TFS CORPORATION LTD

AND ITS CONTROLLED ENTITIES

A.B.N. 97 092 200 854

Un-audited Interim Financial Report
For the nine months ended 31 March 2016

TFS CORPORATION LTD
(ABN: 97 092 200 854)
UN-AUDITED INTERIM FINANCIAL REPORT
FOR THE NINE MONTHS ENDED 31 MARCH 2016

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TFS CORPORATION LTD
(ABN: 97 092 200 854)
RESULTS FOR ANNOUNCEMENT TO MARKET
FOR THE NINE MONTHS ENDED 31 MARCH 2016

	Percentage change			31 MAR 2016 $'000	31 MAR 2015 $'000
Revenue					
Revenue (Cash*)					
Revenue from establishment fees and land sales	Up	29.2%	to	37,792	29,250
Revenue from recurring fees	Down	9.3%	to	17,985	19,835
Revenue from product sales	Down	4.5%	to	18,656	19,542
Interest revenue	Up	20.0%	to	2,739	2,282
Other revenue	Up	21.7%	to	5,863	4,819
Revenue (Non-Cash*)					
Revenue from recognition of deferred fees	Down	23.6%	to	16,553	21,665
Fair value gain of biological assets – TFS interest	Down	54.9%	to	62,261	138,007
Other revenue	Up	650.0%	to	135	18
Total revenue from ordinary activities	Down	31.2%	to	161,984	235,418
EBITDA					
Cash EBITDA	Up	16.4%	to	12,118	10,414
Non Cash EBITDA	Down	18.7%	to	101,880	125,255
TOTAL EBITDA	Down	16.0%	to	113,998	135,669
Net profit after tax					
Net profit after tax (Cash*)	Down	63.2%	to	(11,319)	(6,936)
Net profit after tax (Non Cash*)	Down	12.2%	to	77,475	88,258
Net profit from ordinary activities after tax	Down	18.6%	to	66,156	81,322
Plantation product sold				Ha	Ha
Hectares of product sold	Down	24.3%	to	302.0	399.0
				302.0	399.0

				31 MAR 2016 Cents	31 MAR 2015 Cents
Earnings Per Share					
Basic EPS (Based on net profit after tax)	Down	22.5%	to	19.35	24.97
Diluted EPS (Based on net profit after tax)	Down	21.6%	to	18.82	24.02

Net Tangible Assets per Share				31 MAR 2016 Cents	30 JUNE 2015 Cents
Net tangible asset backing per ordinary share	Down	28.5%	to	95.13	133.12

***Definition of Cash / Non Cash**

The Group's Cash EBITDA/NPAT is stated after eliminating the following from total Group EBITDA/NPAT:

- Fair value gain of biological assets;
- Revenue from recognition of deferred lease and management fees;
- Accounting treatment relating to the business combination transactions; and
- Unrealised foreign exchange gain / (loss).

TFS CORPORATION LTD
(ABN: 97 092 200 854)

DIRECTORS' REPORT

Your Directors present the un-audited financial report of the Group for the nine months ended 31 March 2016.

DIRECTORS

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

Mr Dalton Gooding (Chairman)
Mr Frank Wilson (Managing Director)
Mr Julius Matthys (Deputy Chairman)
Mr John Groppoli
Ms Gillian Franklin
Mr Michael Kay

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

DIVIDENDS PAID

A final ordinary dividend of 3 cents per share (100% franked) was paid on 9 November 2015 (declared on 31 August 2015) in respect of the financial year ended 30 June 2015 (total value: $10.242m). No other ordinary dividend was declared and/or paid during the period.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the nine month period were:

- promotion of Sandalwood plantation investment to institutional investors;
- promotion of Sandalwood investment to high net worth investors ("HNW") and via managed investment schemes ("MIS");
- manufacture and distribution of Indian and Australian Sandalwood oil and related products;
- manufacture of pharmaceutical grade Indian Sandalwood oil for end customers, including Nestlé-owned Galderma;
- research and development of botanical pharmaceuticals and bio-pharmaceutical products for commercialising;
- management and maintenance of Indian Sandalwood plantations;
- ownership, sale and leasing of land;
- ownership of Indian Sandalwood plantations; and
- provision of finance to investors in Indian Sandalwood plantations.

Apart from the changes arising from the acquisition of Santalis Pharmaceuticals Inc. ("Santalis") and ViroXis Corporation ("ViroXis") in July 2015, there have been no significant changes in the nature of those activities undertaken during the period.

