Group considers the change in credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The Group also considers the underlying value of the security held by the company against the debtor which could be recovered to offset the debtor balance. The security will often be the value of the sandalwood tree lots that relate to the debtor balance. It is not unusual for debtors to extend beyond 120 days due to the availability of payment terms under the projects. See point (c) for amounts past due but not impaired.

The basis for estimating the market value of the grower tree lots is exactly the same as for Group owned trees. As referred to in Note 1(g), as required under Australian Accounting Standards the directors make an estimate as to the market value of the standing sandalwood trees held by the Group. The market value is calculated as the net present value of expected future cashflows. The estimates used in calculating the expected future cashflows are set out in Note 12.

(e) Credit Risk
Included within the balance of trade receivables are three wholesale institutional debtors amounting to $55.04m. Management of this credit risk is set out in Note 34 (a).

(f) Ageing of impaired trade receivables (current)	No.	No.
60 - 90 days	-	1
90 - 120 days	29	25
Total	29	26

NOTE 7: INVENTORIES (CURRENT)

	2013 $'000	2012 $'000
At cost:		
Land held for resale	15,431	32,516
Finished goods	6,066	5,077
Work in progress	129	52
Seedlings at cost	314	982
Seed stock	1,033	222
Harvested trees	-	42
Raw materials	304	94
Less: Provision for obsolete stock	(85)	(86)
	23,192	38,899

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	2013 $'000	2012 $'000

NOTE 8: OTHER FINANCIAL ASSETS (CURRENT)

	2013 $'000	2012 $'000
Cash Deposit - Escrow Accounts	-	1
Cash Deposit - MIS Custodian Accounts (a)	2,341	4,156
	2,341	4,157

	2013 $'000	2012 $'000
(a) Cash Deposit - MIS Custodian Accounts consists of the following:		
50% of establishment fees on new MIS sales for the year.		
TFS Sandalwood Project 2012	8	4,156
TFS Sandalwood Project 2013	2,333	-
	2,341	4,156

These establishment fees are kept in an interest bearing trust account, which is maintained by an independent custodian. The funds will be released quarterly to the Group until the completion of establishment services.

NOTE 9: TRADE & OTHER RECEIVABLES (NON-CURRENT)

	2013 $'000	2012 $'000
Loans to growers (a)	18,820	45,665
Less: Provision for impairment of receivables	(20)	-
	18,800	45,665
Loans to employees under share acquisition plan	-	5,142
Less: Provision for impairment of receivables	-	(2,280)
	-	2,862
Other receivable (b)	2,470	-
Total receivables (non current)	21,270	48,527

	2013 $'000	2012 $'000
(a) Loans to growers are due for repayment as follows		
- Later than one year but no later than five years	14,619	23,603
- Due later than five years	4,201	22,062
	18,820	45,665

(b) Other non-current receivable represents research and development funding to an associated company Santalis Pharmaceutical Inc to be recovered upon the successful commercialisation of Santalis' pharmaceutical products (refer to Note 35 regarding the funding commitment).

	2013 $'000	2012 $'000
(c) Aggregate amounts payable by related parties included in the loans to growers:		
Director & director related entities		
- Director related	-	4,428
	-	4,428

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NOTE 9: TRADE & OTHER RECEIVABLES (NON-CURRENT) (continued)

(d) Ageing of past due but not impaired		
60 - 90 days	-	-
90 - 120 days	-	-
120+ days	-	-
Total	-	-

(e) Movement in the provision for impairment of receivables (Non current)		
Balance at the beginning of the year	-	15
Impairment losses recognised on receivables	20	-
Amounts written off as uncollectible	-	-
Amounts recovered during the year	-	(15)
Impairment losses reversed	-	-
Balance at the end of the year	20	-

In determining the recoverability of a trade receivable, the Group considers the change in credit quality of the trade receivable from the date the credit was initially granted up to the reporting date. The group also considers the underlying value of the security held by the company against the debtor which could be recovered to offset the debtor balance. The security will often be the value of the sandalwood tree lots that relate to the debtor balance. At balance date $2,056,405 (2012: $1,289,254) of grower loan repayments were in arrears, but not classified as impaired, due to the underlying tree value (security) being higher than the amounts in arrears.

The basis for estimating the market value of the grower tree lots is exactly the same as for Group owned trees. Refer to in Note 1(g), as required under the Australian Accounting Standards the directors make an estimate as to the market value of the standing sandalwood trees held by the Group. The market value is calculated as the net present value of expected future cashflows. The estimates used in calculating the expected future cashflows are set out in Note 12.

(e) Ageing of impaired trade receivables (non current)	No.	No.
60 - 90 days	-	-
90 - 120+ days	66	50
Total	66	50

NOTE 10: OTHER FINANCIAL ASSETS (NON-CURRENT)

	2013 $'000	2012 $'000
Cash Deposit - First Loss Account (a)	4,029	4,430
Cash Deposit - Bank Guarantee Facility	2,718	2,708
Cash Deposit - MIS Custodian Accounts (b)	1,139	741
	7,886	7,879

(a) See note 36: Contingent Liabilities

(b) Cash Deposit - MIS Custodian Accounts consists of the following:		
TFS Sandalwood Project 2012 - Upfront Annual Fee and Rent	760	741
TFS Sandalwood Project 2013 - Upfront Annual Fee and Rent	379	-
	1,139	741

These funds are kept in an interest bearing trust account, which is maintained by an independent custodian and shall be released to the Group in satisfaction of the annual fee and rent for year 14 of the applicable project.

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NOTE 11: PROPERTY, PLANT & EQUIPMENT

	2013 $'000	2012 $'000
Plant & Equipment - at cost	51,772	39,386
Less: Accumulated depreciation	(16,135)	(13,066)
Total plant & equipment	35,637	26,320
Land & Buildings at fair value (a)	58,767	43,186
Less: Accumulated depreciation	(897)	(705)
Total property	57,870	42,481
Total property, plant & equipment	93,507	68,801

(a) Movements in carrying amounts

Movements in the carrying amount for each class of property, plant & equipment between the beginning and the end of the current financial period.

	2013 $'000	2012 $'000
Land & Buildings		
Carrying amount at beginning of the year	42,481	37,905
Additions	1,313	360
Land re-acquired	-	4,430
Disposals	(9)	-
Transfers from inventory	14,303	-
Depreciation expense	(218)	(214)
Carrying amount at the end of the year	57,870	42,481
Leasehold Improvements		
Carrying amount at beginning of the year	159	136
Additions	3	43
Disposals	-	-
Depreciation expense	(19)	(20)
Carrying amount at the end of the year	143	159
Other plant & equipment		
Carrying amount at beginning of the year	26,161	20,035
Additions	13,180	10,062
Disposals	(231)	(108)
Depreciation expense	(3,616)	(3,828)
Carrying amount at the end of the year	35,494	26,161

(b) If land & buildings were stated at historical cost, amounts would be as follows:

	2013 $'000	2012 $'000
Cost	46,290	30,983
Accumulated depreciation	(218)	(214)
	46,072	30,769

	2013 $'000	2012 $'000
(c) Carrying amount of plant & equipment in the course of construction	94	-

NOTE 11: PROPERTY, PLANT & EQUIPMENT (continued)

(d) The land valuation was based on the directors' assessment of the property's market value with reference to market appraisal obtained from an independent source at the end of the previous financial year. The market appraisal was based on recent sales history of similar properties in the area.

(e) BTA Institutional Services Australia Limited (the security trustee for the 11% Senior Secured Note holders) has a fixed and floating security over all the assets of the Group, which includes a first registered mortgage over freehold properties owned by the Group. The freehold land is also subject to caveats which were lodge by the Group on behalf of sandalwood project investors. These caveats protect the growers' leasehold interest in project land. The Group has registered collateral leases over the freehold land which further protects the growers' interest in project land.

	NOTE	2013 $'000	2012 $'000
NOTE 12: BIOLOGICAL ASSETS			
Sandalwood plantation at cost:			
Opening balance		33,906	6,369
Additions		7,983	2,812
Plantation re-acquired	31	85,306	24,725
Closing Balance		127,195	33,906
Add: Fair value adjustment to sandalwood plantation:			
Opening balance		51,791	41,638
Increments / (Decrements)	2	12,475	10,153
Closing balance		64,266	51,791
Total biological assets		191,461	85,697
(a) Physical quantity of sandalwood trees owned		No.	No.
- Number of sandalwood trees		601,129	215,334

(b) Nature of the Asset

- The sandalwood plantations are situated at various locations in the northern parts of Australia, with 684.12ha (2012: 641.36ha) in Western Australia, 600.56ha (2012: nil) in Queensland and 61.78ha (2012: nil) in the Northern Territory.
- The net market value of the sandalwood trees has been determined in accordance with a directors' valuation.
- The sandalwood trees are subject to normal agriculture risks associated with forestry operations such as fire, pests and adverse weather conditions.

Significant assumptions made in determining the net market value of trees are:

(i) 100% of the trees will be harvested and sold within 13 to 16 years of being planted.