REVIEW OF OPERATIONS

Operating results

The consolidated net profit after tax of the Group for the nine-month period amounted to $66.156m (31 March 2015: $81.322m). This represents basic earnings per share of 19.27 cents (31 March 2015: 24.85 cents).

Total revenues and other income for the period of $161.984m (31 March 2015: $235.418m) included $62.261m (31 March 2015: $138.007m) relating to the gain recognised on the fair value of the Group's wholly owned Indian Sandalwood tree plantations. This gain was attributable to a favourable exchange rate movement and an increase in the fair value of the plantations due to a shorter period to harvest. The higher gain in the prior year was due to a greater foreign exchange movement in the nine months to 31 March 2015. At 31 March 2016 the Group directly owned 2,392ha of Indian Sandalwood plantations, up from 2,353ha at 30 June 2015.

Revenue also included $78.157m from sales and services performed by the Group, up from $75.572m for the nine months ended 31 March 2015. Establishment fee revenue is recognised in proportion to the establishment work performed at the balance sheet date.

The Group's sales of financial products are heavily weighted towards the last quarter of the Group's financial year. Therefore, as in prior years, the results of the first nine months of the financial year tend not to be representative of the full year's results. The Group expects to derive significant cash inflows from operating activities in the final quarter and reaffirms its guidance for Cash EBITDA for the year to 30 June 2016 to be between 5% and 10% up on Cash EBITDA in the year to 30 June 2015.

TFS CORPORATION LTD
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DIRECTORS' REPORT

On 31 July 2015, TFS Corporation Ltd completed the acquisition of Santalis Pharmaceuticals Inc. and ViroXis Corporation. Santalis manufactures and markets botanical pharmaceuticals using Indian Sandalwood oil, whilst ViroXis is a bio-pharmaceutical company focused on developing and commercialising innovative, proprietary, botanical pharmaceuticals derived from Indian Sandalwood oil. The strategic rationale behind the acquisitions was to:

- Extend the Group's vertically integrated business and bring within the Group the formulation and development of products which is likely to maximise the demand for the Group's Indian Sandalwood oil;
- Provide the Group with increased access to the significant potential returns from royalty and licensing fees from dermatology products; and
- Provide a direct contractual and operational relationship with leading global pharmaceutical companies.

The Group's sales of financial products tend to be weighted towards the final quarter of the Group's financial year. Therefore, as in prior years, the results of the first nine months of the financial year tend not to be representative of the full year's results.

EVENTS AFTER THE REPORTING PERIOD
Since the reporting date the following significant events have occurred:

- TFS successfully completed a placement to institutional shareholders of 39 million new ordinary shares to raise $60.450m;
- A share purchase plan was offered to eligible shareholders which raised a further $8.000m at an issue price of $1.55 per share; and
- TFS announced plans to acquire up to 221 hectares of MIS grower interests across five MIS projects. The buy-back is expected to have a maximum cost of $53.000m. The price offered by TFS to growers is based on the book value of the plantations as at 31 December 2015, using the same methodology the Company uses to value its own plantations.

ROUNDING OF AMOUNTS
The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (unless otherwise stated) under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the class order applies.

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

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Dalton Gooding – Chairman of the Board

Dated this 31st day of May 2016.

TFS CORPORATION LTD
(ABN: 97 092 200 854)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED 31 MARCH 2016

	NOTE	31 MAR 2016 $'000	31 MAR 2015 $'000 Restated
Revenue	2	99,552	97,396
Other income	2	62,432	138,022
Direct plantation and other operating expenses		(20,935)	(24,282)
Raw materials and consumables used		(9,023)	(11,038)
Salaries and employees benefits expense		(22,101)	(16,403)
Sales and marketing expenses		(3,327)	(2,297)
Corporate and other administration expenses		(14,561)	(10,502)
Depreciation and amortisation expenses		(7,225)	(6,270)
Finance costs		(20,743)	(15,740)
Unrealised foreign exchange gain/(loss)		77	(36,365)
Share of net profits of associates		6,114	2,105
Fair value loss on contingent consideration liability		(437)	-
Fair value gain of biological assets – external MIS growers	14	14,755	43,356
Fair value loss of external MIS grower liabilities	14	(14,755)	(43,356)
Gain on acquisition of controlling interests	12	17,177	-
Profit before income tax expense		87,000	114,626
Income tax expense		(20,844)	(33,304)
Profit for the period		66,156	81,322
Other comprehensive income			
Other comprehensive income to be reclassified to profit and loss in subsequent periods:			
Foreign currency translation differences for foreign operations		1,971	295
Other comprehensive income not to be reclassified to profit and loss in subsequent periods:			
Net gain on uplift in land of an associated entity (net of tax)		248	-
Total comprehensive income for the period		68,375	81,617
Earnings per share			
Basic earnings per share (cents per share)	17	19.35	24.97
Diluted earnings per share (cents per share)	17	18.82	24.02

The accompanying notes form part of these financial statements.

TFS CORPORATION LTD
(ABN: 97 092 200 854)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2016

	NOTE	31 MAR 2016 $'000	30 JUN 2015 $'000
CURRENT ASSETS			
Cash and cash equivalents		22,608	72,674
Trade and other receivables	3	82,667	93,272
Inventories	4	37,868	23,660
Biological assets	7	17,589	17,564
Other financial assets	5	770	3,000
Current tax asset		910	-
TOTAL CURRENT ASSETS		162,412	210,170
NON CURRENT ASSETS			
Trade and other receivables	3	28,842	43,540
Other financial assets	5	6,762	6,949
Property, plant and equipment	6	156,814	144,574
Biological assets	7	696,315	607,010
Intangible assets and goodwill	8	266,463	114,379
Investments accounted for using equity method		21,164	13,333
Other assets		10,371	8,511
TOTAL NON CURRENT ASSETS		1,186,731	938,296
TOTAL ASSETS		1,349,143	1,148,466
CURRENT LIABILITIES			
Trade and other payables		33,927	55,089
Financial liabilities	9	8,536	9
Current tax liabilities		-	7,772
Provisions		2,862	2,659
Unearned income		14,968	30,361
TOTAL CURRENT LIABILITIES		60,293	95,890
NON CURRENT LIABILITIES			
Provisions		2,318	1,816
Financial liabilities	9	431,625	349,384
Deferred tax liabilities	10	193,179	122,773
Unearned income		4,621	4,080
TOTAL NON CURRENT LIABILITIES		631,743	478,053
TOTAL LIABILITIES		692,036	573,943
NET ASSETS		657,107	574,523
EQUITY			
Issued capital	11	212,958	188,948
Asset revaluation reserve		9,024	8,776
Foreign currency translation reserve		2,241	271
Option/Warrant reserve		9,845	9,403
Retained earnings		423,039	367,125
TOTAL EQUITY		657,107	574,523

The accompanying notes form part of these financial statements.

TFS CORPORATION LTD
(ABN: 97 092 200 854)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED 31 MARCH 2016

	Issued Capital $'000	Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 1 July 2015	188,948	18,450	367,125	574,523
Profit for the period	-	-	66,156	66,156
Net gain on uplift in land of an associate entity	-	248	-	248
Foreign exchange translation	-	1,971	-	1,971
Total comprehensive income for the period	-	2,219	66,156	68,375
Transaction with owners, in their capacity as owners, and other transfers				
Shares issued during the period	21,349	-	-	21,349
Share issued under the DRP	2,661	-	-	2,661
Share based payments	-	441	-	441
Dividends recognised for the period	-	-	(10,242)	(10,242)
Balance at 31 March 2016	212,958	21,110	423,039	657,107
Balance at 1 July 2014	184,964	17,501	263,862	466,327
Profit for the period	-	-	81,322	81,322
Foreign exchange translation	-	295	-	295
Total comprehensive income for the period	-	295	81,322	81,617
Transaction with owners, in their capacity as owners, and other transfers				
Shares issued during the period	1,420	-	-	1,420
Shares issued under the DRP	2,564	-	-	2,564
Share based payment	-	1,001	-	1,001
Dividends recognised for the period	-	-	(9,758)	(9,758)
Balance at 31 March 2015	188,948	18,797	335,426	543,171

The accompanying notes form part of these financial statements.

TFS CORPORATION LTD
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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 31 MARCH 2016