(ii) The price of sandalwood is constant and determined by market prices, being $2,500 USD/kg (2012: $2,500 USD/kg).

(iii) Forecast of heartwood production at weighted average of 21.9kg (2012: 23.7kg) per sandalwood tree at a 25% moisture content.

(iv) Projected oil content of 3.7% (2012: 3.7%) from forecast heartwood at a moisture content of 25%.

(v) The cost expected to arise on harvest are constant in real terms and consists of the following:
- Harvesting and processing (oil extraction) costs, estimated at $16,000 (2012: $16,000) per hectare and $207 (2012: $170) per litre of oil; and
- Marketing and sales costs, estimated at 5% of proceeds.

(vi) The pre-tax average real rate at which the net cash flows have been discounted range between:
- 14% (2012: 17%) for trees aged 0 to 5 years;
- 13% (2012: 16%) for trees aged 6 to 10 years; and
- 12% (2012: 15%) for trees aged 11 years to harvest age.

(vii) Cash flows exclude income taxes and are expressed in real terms.

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NOTE 12: BIOLOGICAL ASSETS (continued)

(viii) US Dollar exchange rate used 1.094 AUD (2012: 0.976 AUD).

During the year the Group finalised an inventory analysis of its plantations under management and the results from this analysis has enabled the Group to more accurately estimate the heartwood yield per tree at different ages of maturity. This new data has been incorporated in the Group's predictive model and as such is reflected in the assumptions made in determining the net market value of trees.

The Group also reviewed the discount rates used in the predictive model and decided to reduce the discount rates after taking the following into consideration:

(i) Reduced risk due to the Group being able to more accurately estimate heartwood yield per tree.
(ii) Reduction in the risk free rate (10 year government bond rate) over the last couple of years.
(iii) The current weighted average cost of capital (WACC) for the Group and the reduction thereof over the last couple of years.

Had the Group valued the trees using the same assumptions used in the prior year other than changes in the foreign exchange rate; then this would have resulted in the total carrying value being $22.36m higher as well as an approximate increase in net profit after tax of $15.65m.

(c) Financial Risk

The Group is exposed to financial risks arising from changes in the price of sandalwood. The Group does not anticipate that the prices will significantly decline in the foreseeable future. This risk does not have a material impact on the cash flows of the Group in the short term as the amount of sandalwood trees to be harvested in the next year is relatively small. Refer to note 34 for more detail on financial risk arising from changes in the price of sandalwood.

NOTE 13: INTANGIBLE ASSETS

	2013 $'000	2012 $'000
Goodwill:		
Cost	20,034	20,034
Accumulated impaired losses	-	-
Net carrying value	20,034	20,034
Supply agreements:		
Cost	478	478
Accumulated impaired losses	-	-
Net carrying value	478	478
Accrued Income Receivable		
Opening balance	63,544	45,574
Recognition of deferred fees	18,928	17,767
Provision for impairment losses	(15,891)	203
Disposal	(1,581)	-
Closing Balance	65,000	63,544
Total intangibles	85,512	84,056

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NOTE 13: INTANGIBLE ASSETS (continued)

Economic Entity:	Accrued Income Receivable $'000	Goodwill $'000	Supply Agreement $'000
Balance at beginning of the year	45,574	20,034	478
Additions: Recognition of deferred fees	17,767	-	-
Impairment losses	203	-	-
Year ended 30 June 2012	63,544	20,034	478
Balance at beginning of the year	63,544	20,034	478
Additions: Recognition of deferred fees	18,928	-	-
Disposals	(1,581)	-	-
Impairment losses	(15,891)	-	-
Closing value at 30 June 2013	65,000	20,034	478

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense as per the statement for profit or loss and other comprehensive income. Goodwill is considered to have an indefinite life.

Impairment disclosures

Goodwill

Goodwill is allocated to cash generating units which are based on the Group's reporting segments.

	2013 $'000	2011 $'000
Sandalwood products segment	20,034	20,034
Total	20,034	20,034

The recoverable amount of each cash generating unit above is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a five year period with the period extending beyond one year extrapolated using an estimated growth rate. The cash flows are discounted using the weighted average cost of capital for the Group at the beginning of the budget period.

The following assumptions were used in the value-in-use calculations:

	Growth rate	Discount rate
Sandalwood products segment	2.50%	11.00%

Management has based the value-in-use calculations on budgets for each reporting segment. These budgets use historical weighted average growth rates to project revenue. These budgets also include future net revenue from the purchases, processing and oil sales from grower and Group owned Indian Sandalwood trees. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the period which is consistent with inflation rates applicable to the locations in which the segments operate. Discount rates are pre-tax and are adjusted to incorporate risks associated with particular segments.

Management also performed sensitivity analysis on the assumptions used in the value-in-use calculation and foresee no material impact in the assessment of goodwill impairment due to reasonable foreseeable changes to the assumptions.

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NOTE 13: INTANGIBLE ASSETS (continued)

Deferred lease and management fees - Accrued income receivable

The Group performs impairment testing at every reporting date on the total deferred lease and management fees recorded by the Group for services provided for which payment has been deferred by the grower until harvest date. Impairment is recognised when the total deferred lease and management fees exceeds the sum of the net present value of future revenues to be received by the Group at harvest date. As at 30 June 2013 a total impairment of $17.26m was provided against deferred lease and management fees, and represented an increase of $15.89m in the provision from the prior year.

	NOTE	2013 $'000	2012 $'000
NOTE 14: INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD			
Opening balance	15(a)	674	647
Investment			8
Share of net profit for period		-	19
Associated companies		674	674

NOTE 15: ASSOCIATED COMPANIES

Interests are held in the following associated companies:

Name	Principal Activities	Country of Incorp.	Shares	Ownership Interest 2013 %	Ownership Interest 2012 %	Carry amount of Investment 2013 $'000	Carry amount of Investment 2012 $'000
Northern Development Corporation Ltd	Land Development	Australia	Ord	50	50	440	367
Gulf Natural Supply Co. (a)	Sandalwood Oil Distributor	UAE	Ord	49	49	234	299
Santalis Pharmaceutical Inc.	Pharmaceuticals	USA	Ord	50	50	-	8
						674	674

	2013 $'000	2012 $'000
a. Movements during the year in equity accounted investment in associated companies		
Balance at beginning of the financial year	674	647
Add:		
New investments during the year	-	8
Share of associated company's profit after income tax	-	19
Share of associated company's reserve increments arising during the year	-	-
Balance at the end of financial year	674	674

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NOTE 15: ASSOCIATED COMPANIES (continued)

	2013 $'000	2012 $'000
b. Equity accounted profits of associates are broken down as follows:		
Share of associate's profit before income tax expense	35	35
Share of associate's income tax expense	(35)	(16)
Share of associate's profit after income tax	-	19
c. Summarised presentation of aggregate assets, liabilities and performance of associates		
Current assets	2,800	2,668
Non current assets	1,096	1,241
Total assets	3,896	3,909
Current liabilities	2,010	1,948
Non current liabilities	3,981	958
Total liabilities	5,991	2,906
Net assets	(2,095)	1,003
Revenues	13,492	6,851
Profit after income tax of associates	-	19

NOTE 16: OTHER ASSETS

	2013 $'000	2012 $'000
Water rights	1	1
	1	1
Land preparation costs	10,945	10,945
Less: Provision for amortisation	(2,348)	(1,630)
	8,597	9,315
Lease land restoration costs	5,799	-
Less: Accumulated amortisation	(1,520)	-
	4,279	-
Total Other Assets	12,877	9,316

NOTE 17: TRADE AND OTHER PAYABLES (CURRENT)

	2013 $'000	2012 $'000
Unsecured:		
Trade Creditors	9,958	7,710
Goods & services tax payable	3,570	1,166
Dividends Payable	59	64
Other creditors and accrued expenses	15,041	17,601
	28,628	26,541

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NOTE 17: TRADE AND OTHER PAYABLES (CURRENT) (continued)

Aggregate amounts payable to related entities:		
Director and related entities	-	-

(a) Terms and conditions relating to the above financial instruments:
(i) Trade creditors are non-interest bearing and are normally settled on 30 day terms
(ii) Other creditors are non interest bearing and have an average term of twelve months
(iii) Details of the terms & conditions of related party payables are set out in Note 40.

	NOTE	2013 $'000	2012 $'000
NOTE 18: PROVISIONS (CURRENT)			
Employee entitlements		1,685	1,470
		1,685	1,470
		No.	**No.**
Number of permanent employees at balance date		133	132
(a) Movements in carrying amounts			
Employee entitlements			
Opening balance at beginning of the year		1,470	1,242
Additional provisions		1,184	894
Amounts used		(969)	(666)
Balance at the end of the year		1,685	1,470

Provision for Employee entitlements

A provision has been recognised for employee entitlements relating to annual leave and long service leave. In calculating he present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee entitlements have been included in Note 1 to this report.