		31 MAR 2016 $'000	31 MAR 2015 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt from operations		68,138	98,456
Payments to suppliers and employees		(86,994)	(76,383)
Payments for land held for resale		(15,650)	(5,720)
Repayment of grower loans		22,599	6,824
Interest received		2,739	2,282
Finance charges		(29,169)	(19,437)
Income tax paid		(2,449)	(5,603)
Net cash (used in) / provided by operating activities		(40,786)	419
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from the sale of property, plant and equipment		203	76
Payments for plant and equipment		(16,553)	(14,624)
Payments for investment in own plantation		(13,326)	(35,982)
Payments for land development		(2,465)	-
Receipts from investments		220	940
Payments for investments		(1,469)	(437)
Receipts from MIS custodian accounts		2,263	1,639
Payments to MIS custodian accounts		(65)	(78)
Payments for land and buildings		(3,576)	(6,775)
Acquisition of subsidiaries (net of cash acquired)	12c(i)	(2,971)	-
Net cash used in investing activities		(37,739)	(55,241)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(9)	(12)
Proceeds from borrowings		36,007	35,312
Proceeds from employee share options exercised		-	1,001
Proceeds from issue of shares		-	1,421
Dividends paid		(7,539)	(7,182)
Net cash provided by financing activities		28,459	30,540
Net decrease in cash held		(50,066)	(24,282)
Cash at the beginning of the period		72,674	88,581
Cash at the end of the period		22,608	64,299

The accompanying notes form part of these financial statements.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The un-audited interim financial report covers TFS Corporation Ltd and its controlled entities (hereafter referred to as "the Group" or "TFS"). TFS Corporation Ltd is a for-profit listed public company, incorporated and domiciled in Australia.

The financial report was authorised for issue on 31 May 2016 by the Board of Directors.

Basis of Preparation

These general purpose financial statements for the period ended 31 March 2016 have been prepared in accordance with AASB 134: *Interim Financial Reporting*.

This interim financial report is intended to provide users with an update on the latest annual financial statements of the Group. As such, it does not contain information that represents relatively insignificant changes occurring during the period within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2015, together with any public announcements made during the period.

The interim financial report has been prepared on an accruals basis and is based on historical costs, except for the Group's Indian Sandalwood tree plantations (which are biological assets), external MIS grower liabilities, contingent consideration and land which have been measured at fair value. This report does not take into account changing money values or, except where stated, current valuations of non-current assets.

The Directors make estimates, judgements and assumptions 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. The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty, were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2015, as set out in Note 1(y).

Accounting policies

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2015, except for the adoption of new standards and interpretations noted below:

- **AASB 2015-3 - Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality.** The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.

This amendment is effective for annual periods beginning on or after 1 July 2015. The adoption of this amendment had no material impact on the financial position or performance of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Seasonality of Business

The plantation management segment is a provider of plantation establishment and management services for Indian Sandalwood plantations. Due to the seasonal nature of this segment, higher revenues and operating profits are usually expected in the second half of the financial year. Higher sales during the period May to June are mainly attributed to recognition of revenue in relation to the establishment of new plantations during the dry season in Northern Australia. The receipt of funds is also higher during May and June each year with the release of new projects by TFS. This information is provided to allow for a proper appreciation of the results.

TFS CORPORATION LTD
(ABN: 97 092 200 854)
NOTES TO AND FORMING PART OF THE UN-AUDITED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 MARCH 2016

	31 MAR 2016 $'000	31 MAR 2015 $'000
NOTE 2: REVENUE AND OTHER INCOME		
Sales revenue:		
Revenue from sales and services	78,157	75,572
Revenue from product sales	18,656	19,542
Interest on grower loans	1,770	1,315
Interest received	969	967
Total sales revenue	99,552	97,396
Other income:		
Profit / (loss) on disposal of plant and equipment	36	(3)
Gain on settlement of trade debtor	135	18
Fair value gain of biological assets – TFS interest	62,261	138,007
Total other income	62,432	138,022
Total revenue and other income	161,984	235,418

	31 MAR 2016 $'000	30 JUN 2015 $'000
NOTE 3: TRADE AND OTHER RECEIVABLES		
Current		
Trade debtors	70,604	62,058
Allowances for impairment of receivables	(1,177)	(1,171)
	69,427	60,887
Loans to growers	6,512	29,479
Bonds and deposits	325	27
Prepayments	6,403	2,879
	82,667	93,272
Non Current		
Loan to growers	28,661	30,582
Other receivable[(i)]	181	12,958
	28,842	43,540

[(i)] As at 30 June 2015, included in other non-current receivables was $6.379m relating to research and development funding to a 50% owned associate (Santalis Pharmaceuticals Inc.). As Santalis Pharmaceuticals Inc. ("Santalis") was acquired during the current period, the related receivable has been eliminated on consolidation (refer Note 12).

	31 MAR 2016 $'000	30 JUN 2015 $'000
NOTE 4: INVENTORIES		
At Cost:		
Land held for resale [(i)]	16,875	12,622
Finished goods	15,035	7,646
Work in progress	17	15
Seedlings at cost	3,856	340
Seed stock	218	800
Harvested trees	5	240
Raw materials	2,059	2,135
Less: Provision for obsolete stock	(197)	(138)
	37,868	23,660

(i) Land is considered current if it is expected to be sold, in the ordinary course of business, within the next 12 months.

	31 MAR 2016 $'000	30 JUN 2015 $'000
NOTE 5: OTHER FINANCIAL ASSETS		
Current		
Cash deposit – MIS custodian accounts	770	3,000
Non Current		
Cash deposit – MIS custodian accounts	2,239	2,207
Cash deposit – First loss account	2,051	2,271
Cash deposit – Bank guarantee facility	2,452	2,452
Other	20	19
	6,762	6,949

The MIS custodian accounts consist of 50% of establishment fees on new MIS sales and upfront annual fee and rent fees. These fees are kept in an interest bearing account, which is maintained by an independent custodian. The establishment fees are released quarterly to the Group until completion of the establishment services. The upfront annual and rent fees shall be released to the Group in satisfaction of the annual fee and rent in year 14 of the applicable project.

NOTE 6: PROPERTY, PLANT AND EQUIPMENT

During the period ended 31 March 2016, the Group acquired assets with a cost of $16.657m.

No major assets were disposed of by the Group during the period ended 31 March 2016.

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 lodged 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.

Fair value measurement of the Group's freehold land and buildings

The Group's freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value measurements of the Group's freehold land and buildings as at 31 March 2016 and 30 June 2015 were based on the independent and external property and land values obtained at the end of the 30 June 2012 financial year. The market appraisal was performed by Landnorth Consulting, a Licensed Real Estate Agent, with the appropriate qualifications and recent experience to fair value properties in the relevant locations. Properties were valued at their highest and best use which is consistent with current use. An updated valuation is expected to be performed during the June quarter of the 2016 financial year. The Group evaluates the impact of market conditions and arm's length transactions during the intervening period.

The fair value of the freehold land and buildings was determined based on the market comparable approach that reflects recent transaction for similar properties. There has been no change to the valuation technique during the period. The Group's freehold land and buildings are categorised as Level 3 in the fair value hierarchy at $84.633m. The key input under the market comparable method adopted is the price per hectare (ranging from $10,000 to $30,000 per hectare) based on sales of comparable lots of land in the same area (location and size). A 10% increase/decrease in the price per hectare will result in a higher/lower fair value by $7.904m.

TFS CORPORATION LTD
(ABN: 97 092 200 854)
NOTES TO AND FORMING PART OF THE UN-AUDITED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 31 MARCH 2016

NOTE 7: BIOLOGICAL ASSETS:	31 MAR 2016 $'000 TFS INTEREST (i) (ii)	31 MAR 2016 $'000 EXTERNAL MIS GROWER INTEREST (iii)	31 MAR 2016 $'000 TOTAL
Sandalwood plantations at cost:			
Opening balance	241,265	53,821	295,086
Additions / Disposal	11,997	(33)	11,964
Plantation re-acquired	405	-	405
	253,667	53,788	307,455
Add: Fair value adjustment to Sandalwood plantations:			
Opening balance	263,271	66,217	329,488
Fair value gain / (loss)	62,261	14,755	77,016
Disposals	-	(55)	(55)
	325,532	80,917	406,449
Total Biological Assets	**579,199**	**134,705**	**713,904**
Classified as current (iv)	17,589	-	17,589
Classified as non current	561,610	134,705	696,315

The Group's biological assets relate to Indian Sandalwood trees growing on plantations located across Northern Australia. The fair value less costs to sell of the Indian Sandalwood trees has been determined in accordance with a Directors' valuation.
(i) Biological assets are encumbered to the extent set out in Note 9.
(ii) This represents plantations owned by TFS and TFS's direct interest within MIS projects.
(iii) The External MIS grower interest represents the third party grower interest in the biological assets in respect of certain MIS projects which are consolidated for accounting purposes (refer Note 14). The Group has a restricted interest in these assets and the proceeds from the monetisation of these assets will be used to settle the external MIS grower liabilities detailed at Note 9.
(iv) Biological assets classified as current are expected to be harvested, processed and monetised within 12 months.