	NOTE	2013 $'000	2012 $'000
NOTE 19: FINANCIAL LIABILITIES (CURRENT)			
Secured:			
Hire purchase liability	27	14	13
		14	13
NOTE 20: UNEARNED INCOME (CURRENT)			
Unearned income		14,800	2,969
		14,800	2,969

Unearned income represents establishment and lease & management fees received in advance of services being provided. The current classification represents that portion of unearned income where the services are to be provided within 12 months of balance date.

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NOTE 21: PROVISIONS (NON CURRENT)

	NOTE	2013 $'000	2012 $'000
Lease land restoration		5,975	-
		5,975	-

(a) Movements in carrying amounts

Lease land restoration			
Opening balance at beginning of the year		-	-
Additional provisions		5,799	-
Finance charges		176	-
Provision utilise		-	-
Balance at the end of the year		5,975	-

A provision has been recognised for costs to be incurred by the Group in restoring leased land to its original condition, or to that specified within the land lease agreement. The provision will be utilised as and when the land leases mature and currently will be over a period of 1 to 15 years, depending on the applicable land lease. The measurement recognition criteria relating to lease land restoration has been included in Note 1(z) to this report.

NOTE 22: FINANCIAL LIABILITIES (NON CURRENT)

	NOTE	2013 $'000	2012 $'000
Secured:			
Hire purchase liability	27	25	39
11% Senior Secured Notes (a)		164,115	146,451
		164,140	146,490

(a) US$150 million raised from international markets from issuance of 11% Senior Secured Notes, with a maturity date of 15 July 2018. This liability has been converted to AU dollars using an exchange rate of 1.0941. All principle in US dollars is payable at maturity date with interest to be paid semi-annually, in arrears on 15 January and 15 July of every year. On or after 15 July 2015 the Group may redeem some or all of the Notes at a premium that will decrease over time as set out below:
15 July 2015 to 14 July 2016 .... 108%
15 July 2016 to 14 July 2017 .... 104%
15 July 2017 to 14 July 2018 .... 102%
15 July 2018 .... 100%
The notes are represented by one or more global notes and are listed on the Singapore Stock Exchange (SGX-ST) for trading. The notes are secured by a fixed and floating charge over all the assets of the Group, see note 11.

NOTE 23: UNEARNED INCOME (NON CURRENT)

	NOTE	2013 $'000	2012 $'000
Unearned Income		2,968	2,354
		2,968	2,354

Unearned income represents lease & management fees received in advance of services being provided. The current classification represents that portion of unearned income where the services are to be provided later than 12 months after balance date.

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NOTE 24: ISSUED CAPITAL

	2013 $'000	2012 $'000
Issued ordinary fully paid with no par value 279,621,829 (30.06.12: 279,621,829)	117,760	117,760

	2013 No.	2012 No.
(a) Ordinary shares		
At beginning of the period	279,621,829	276,453,042
Shares issued during the year		
- 4 November 2011 (i)	-	3,168,787
At reporting date	279,621,829	279,621,829

Shares issued during the period:
(i) On 4 November 2011 the company issued 3,168,787 shares under its dividend reinvestment plan for $0.654 per share.

(b) Capital management

Management controls the capital of the Group in order to maintain an appropriate debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. The gearing ratio's for the current and past year ends are as follows

	NOTE	2013 $'000	2012 $'000
Total borrowings	19,22	164,154	146,504
Less: Cash and cash equivalents	26(i)	(56,517)	(55,124)
Escrow accounts linked to borrowings	8	-	(1)
Net debt		107,637	91,379
Total equity		324,632	268,890
Total capital		432,269	360,269
Gearing ratio		24.90%	25.36%

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NOTE 25: RESERVES

Asset revaluation reserve

The assets revaluation reserve records revaluations of non-current assets. Under certain circumstances dividends can be declared from this reserve.

Option/Warrant reserve

The option reserve records amounts received on issue of options in the company.
As part of securing the US$150m Note raise the Group issued 55.5m warrants (each warrant exercisable for one share). The issue of the warrants was subject to shareholders' approval, which was granted on 1 August 2011.

NOTE 26: CASH FLOW INFORMATION

	2013 $'000	2012 $'000
(i) Reconciliation of cash		
Cash balance comprises:		
Cash at bank	56,513	55,120
Cash on hand	4	4
Cash balance as per balance sheet	56,517	55,124
Less: Overdraft	-	-
Cash balance as per cash flow statement	56,517	55,124
(ii) Reconciliation of operating profit after income tax to the net cash flow provided by operating activities.		
Operating profit / (loss) after income tax	55,729	25,878
Cash flows excluded from profit attributable to operating activities:		
Depreciation and amortisation	6,090	4,831
Reclassification of land (from) / to inventory	(14,303)	-
Share of net profits from associates	-	(19)
Unearned Forex Loss relating to Investments/Borrowings	17,664	5,463
Share based payments - ESAS Options	13	-
Net cash provided by operating activities before change in assets and liabilities	65,193	36,153

NOTE 26: CASH FLOW INFORMATION (continued)

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	2013 $'000	2012 $'000
Changes in operating assets and liabilities:		
Provision for taxation increase / (decrease)	3,138	(1,284)
Provision for impairment increase / (decrease)	2,872	2,461
Provision for deferred taxation increase / (decrease)	25,954	10,200
Future taxation benefit (increase) / decrease	(6,123)	(711)
(Profit) / loss on sale of fixed assets	46	39
(Profit) / loss on sale of plantation	-	-
(Profit) / loss on sale of investments	85	22
(Increase) / decrease in trade debtors	(41,007)	(25,740)
(Increase) / decrease in prepayments	(873)	(460)
(Increase) / decrease in accrued income receivable	(1,456)	(17,970)
(Increase) / decrease in grower loans	2,870	(4,489)
(Increase) / decrease in inventories	15,707	(33,603)
(Increase) / decrease in sandalwood tree market value	(12,475)	(10,153)
(Increase) / decrease in gain on settlement of trade debtor	(50,506)	(10,314)
(Increase) / decrease in foreign exchange / swap contracts	-	-
Increase / (decrease) in trade creditors and provisions	5,963	6,730
Increase / (decrease) in unearned income	12,445	(11,393)
Net cash flow from operating activities	21,833	(60,512)

(iii) Loan Facilities
At balance date the following financing facilities had been negotiated and were available:

	2013 $'000	2012 $'000
Total facilities		
- 11% Senior Secured Notes	164,115	146,451
Facilities used at balance date		
- 11% Senior Secured Notes	164,115	146,451
Unused credit facilities	-	-

(iv) Non-cash financing and investing activities
- Dividend reinvestment plan (DRP).
  Nil (2012: 3,168,787) shares were issued to those shareholders who participated in the Group's dividend reinvestment plan. This equated to a reduced dividend payout of $2,073,135 for 2012.

NOTE 27 CAPITAL AND LEASING COMMITMENTS / ENTITLEMENTS

	2013 $'000	2012 $'000
Operating leases		
Plantation land lease (non-cancellable) (a)		
Due not later than one year	4,018	3,855
Later than one year but not later than two years	3,762	3,612
Later than two years but not later than five years	11,285	10,845
Later than five years	22,528	25,459
	41,593	43,771

NOTE 27: CAPITAL AND LEASING COMMITMENTS / ENTITLEMENTS (continued)

(a) These commitments represent payments due for leased land under a non-cancellable operating lease.
The leases have terms of 15 - 16 years.
The land can be used to plant and tend any agricultural or horticultural crop which will not have a detrimental effect on the value or future use of the leased area. The annual rent is reviewed annually.
The payments above reflect any projected increase.

	2013 $'000	2012 $'000
Finance leases		
Payable:		
- not later than 1 year	17	17
- later than 1 year but not later than five years	27	44
- later than five years	-	-
Minimum lease payments	44	61
Less: future finance charges	(5)	(9)
Present value of minimum lease payments	39	52
Plantation land restoration commitment		
Payable:		
- not later than 1 year	53	53
- later than 1 year but not later than five years	94	94
- later than five years	124	30
	271	177
Committed lease payments receivable		
Receivable:		
- not later than 1 year	155	185
- later than 1 year but not later than five years	561	630
- later than five years	86	177
	802	992

The above committed lease payments receivable represent the minimum future lease payments receivable by the Group in respect of non cancellable lease agreements over timberlots entered into by investors in past projects.

NOTE 28: DIVIDENDS

	2013 $'000	2012 $'000
Distributions paid		
No dividend was paid for the period ended 30.06.13 (2012: Final fully franked dividend of 3.5 cents per share - paid 04.11.11)	-	9,676
	-	9,676
(a) Balance of franking account at year end adjusted for franking credits arising from the payment of the provision for income tax	25,312	20,412
	25,312	20,412

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	NOTE	2013 $'000	2012 $'000
NOTE 29: EARNINGS PER SHARE			
Earnings (after tax) used in calculating basic and diluted earnings per share.		55,729	25,878
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share ('000's).		279,622	278,522
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share ('000's).		279,622	278,522
NOTE 30: AUDITORS' REMUNERATION			
Remuneration of the auditor of the parent entity for:			
- auditing or reviewing the financial report		421	426
- other services		9	-
		430	426
NOTE 31: GAIN ON SETTLEMENT OF TRADE DEBTOR			
Defaulted debt over 580 (2012: 304.07) hectares			
- Land, 2013: Nil (2012:Kingston Rest Lot 3)		-	4,430
- Plantation establishment fee (Excluding GST)		34,800	14,695
		34,800	19,125
Fair value of assets taken back			
- Land, 2013: Nil (2012:Kingston Rest Lot 3)	11	-	4,430
- Plantation	12	85,306	24,725
		85,306	29,155
Accrued Stamp Duty reversal		-	284
Gain realised on settlement of trade debtor	2	50,506	10,314

On 30 June 2013, after receiving notice from the Group a wholesale investor owing $34.80m failed to settle in full the purchases of 580 hectares of plantation located in the Burdekin Queensland. Under the terms of the agreement the Group reclaimed all of the 580 hectares of the underlying plantation as full settlement for the transaction. The fair value of trees using the same valuations assumptions as set out in note 12 were calculated to be $85.31m resulting in a gain to the Group of $50.51m before income tax.

NOTE 32: CONTROLLED ENTITIES

	Country of Incorporation	Percentage (%) owned 2013	Percentage (%) owned 2012
Parent Entity:			
TFS Corporation Ltd	Australia	-	-
Subsidiaries of Parent:			
Tropical Forestry Services Ltd	Australia	100	100
TFS Leasing Pty Ltd	Australia	100	100
Arwon Finance Pty Ltd	Australia	100	100
TFS Properties Ltd	Australia	100	100
Sandalwood International Pty Ltd	Australia	100	100
Fieldpark Pty Ltd	Australia	100	100
Mt Romance Holdings Pty Ltd	Australia	100	100
Mt Romance Australia Pty Ltd	Australia	100	100
Australian Sandalwood Oil Co. Pty Ltd	Australia	100	100
Tribal Dreaming Pty Ltd	Australia	100	100
Beyond Carbon Pty Ltd (trustee company only)	Australia	100	100

During the year there was a deed of cross guarantee in place between the following entities of the Group:

- TFS Corporation Ltd;
- Tropical Forestry Services Ltd; and
- Mt Romance Holdings Pty Ltd

The consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position of the entities party to the deed of cross guarantee are:

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NOTE 32: CONTROLLED ENTITIES (continued)

	2013 $'000	2012 $'000
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME		
Revenue	118,200	91,520
Other income	64,179	22,787
Raw materials and consumables used	(11,738)	(9,802)
Depreciation and amortisation expenses	(6,025)	(4,763)
Finance costs	(282)	(181)
Interest paid	(16,213)	(16,658)
Unrealised foreign exchange gain / (loss)	(15,119)	(4,757)
Salaries and employees benefits expense	(17,227)	(14,903)
Consulting and professional fees	(2,281)	(2,384)
Bad debt (expense) / reversal	(1)	(3)
Provision for impairment of receivables	(2,701)	(2,378)
Commissions	(4,260)	(1,092)
Marketing costs	(1,217)	(1,298)
Direct plantation and nursery operations	(7,042)	(10,977)
Rent / rates / lease costs	(4,890)	(5,072)
Water	(1,387)	(1,172)
Repairs and maintenance	(2,376)	(1,559)
Research and development expenses	(211)	(1,615)
Research and development expenses recovered	1,460	-
Travel and accommodation	(1,356)	(1,463)
Insurance	(1,089)	(995)
Other expenses from ordinary activities	(3,150)	(4,297)
Profit before income tax expense	85,274	28,938
Income tax expense relating to ordinary activities	(25,741)	(8,013)
Profit for the period	59,533	20,925
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Transfers within comprehensive income		
Net gain on reclassification of land and buildings previously revalued	-	-
Transfer to retained earnings from asset revaluation reserve	-	-
Total comprehensive income for the period	59,533	20,925

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NOTE 32: CONTROLLED ENTITIES (continued)

	2013 $'000	2012 $'000
STATEMENT OF FINANCIAL POSITION		
CURRENT ASSETS		
Cash and cash equivalents	45,399	46,850
Trade and other receivables	62,621	64,941
Inventories	7,761	6,383
Other financial assets	-	1
TOTAL CURRENT ASSETS	115,781	118,175
NON CURRENT ASSETS		
Trade and other receivables	142,079	135,946
Other financial assets	7,493	7,484
Property, plant and equipment	43,163	32,696
Deferred tax assets	12,547	6,429
Biological assets	191,461	85,697
Intangible assets	20,861	21,945
Other	12,877	9,315
TOTAL NON-CURRENT ASSETS	430,481	299,512
TOTAL ASSETS	546,262	417,687
CURRENT LIABILITIES		
Trade and other payables	27,630	25,046
Financial liabilities	14	13
Current tax liabilities	3,333	195
Provisions	1,685	1,471
Unearned income	12,641	479
TOTAL CURRENT LIABILITIES	45,303	27,204
NON-CURRENT LIABILITIES		
Provisions	5,975	-
Financial liabilities	164,140	146,490
Deferred tax liabilities	46,226	21,034
Unearned income	131	403
TOTAL NON-CURRENT LIABILITIES	216,472	167,927
TOTAL LIABILITIES	261,775	195,131
NET ASSETS	284,487	222,556
EQUITY		
Issued capital	117,760	117,760
Asset revaluation reserve	482	482
Option/Warrant reserve	9,005	8,992
Retained earnings	157,240	95,322
TOTAL EQUITY	284,487	222,556

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NOTE 33: OPERATING SEGMENTS

Segment Information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings since the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the manufacturing process;
- the type or class of customer for the products or service;
- the distribution method; and
- external regulatory requirements.

Types of products and services by segment

(i) *Plantation Management*

The plantation management segment is firstly responsible for the promotion and sales of Indian Sandalwood lots to investors, also called growers.

Secondly this segment is responsible for the establishment, maintenance and harvesting of Indian Sandalwood plantations on behalf of the growers and group owned plantations.

Thirdly this segment is responsible for end market research and the establishment of end market agreements.

Significant plant & equipment, including tractors, motor vehicle and irrigation infrastructure form the basis for the operating assets in this segment.

(ii) Finance

The segment is responsible for providing finance to growers to purchase Sandalwood lots. This finance can either be via in house or by arranging external finance.

(iii) Sandalwood Products

This segment, which includes the 100% owned subsidiary Mt Romance Holdings Pty Ltd is responsible for the manufacture of Sandalwood Oil and products for resale both domestic and internationally.

(iv) *Agriculture*

This segment is responsible for all the farming activities of the group, other than forestry related activities.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

NOTE 33: OPERATING SEGMENTS (continued)

Inter-segment transactions

An internally determined transfer price is set for all inter-entity sales. This price is reviewed on an ongoing basis and is based on what would be realised in the event the sale was made to an external party at arm's-length. All such transactions are eliminated on consolidation for the Groups financial statements.

Corporate charges are allocated to the plantation management division, unless it can be assigned to a specific segment other than plantation management. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received. This inter-segment loans are revolving facility with no fixed terms, interests free and repayable in full when the borrower is in a financial position to effect this.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have been allocated to an operating segment.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities relating to the Group as a whole are allocated to the plantation management segment unless it can be assigned to a specific segment other than plantation management. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated Items

Currently the group has no unallocated items.

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NOTE 33: OPERATING SEGMENTS (continued)

The Group's operations involve the management and operation of forestry plantations, cultivation and sale of agriculture produce, the provision of finance, and the production and sale of Sandalwood Oil and related products. All operations are conducted in Australia.

Primary Reporting in Business Segments.

Industry Segments	**Plantation Management**		**Finance**		**Sandalwood Products**		**Agriculture**		**Consolidated Group**	
	2013 $'000	**2012 $'000**	**2013 $'000**	**2012 $'000**	**2013 $'000**	**2012 $'000**	**2013 $'000**	**2012 $'000**	**2013 $'000**	**2012 $'000**
Revenue (all relate to external sales)										
Establishment Fees	83,164	51,226	-	-	-	-	-	-	83,164	51,226
Lease & management Fees	11,367	10,257	-	-	-	-	-	-	11,367	10,257
Accrued income recognition	3,037	17,970	-	-	-	-	-	-	3,037	17,970
Product sales	-	-	-	-	18,412	16,288	-	-	18,412	16,288
Sales of agriculture produce	-	-	-	-	-	-	24	1,429	24	1,429
Interest - External	1,825	3,018	4,143	4,898	-	-	-	-	5,968	7,916
Interest - Inter segment	11,843	4,654	-	-	-	-	-	-	11,843	4,654
Gain on revaluation of plantation	12,475	10,153	-	-	-	-	-	-	12,475	10,153
Gain on Settlement of Trade Debtor	50,506	10,314	-	-	-	-	-	-	50,506	10,314
Other - External	2,735	1,285	-	-	-	-	-	-	2,735	1,285
Other - Internal	-	-	-	-	579	599	-	-	579	599
Total segment revenue	176,952	108,877	4,143	4,898	18,991	16,887	24	1,429	200,110	132,091

	2013 $'000	2012 $'000
Reconciliation of segment revenue to group revenue		
Inter segment revenue	(12,422)	(5,253)
Unallocated revenue	-	-
Total group revenue from ordinary activities	187,688	126,838

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NOTE 33: OPERATING SEGMENTS (continued)

Industry Segments	**Plantation Management**		**Finance**		**Sandalwood Products**		**Agriculture**		**Consolidated Group**	
	2013 $'000	**2012 $'000**	**2013 $'000**	**2012 $'000**	**2013 $'000**	**2012 $'000**	**2013 $'000**	**2012 $'000**	**2013 $'000**	**2012 $'000**
Result										
Earnings before interest, tax, dep'n and amort'n (EBITDA)	110,015	51,494	216	4,655	3,151	2,935	16	1,168	113,398	60,252
Reconciliation of segment EBITDA to group EBITDA.										
Inter segment revenue									(12,422)	(5,253)
Unallocated revenue										
Total group EBITDA									100,976	54,999
Segment result before income tax	89,697	33,864	58	3,920	2,493	2,288	16	1,168	92,264	41,240
Reconciliation of segment result to group net profit before tax.										
Inter segment revenue									(12,422)	(5,253)
Amounts not included in segment results but reviewed by board.										
Unallocated expenses									-	-
Share of net profits of associates	64	37	-	-	(64)	(18)	-	-	-	19
Net profit before tax from continued operations									79,842	36,006

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NOTE 33: OPERATING SEGMENTS (continued)

Industry Segments	Plantation Management		Finance		Sandalwood Products		Agriculture		Consolidated Group	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Segment Assets										
Segment Assets	587,958	467,365	55,609	58,627	32,736	31,418	-	124	676,303	557,534
Segment increases for the period:										
Capital expenditure	9,980	6,297							9,980	6,297
Acquisitions	3,762	3,284			754	883			4,516	4,167
	13,742	9,581	-	-	754	883	-	-	14,496	10,464
Included in segment assets are:										
Equity accounted associates and joint ventures	440	367			234	307			674	674
Reconciliation of segment assets to group assets										
Inter-segment eliminations									(61,242)	(65,679)
Unallocated assets									-	-
Total group assets from continuing operations									615,061	491,855
Segment Liabilities										
Segment Liabilities	288,754	221,540	42,523	45,604	11,137	12,224	1	21	342,415	279,389
Reconciliation of segment liabilities to group liabilities										
Inter-segment eliminations									(51,986)	(56,424)
Unallocated liabilities									-	-
Total group liabilities from continuing operations									290,429	222,965

Major Customers

The Group has a number of customers to whom it provides both products and services, with the biggest contributing 19.02% to the Group's external revenue.
The next most significant customer accounts for 10.22% of external revenue.

The economic entity’s operations were all conducted in Australia and accordingly a segmentation of the operations along geographical boundaries is not applicable.

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NOTE 34: FINANCIAL RISK MANAGEMENT

(a) Financial risk management

The Group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable, loans to and from subsidiaries, notes, leases and derivatives.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	2013 $'000	2012 $'000
Financial assets:			
Cash and cash equivalents	26(i)	56,517	55,124
Held to maturity financial assets			
- Cash Deposit - First Loss, Bank Guarantee, Escrow and Custodian Accounts	8,10	10,227	12,036
Loans and receivables		127,562	129,844
Total Financial Assets		194,306	197,004
Financial Liabilities:			
Financial liabilities at amortised cost			
- Trade and other payables		28,667	26,593
- Borrowings	22	164,115	146,451
Total Financial Liabilities		192,782	173,044

(i) Treasury risk management

A treasury committee has been established to regularly review the treasury risk management policies and to report to the CEO, CFO and the Board. The overall treasury risk management strategy is to assist the Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

The risk management policies are approved and reviewed by the Board on a regular basis to reflect changes in market conditions and the Group's activities. These include credit risk policies and future cash flow requirements.

(ii) Financial risk exposures and management

The main risks the Group is exposed to through its financial instruments are interest rate risk, liquidity risk, foreign currency risk, credit risk, price risk and operational risk.

Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

The Group regularly monitors its risk on interest rate exposure and considered interest rate hedging strategies if deemed necessary. The interest rate applicable to the 11% Senior Secured Notes is fixed over the full term of the notes.

NOTE 34: FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Group's reputation. The Group manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities;
- review alternative funding to diversify liquidity options; and
- maintaining a reputable credit profile.

Foreign currency risk

Foreign exchange risk arises when future commercial transactions and recognised financial assets and financial liabilities are denominated in a currency that is not the entity's functional currency.

The Group is primarily exposed to the fluctuations in the US dollar in relation to the US$150 million Senior Secured Notes, maturing 2018 and semi-annual US dollar interest payable. In addition, the Group is exposed to the fluctuations in foreign currencies in relation to its valuation of biological assets and the supply contracts for the sale of sandalwood oil and related products. The Group is mainly exposed to US dollars.

The Group aims to reduce and manage the foreign exchange risk on the US$150 million Senior Secured Notes and US dollar interest through natural hedges by generating US dollar denominated income and holding US dollar denominated assets. The Group also considers on a regular basis the practical and economic viability of foreign currency hedging instruments to hedge the risk of future foreign currency fluctuation.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations. The Group's maximum exposures to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the consolidated statement of financial position.

The Group aims to minimise concentrations of credit risk in relation to trade receivables and loans to growers, connected with MIS business, by undertaking transactions with a large number of customers. Furthermore for the majority of the receivables and loans the Group holds security by way of the underlying sandalwood lots.

In event of any default by an investor in a plantation investment, TFS will seek to recover the outstanding amount by undertaking normal debt recovery procedures, but if necessary take possession of part or all, of the underlying plantation and either retain ownership or seek to on-sell.

Credit risk in trade receivables is managed in the following ways:

- a risk assessment process is completed before granting loans to customers
- timber lots are not allocated to an investor until the minimum initial payment is received;
- payment terms are 30 days, unless 12 month payments terms are granted, in which case a signed payment plan commitment is obtained from the customer, and
- if any defaults are recognised the company can claim on its security by reclaiming the underlying sandalwood lot.

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NOTE 34: FINANCIAL RISK MANAGEMENT (continued)

The credit risk for counterparties included in the trade and other receivables at 30 June 2013 is detailed below:

	2013 $'000	2012 $'000
Trade and other receivables		
AA rated counterparties	-	-
Counterparties not rated	127,562	129,844
	127,562	129,844

The credit risk related to balances with banks and other financial institutions is managed in accordance with Board policy. The following table provides information regarding the credit risk relating to cash and money market securities based on Standard & Poor's counterparty credit ratings.

	2013 $'000	2012 $'000
Cash and cash equivalents		
AA rated counterparties	56,517	55,124
Counterparties not rated	-	-
	56,517	55,124
Held to maturity security		
AA rated counterparties	6,747	7,139
Counterparties not rated	3,480	4,898
	10,227	12,037

Price risk

Price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities. The Group is exposed to commodity price risk in relation to its operations carried on by its sandalwood products division and in relation to is valuation of biological assets and specifically the Group owned sandalwood plantations. The Group does not anticipate that the sandalwood album or spicatum price will decline significantly in the foreseeable future.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel technology and infrastructure, and from external factors other than credit , market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit.

(b) Financial instruments

(i) *Forward Exchange Contract*

The Group has no open forward exchange contracts at balance date. These contracts (if open) commit the Group to buy and sell specified amounts of foreign currencies in the future at specified exchange rates. Contracts are taken out with terms that reflect the underlying settlement terms of the commitment to the maximum extent possible so that hedge ineffectiveness is minimised.

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NOTE 34: FINANCIAL RISK MANAGEMENT (continued)

(ii) Financial instrument composition and maturity analysis

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period maturity, as well as management's expectations of the settlement period for all other financial instruments. As such the amounts may not reconcile to the balance sheet.

Consolidated Group

2013 Financial Instruments	Floating interest rate	Fixed interest rate maturing in: 1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total	Weighted average interest rate
	$'000	$'000	$'000	$'000	$'000	$'000	%
(i) Financial assets							
Cash	50,263	6,254	-	-	-	56,517	1.84%
Cash deposits**	2,341	6,747	-	1,139	-	10,227	3.03%
Loans to growers	50,835	-	-	-	-	50,835	10.63%
Loans to growers - related parties	127	-	-	-	-	127	10.63%
Receivables - trade	-	-	-	-	73,960	73,960	N/A
Receivables - related parties	-	-	-	-	12	12	N/A
Total financial assets	**103,566**	**13,001**	**-**	**1,139**	**73,972**	**191,678**	
(ii) Financial liabilities							
Secured Notes	-	-	-	164,115	-	164,115	11.00%
Trade creditors	-	-	-	-	9,958	9,958	N/A
HP liabilities	-	14	25	-	-	39	9.55%
Total financial liabilities	**-**	**14**	**25**	**164,115**	**9,958**	**174,112**	

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NOTE 34: FINANCIAL RISK MANAGEMENT (continued)

2012 Financial Instruments	Floating interest rate	Fixed interest rate maturing in: 1 year or less	Over 1 to 5 years	More than 5 years	Non-interest bearing	Total	Weighted average interest rate
	$'000	$'000	$'000	$'000	$'000	$'000	%
(i) Financial assets							
Cash	30,124	25,000	-	-	-	55,124	3.46%
Employee loans	2,862	-	-	-	-	2,862	7.69%
Cash deposits**	4,157	7,138		741		12,036	3.81%
Loans to growers	49,184	-	-	-	-	49,184	10.60%
Loans to growers - related parties	4,668	-	-	-	-	4,668	10.60%
Receivables - trade	-	-	-	-	71,340	71,340	N/A
Receivables - related parties	-	-	-	-	33	33	N/A
Total financial assets	**90,995**	**32,138**	**-**	**741**	**71,374**	**195,248**	
(ii) Financial liabilities							
Bank Loan	-	-	-	-	-	-	N/A
Secured Notes	-	-	-	146,451	-	146,451	11.00%
Trade creditors	-	-	-	-	7,710	7,710	N/A
HP liabilities	-	13	39	-	-	52	9.55%
Total financial liabilities		**13**	**39**	**146,451**	**7,710**	**154,213**	

** Cash deposits include the following: first loss, bank guarantees, escrow and MIS custodian accounts

Trade and sundry payables are expected to be paid as follows:

	2013 $'000	2012 $'000
Less than 6 months	28,628	26,541
6 months to 1 year	-	-
1 to 5 years	-	-
over 5 years	-	-
	28,628	26,541

(iii) Net fair values

All financial assets and liabilities have been recognised at the balance date at their net fair values. The following methods and assumptions are used to determine the net fair values of financial assets and liabilities.

- Cash, cash equivalents and short-term investments: The carrying amount approximates fair value because of their short term maturity.
- Trade receivables and payables: The carrying amount approximates fair values.
- Short-term borrowings: The carrying amount approximates fair value because of their short-term to maturity.
- Long-term loans receivable: The fair values of long-term loans receivable are estimated using discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements.

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NOTE 34: FINANCIAL RISK MANAGEMENT (continued)

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date

	2013		2012	
	Carrying amount $'000	Net fair value $'000	Carrying amount $'000	Net fair value $'000
Financial assets:				
Available for sale financial assets at fair value	-	-	-	-
Held to maturity financial assets				
- Cash Deposit - First Loss, Bank Guarantee,				
Escrow and Custodian Accounts	10,227	10,227	12,036	12,036
Loans and receivables	127,562	127,562	129,844	129,844
Financial assets at fair value through profit or loss				
- Derivatives (Hedging)	-	-	-	-
	137,789	137,789	141,880	141,880
Financial liabilities:				
Debentures	-	-	-	-
Bills of exchange and secured notes	164,115	164,115	146,451	146,451
Other loans and amounts due	28,667	28,667	26,593	26,593
	192,782	192,782	173,044	173,044

Fair values are materially in line with carrying values.

(iv) Sensitivity Analysis – Interest rate risk, Foreign currency risk, Price risk, Heartwood yield risk

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk, foreign currency risk, price risk and heartwood yield risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change to these risks.

Interest rate sensitivity

At 30 June 2013, the effect on profit and equity as a result of changes in the after tax interest rate, with all other variables remaining constant would be as follows:

	2013 $'000	2012 $'000
Change in profit		
- increase in interest rate by 1%	467	470
- decrease in interest rate by 1%	(467)	(470)
Change in equity		
- increase in interest rate by 1%	467	470
- decrease in interest rate by 1%	(467)	(470)

Excluded from this sensitivity calculation is the effect of interest rate changes on the 11% Senior Secured Notes – interest rate on the notes is fixed.

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NOTE 34: FINANCIAL RISK MANAGEMENT (continued)

Foreign currency risk sensitivity analysis

At 30 June 2013, the effect on profit and equity as a result of net changes in the after tax value of the Australian dollar to the US Dollar, with all other variables remaining constant would be as follows:

	2013 $'000	2012 $'000
Change in profit		
- improvement in AUD to USD by 10%	(4,515)	3,447
- decline in AUD to USD by 10%	4,515	(3,447)
Change in equity		
- improvement in AUD to USD by 10%	(4,515)	3,447
- decline in AUD to USD by 10%	4,515	(3,447)

Price risk sensitivity analysis

At 30 June 2013, the effect on profit and equity as a result of changes in the after tax price risk, with all other variables remaining constant would be as follows:

	2013 $'000	2012 $'000
Change in profit		
- increase in sandalwood oil price by $100/kg	5,489	2,884
- decrease in sandalwood oil price by $100/kg	(5,489)	(2,884)
Change in equity		
- increase in sandalwood oil price by $100/kg	5,489	2,884
- decrease in sandalwood oil price by $100/kg	(5,489)	(2,884)

Heartwood yield risk sensitivity analysis

At 30 June 2013, the effect on profit and equity as a result of changes in the after tax heartwood yield risk, with all other variables remaining constant would be as follows:

	2013 $'000	2012 $'000
Change in profit		
- increase in heartwood oil yield by 10%	13,877	7,040
- decrease in heartwood oil yield by 10%	(13,877)	(7,040)
Change in equity		
- increase in heartwood oil yield by 10%	13,877	7,040
- decrease in heartwood oil yield by 10%	(13,877)	(7,040)

Discount rate risk sensitivity analysis

At 30 June 2013, the effect on profit and equity as a result of changes in the after tax discount rate risk, with all other variables remaining constant would be as follows:

	2013 $'000	2012 $'000
Change in profit		
- increase in discount rate by 2%	(26,715)	(7,675)
- decrease in discount rate by 2%	34,724	9,308
Change in equity		
- increase in discount rate by 2%	(26,715)	(7,675)
- decrease in discount rate by 2%	34,724	9,308

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NOTE 35: CONTRACTUAL COMMITMENTS

On 28 December 2011 the Group agreed to a product development and supply agreement with a US company called Santalis Pharmaceuticals. As consideration for entering into those agreements the company was issued shares in Santalis to equal a 50% ownership stake.

Under the product development agreement the Group has agreed to underwrite funding for the amount of US$1.5m per annum for 5 years for Santalis' product development costs. The amount of funding provided by the Group is reimbursable from future revenues to be received by Santalis. The Group also has the right to withdraw from its underwriting obligation on an annual basis for any reason but as a consequence would hold a reduced interest in the shares of Santalis. As at 30 June 2013 the Group has committed to year 3 of funding US$1.5m for Santalis' product development costs.

NOTE 36: CONTINGENT LIABILITIES

A controlled entity has a replanting commitment in relation to sandalwood projects to ensure a tree mortality rate of no more than 25% at the end of the first year of the project. Possible associated costs associated with this replanting have not been provided for. These possible future costs are not considered to be material.

A controlled entity is managing a portfolio of MIS grower loans on behalf of the Commonwealth Bank of Australia (CBA) and under the agreement the entity has a legal liability to indemnify the CBA for any defaulting grower loans. This legal liability is limited to the amount cash available in the First Loss Account (see Note 10). The portfolio of loans consists of existing loans sold to the CBA in FY2008 and direct grower funding for the TFS2008 and TFS2009 projects. Once indemnified the Group takes the loan back onto its balance sheet with the established sandalwood trees acting as security over the receivable.

NOTE 37: EVENTS AFTER BALANCE DATE

As part of the Group's strategy to increase its direct plantation ownership the Group acquired 359 hectares of mature Indian sandalwood trees from six existing growers (including FC Wilson and associated entity – see Note 40 (c): Related Parties Transactions) to the amount of $44.85m (GST Inclusive). $36.47m of the proceeds due to the growers were offset against amounts they owed to the Group reducing the impact on the Group's cash flow, with the remaining $8.38m to be paid out in cash. The valuation method used in determining the purchase price for these trees were based on the same SGARA discounted cash flow model adopted by the Group to value its own trees for reporting purposes during the half year results, the September 2012 and March 2013 quarterly reports. This valuation model has been reviewed by the Group's auditors as part of the half year audit review.

The Group also settled on an agreement whereby it acquired the remaining 51% of Gulf Natural Supplies Co (an associated company – see Note 13) for AED 1,100,000 (UAE Dirham). Final Australian Dollar settlement amount, which occurred on 23 July 2013, was $323,597.

After balance date the Group declared a final fully franked dividend in respect of the year ended 30 June 2013 of 3.0 cents per share, to be paid on 8 November 2013. This equates to a total dividend of $8.39m.

Apart from the above no other events have occurred since balance date which have or may significantly affect the Group's operations, results of operations or state of affairs in future financial years.

NOTE 38: SHARE BASED PAYMENTS

The following share based payment arrangements existed at 30 June 2013:

On 21 February 2008 the company entered into an agreement with Lush Ltd ("Lush") for the future supply by the group of sandalwood oil to Lush. In conjunction with entering into the agreement, the company issued to Lush 1,000,000 options to purchase ordinary shares in TFS Corporation Ltd. The options are exercisable any time within 3 years of first commercial sandalwood delivery. The first commercial sandalwood delivery is to occur in 2014. The exercise price for each option is $1.80.

NOTE 38: SHARE BASED PAYMENTS (continued)

	2013		2012	
	No. of options	Weighted average exercise price ($)	No. of options	Weighted average exercise price ($)
Outstanding at the start of the year	1,000,000	1.80	1,000,000	1.80
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year end	1,000,000	1.80	1,000,000	1.80
Exercisable at year end	-	-	-	-

The weighted average fair value of the options outstanding at the end of the year was $0.478. This price was calculated by using Black Scholes option pricing model applying the following inputs:

Weighted average exercise price	$1.80
Anticipated expiry date	31 December 2014
Underlying share price at date of issue	$1.06
Share price volatility	48%
Risk free interest rate	6.61%

As part of securing the Note raise (refer to Note 22 (a)) the Group agreed to issue 55.5m warrants (each warrant exercisable for one share). The issue of the warrants was subject to shareholders' approval, which was granted on 1 August 2011. The exercise price for each option is $1.28.

	2013		2012	
	No. of options	Weighted average exercise price ($)	No. of options	Weighted average exercise price ($)
Outstanding at the start of the year	55,500,000	1.28	-	-
Granted	-	-	55,500,000	1.28
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year end	55,500,000	1.28	55,500,000	1.28
Exercisable at year end	-	-	-	-

The weighted average fair value of the warrants issued was $0.1534. This price was calculated using the Bloomberg warrants pricing model applying the following inputs:

Weighted average exercise price	$1.28
Anticipated expiry date	15 July 2018
Underlying share price at date of issue	$0.895
Share price volatility	32.019%
Dividend yield	6%

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NOTE 38: SHARE BASED PAYMENTS (continued)

To ensure that the Group has appropriate mechanisms to continue to attract and retain the services of Directors and employees of a high caliber, the Group established the TFS Long Term Incentive Plan ('TFSLTIP'). The Group obtained shareholder approval for the Plan in November 2009 and again in November 2012, and any Shares issued under the Plan within 3 years of approval of the Plan, are an exception to Listing Rule 7.1.

The following shares were issued under the TFS Long Term Incentive Plan:-

	2013		2012	
	Number	Weighted average exercise price ($)	Number	Weighted average exercise price ($)
Opening Balance	6,289,051	0.82	6,476,851	0.82
Issued during year				
Key Management Personnel	186,800	0.52	-	-
Other eligible employees	242,100	0.52	-	-
Shares previously held by employees who have resigned	(123,400)	1.11	(187,800)	1.04
Shares for which loan has been repaid	-	-	-	-
Shares forfeited by employees who have resigned	(738,900)	0.96	-	-
Closing balance	5,855,651	0.77	6,289,051	0.82

Included in the closing balance are 5,196,901 share plan shares which have vested and are available to holders to be dealt with in accordance with the rules of the TFSLTIP. These shares may not be transferred or otherwise dealt with until any loan in respect of the TFSLTIP share is repaid. 428,900 share plan shares have not vested. These shares will vest on 10 May 2014. The current value of the loan receivable in respect of these shares is $3.81m (2012: $2.86m).

The value of shares issued to employees financed by way of a non recourse loan under the employee TFSLTIP is recognised with a corresponding increase in equity when the company receives funds from either the employees repaying the loan or upon the loan termination. All shares issued under the plan with non recourse loans are considered, for accounting purposes, to be options.

The weighted average fair value of the shares issued during the year was $0.213. This price was calculated using the Black Scholes model applying the following inputs:-

Weighted average exercise price	$0.520
Anticipated expiry date	10 May 2017
Underlying share price at date of issue	$0.505
Share price volatility	52%
Risk free interest rate	2.6%

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NOTE 38: SHARE BASED PAYMENTS (continued)

The following share-based payment arrangements were in existence during the current and prior reporting periods:

Option series	Number	Grant date	Expiry Date	Weighted average exercise price ($)	Weighted average fair value at grant date ($)
Share issue no. 1	2,392,584	9/03/2007	No fixed date	0.56	0.26
Share issue no. 2	1,031,100	6/06/2008	No fixed date	1.11	0.60
Share issue no. 3	339,700	6/06/2008	No fixed date	1.15	0.59
Share issue no. 4	903,867	27/02/2009	No fixed date	0.72	0.36
Share issue no. 5	759,500	2/02/2010	No fixed date	1.02	0.45
Share issue no. 6	428,900	10/05/2013	No fixed date	0.52	0.21
	5,855,651				

NOTE 39: INTERESTS OF KEY MANAGEMENT PERSONNEL ("KMP")

Key management personnel for the year ended 30 June 2013

Parent Entity Directors	*Position*
Mr FC Wilson	Chief Executive Officer (Executive Director)
Mr RL Eacott	Director (Non-executive)
Mr AC Gilchrist	Director (Non-executive)
Mr SL Atkinson	Director (Non-executive)
Mr JL Matthys	Director (Non-executive)
Other key management persons	
Mr QH Megson	Chief Financial Officer / Company Secretary
Mr P Correa	Operational General Manager

Refer to the Remuneration Report contained in the Report of the Directors for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2013.

The totals of the remuneration paid to KMP of the company and the economic entity during the financial year are as follows:

	2013 $	2012 $
Short-term employee benefits	1,757,684	2,224,045
Post-employment benefits	111,044	148,343
Other long term benefits	-	-
Termination benefits	-	-
Share based payments	5,556	-
	1,874,284	2,372,388

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NOTE 39: INTERESTS OF KEY MANAGEMENT PERSONNEL ("KMP") (continued)

KMP Shareholdings

The number of ordinary shares in TFS Corporation Ltd held by each KMP of the Group during the financial year is as follows:

30 June 2013	**Balance at beginning of year**	**Received as Compen-sation**	**Options exercised**	**Net change other**	**Balance at end of year/resig-nation date**
Parent Entity Directors					
Mr FC Wilson	45,288,379	-	-	513,114	45,801,493
Mr RL Eacott	4,841,201	-	-	-	4,841,201
Mr AC Gilchrist	2,125,083	-	-	-	2,125,083
Mr JL Matthys	3,342,500	-	-	-	3,342,500
Mr SL Atkinson	3,866,668	-	-	-	3,866,668
Mr RKR Alston (i)	474,833	-	-	-	474,833
Mr IR Thompson (ii)*	1,123,500	-	-	-	1,123,500
Mr T Croot (ii)	2,153,330	-	-	-	2,153,330
Other key management persons					
Mr QH Megson*	342,794	-	-	-	342,794
Mr P Correa*	-	-	-	202,500	202,500
	63,558,288	-	-	715,614	64,273,902

30 June 2012	**Balance at beginning of year**	**Received as Compen-sation**	**Options exercised**	**Net change other**	**Balance at end of year/resig-nation date**
Parent Entity Directors					
Mr RKR Alston	136,833	-	-	338,000	474,833
Mr FC Wilson	44,988,379	-	-	300,000	45,288,379
Mr RL Eacott	4,841,201	-	-	-	4,841,201
Mr AC Gilchrist	1,039,578	-	-	1,085,505	2,125,083
Mr IR Thompson*	1,123,500	-	-	-	1,123,500
Mr T Croot	2,153,330	-	-	-	2,153,330
Mr JL Matthys	3,342,500	-	-	-	3,342,500
Other key management persons					
Mr QH Megson*	341,534	-	-	1,260	342,794
Mr P Correa	-	-	-	-	-
	57,966,855	-	-	1,724,765	59,691,620

All share transactions were at no more favourable terms or conditions than would be reasonably expected if dealing at arm's length.

(i) Resigned 3 October 2012
(ii) Resigned 12 July 2012

* 339,700 of shares held by IR Thompson, 318,000 of shares held by QH Megson and 186,800 of the shares held by P Correa are held subject to vesting requirements under the employee share plan.

Other KMP Transactions

There have been no other transactions involving equity instruments other than those described in the tables above. For details of other transactions with KMP, refer to Note 40: Related party Transactions.

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NOTE 40: RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions are no more favourable than those available to other parties unless otherwise stated. Transactions include all payments excluding reimbursements.

a Transaction within the wholly owned group

The ultimate parent entity in the wholly owned group is TFS Corporation Ltd.

Amounts receivable or payable between the parent and the wholly owned controlled entities are disclosed in Note 41 to the financial statements.

b Loans and extended payment terms provided to key management persons

The directors and other key management persons borrow funds or are provided extended (12 month) payment terms from time to time as project subscribers (growers). These loans and extended payment terms are made at arm's length and are made on terms and conditions no more favourable than those which apply to non-related project growers. Specifically, the loans are provided by a wholly owned subsidiary, Arwon Finance Pty Ltd and interest is payable on the same terms and conditions as other growers.

(i) Summary of loans to key management persons.

2013	**Balance 30.06.12 $**	**Amount advanced $**	**Principle Repayments $**	**Interest Charged $**	**Sale of loan $**	**Balance 30.06.13 $**	**No. In group**
Directors - Loans	4,247,768	10,560,132	31,066	267,870	4,092,530	10,684,304	2
Directors - 12 month payment term	11,641	22,516	22,504	-	-	11,653	4
Other key management - loans	48,227	-	7,170	3,825	41,057	-	1
Other key management - 12 month payment term	-	-	-	-	-	-	
Total	4,307,636	10,582,648	60,740	271,695	4,133,587	10,695,957	

2012	**Balance 30.06.11 $**	**Amount advanced $**	**Principle Repayments $**	**Interest Charged $**	**Sale of loan $**	**Balance 30.06.12 $**	**No. In group**
Directors - Loans	2,867,237	1,850,037	49,428	242,743	-	4,667,846	3
Directors - 12 month	37,869	47,970	74,198	-	-	11,641	4
Other key management - loans	26,545	27,126	5,444	2,658	-	48,227	1
Other key management - 12 month payment term	-	13,629	13,629	-	-	-	1
Total	2,931,651	1,938,762	142,699	245,401	-	4,727,714	

NOTE 40: RELATED PARTY TRANSACTIONS (continued)

(ii) Directors / director related entities with loans above $100,000 in the reporting period.

2013		Balance 30.06.12 $	Amount advanced $	Principle Repayments $	Interest Charged $	Sale of loan $	Balance 30.06.13 $	Highest Balance $
Frank Wilson(v)	- loans	4,123,596	10,557,250	31,066	261,237	4,092,530	10,557,250	10,557,250
	- terms	11,249	7,762	7,762	-	-	11,249	15,187
Ronald Eacott	- loans	124,172	2,882	-	6,632	-	127,054	127,054
	- terms	392	11,187	11,175	-	-	404	9,313

2012		Balance 30.06.11 $	Amount advanced $	Principle Repayments $	Interest Charged $	Sale of loan $	Balance 30.06.12 $	Highest Balance $
Frank Wilson	- loans	2,359,344	1,779,332	15,080	203,920	-	4,123,596	4,123,596
	- terms	37,869	11,249	37,869	-	-	11,249	37,869
Ronald Eacott	- loans	121,281	2,890	-	6,650	-	124,171	124,171
	- terms	-	33,155	32,763	-	-	392	33,155
Ian Thompson	- loans	386,611	67,815	34,349	32,173	-	420,077	420,077
	- terms	-	-	-	-	-	-	-

(c) Other Transactions with director related entities:

Transactions with, and amounts receivable from and payable to, specified Directors or their personally related entities occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those which it is reasonable to expect the entity would have adopted if dealing with the director or personally related entity at arm's length in the same circumstances.

(i) RL Eacott is a director of Expo Document Copy Centre (WA) Pty Ltd. Expo Document Copy Centre (WA) Pty Ltd provides printing and copying services as required by the Group. During the year to 30 June 2013 no amount (2012: $10,850) was charged to the Group.

(ii) FC Wilson was a principal of Wilson & Atkinson and continues to be a part owner in the business. This company provided legal services on commercial terms to the Group during the period to 30 June 2013 for an amount of $204,377 (2012: $151,605) was charged to the Group. Frank Wilson neither directly nor indirectly received any financial benefit from these payments.

(iii) AC Gilchrist is a director of Crystal Lakes Pty Ltd. Crystal Lakes Pty Ltd is responsible for promoting the Group's business activities in Australia as well as internationally. During the year to 30 June 2013 no amount (2012: $220,000) was paid by the Group.

(iv) FC Wilson, SL Atkinson and RL Eacott have a part interest in Sandalwood Marketing Co Ltd, which owned the marketing and selling rights in relation to the East Kimberley Sandalwood Project 1. During the year ended 30 June 2013, Tropical Forestry Services Limited acquired this marketing and selling right for a consideration totalling $720,500 (GST inclusive), based on an independent valuation prepared by HLB Mann Judd Corporate (WA) Pty. The acquisition of these marketing rights was considered important to the Group's control of marketing all sandalwood grown by the Group. The Group controls the marketing of all other sandalwood plantations under the relevant scheme documents and agreements with investors.

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NOTE 40: RELATED PARTY TRANSACTIONS (continued)

(v) Other transactions with directors as project subscribers (on terms no more favourable than other project subscribers).

- Total new project subscriptions by FC Wilson during the year ended 30 June 2013 was $10,557,250 (GST inclusive) (2012: $1,985,544) and as a result of this he was entitled to $959,750 (GST inclusive) (2012: $218,592) of commissions to be offset against amount payable. This new project subscription was indirectly financed by a loan from a Group controlled entity, Arwon Finance Pty Ltd on normal commercial terms which has been repaid post balance date.
- After balance date the Group entered into agreement with FC Wilson and associated entity to acquire mature Indian Sandalwood trees for an amount totalling $12,393,475 (GST inclusive) as part of the Group's strategy to directly own more mature Indian Sandalwood trees. This transaction was settled on 2 July 2013 at arm's length and on terms no more favourable than three other project subscribers who also sold mature Indian Sandalwood trees to the Group at the same time. The indirect loan to FC Wilson from Arwon Finance Pty Ltd (see (v) above) was extinguished on settlement of this transaction.
- Project rent, management and insurance fees paid by directors during the year were $22,516 (GST inclusive) (2012: $47,970)

	2013 $'000	2012 $'000
NOTE 41: PARENT ENTITY DISCLOSURES		
(a) Financial position		
Assets		
Current assets	43,188	45,545
Non-current assets	263,730	232,896
Total assets	306,918	278,441
Liabilities		
Current liabilities	11,686	9,434
Non-current liabilities	164,115	146,451
Total liabilities	175,801	155,885
Net Assets	131,117	122,556
Equity		
Issued Capital	117,760	117,760
Option reserve	9,005	8,992
Retained profits	4,352	(4,196)
Total equity	131,117	122,556
(b) Financial performance		
Profit for the year	15,700	12,981
Other comprehensive income	-	-
Total comprehensive income	15,700	12,981

(c) Contingent liabilities of the Parent Entity

At balance sheet date the Parent Entity had no contingent liabilities.

(d) Commitments for the acquisition of Property, Plant and Equipment by the Parent Entity

At balance sheet date no such commitments existed for the Parent Entity

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NOTE 41: PARENT ENTITY DISCLOSURES (continued)

(e) Intercompany loans to controlled entities

The loans to controlled entities are revolving facilities with no fixed term. Interest accrues at 11% per annum on loans provided after 31 May 2011. No interest accrues on loans provided pre 31 May 2011.

	2013 $'000	2012 $'000
Intercompany loans to controlled entities		
Tropical Forestry Services Ltd - Pre 31.05.2011	42,374	42,374
Arwon Finance Pty Ltd - Pre 31.05.2011	17,342	35,187
Mt Romance Holdings Pty Ltd	9,486	10,841
Tropical Forestry Services Ltd - Post 31.05.2011	107,222	66,621
Arwon Finance Pty Ltd - Post 31.05.2011	25,159	10,396
TFS Properties Ltd - Post 31.05.2011	34,367	39,659
	235,950	205,078

NOTE 42: ECONOMIC DEPENDENCY

The Group is economically dependent on the successful development, growing and ultimately the harvesting of sandalwood trees which are both currently owned by the company as well as those managed on behalf of investors in various projects

NOTE 43: COMPANY DETAILS

The registered office of the company is:
169 Broadway
Nedlands WA 6009

The principal places of business are:
Perth Office
169 Broadway
Nedlands WA 6009

Plantation
Lot 794, Weaber Plains Road
Kununurra WA 6743

Mt Romance
Lot 2 Down Road
ALBANY WA 6330

Plantation
3/143 Edward Street
Ayr Qld 4807

Plantation
23 Providence Court
Katherine NT 0850

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Independent Auditor's Report

To the Members of T.F.S. Corporation Limited

Bentleys
THINKING AHEAD

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West Perth WA 6005
Australia
PO Box 44
West Perth WA 6872
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ABN 33 121 222 802
T +61 8 9226 4500
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We have audited the accompanying financial report of T.F.S. Corporation Limited ("the Company") and Controlled Entities ("the Consolidated Entity"), which comprises the consolidated statement of financial position as at 30 June 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Consolidated Entity, comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors Responsibility for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standards AASB 101: *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

a. The financial report of T.F.S. Corporation Limited and Controlled Entities is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*;

b. The financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in directors' report of the year ended 30 June 2013. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of T.F.S. Corporation Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

Bentleys

BENTLEYS
Chartered Accountants

Phil. J. Rix

PHILIP RIX FCA
Director

DATED at PERTH this 13th day of September 2013