	30 JUN 2015 $'000 TFS INTEREST	30 JUN 2015 $'000 EXTERNAL MIS GROWER INTEREST	30 JUN 2015 $'000 TOTAL
Sandalwood plantations at cost:			
Opening balance	221,268	53,997	275,265
Additions / Disposal	19,064	(176)	18,888
Plantation re-acquired	965	-	965
Less: Harvested trees transferred to inventory	(32)	-	(32)
	241,265	53,821	295,086
Add: Fair value adjustment to Sandalwood plantations:			
Opening balance	126,837	32,138	158,975
Fair value gain / (loss)	136,632	34,226	170,858
Additions / disposal	-	(147)	(147)
Less: Harvested trees transferred to inventory	(198)	-	(198)
	263,271	66,217	329,488
Total Biological Assets	**504,536**	**120,038**	**624,574**
Classified as current	17,564	-	17,564
Classified as non current	486,972	120,038	607,010

NOTE 7: BIOLOGICAL ASSETS

	31 MAR 2016 No.	30 JUN 2015 No.
Physical quantity of Indian Sandalwood trees - TFS interest	1,039,960	1,022,892
Physical quantity of Indian Sandalwood trees – External MIS grower interest	271,728	271,855

(a) Measurement of fair values

(i) *Fair Value Hierarchy*
The fair value measurements for biological assets of $713.904m (30 June 2015: $624.574m) have been categorised as Level 3 in the fair value hierarchy.

The following information shows the valuation techniques used in measuring fair value less costs to sell, as well as the significant observable and unobservable inputs used.

Valuation Technique
Discounted Cash Flows: The valuation model considers the present value of the net cash flows expected to be generated by the plantation. The cash flow projections include specific estimates until harvest. The expected net cash flows are discounted using a risk-adjusted discount rate.

Significant Observable Inputs
(i) US Dollar exchange rate used is constant through the valuation model at 1.305 AUD being the spot exchange rate at balance date (30 June 2015: 1.297 AUD).

Significant Unobservable Inputs
(i) The trees will be harvested within 14 to 16 years of being planted. The weighted average year of harvest is 15.6 years (30 June 2015: 15.6 years).
(ii) Forecast heartwood production provides a weighted average of 20.8kg (30 June 2015: 20.8kg) per Sandalwood tree at a 25% moisture content. The forecast heartwood production of each plantation vintage ranges from 6.7kg to 25.6kg per Sandalwood tree.
(iii) Projected oil content from the heartwood of 3.7% (30 June 2015: 3.7%) from forecast heartwood at a moisture content of 25%.
(iv) The price of Indian Sandalwood oil is determined with due consideration to market transactions and industry projections, arriving at an estimate of $2,800 USD/kg (30 June 2015: $2,800 USD/kg) and not inflated.
(v) The costs consist of growing, harvesting, processing, marketing, and sales costs, including:

- Harvesting and processing (oil extraction) costs, estimated at $16,000 (30 June 2015: $16,000) per hectare and $207 (30 June 2015: $207) per litre of oil; and
- Marketing and sales costs, estimated at 5% (30 June 2015: 5%) of proceeds.
- Harvesting and processing (oil extraction costs) are held constant in real terms with an annual inflation rate of 3.0% (30 June 2015: 3.0%).

(vi) The pre-tax average real rates at which the net cash flows have been discounted range between:

- 14% (30 June 2015: 14%) for trees aged 0 to 5 years;
- 13% (30 June 2015: 13%) for trees aged 6 to 10 years; and
- 12% (30 June 2015: 12%) for trees aged 11 years to harvest age.

(vii) Cash flows exclude income taxes.

The fair value measurement of biological assets is sensitive to changes in the observable and unobservable inputs which may result in a significantly higher or lower fair value measurement.

NOTE 7: BIOLOGICAL ASSETS

(b) Sensitivity analysis – TFS interest in biological assets

(i) Foreign Currency Risk Sensitivity Analysis

At 31 March 2016, the effect on profit (after tax) as a result of a change in the Australian dollar to the US Dollar, with all other variables remaining constant would be as follows:

	31 MAR 2016 $'000	30 JUN 2015 $'000
Change in profit		
Improvement in AUD to USD by 10%	(47,078)	(41,647)
Decline in AUD to USD by 10%	47,078	41,647

(ii) Price Risk Sensitivity Analysis

At 31 March 2016, the effect on profit (after tax) as a result of a change in Indian Sandalwood oil price, with all other variables remaining constant would be as follows:

	31 MAR 2016 $'000	30 JUN 2015 $'000
Change in profit		
Increase in Indian Sandalwood oil price by $100/kg	16,814	14,874
Decrease in Indian Sandalwood oil price by $100/kg	(16,814)	(14,874)

(iii) Heartwood Yield Risk Sensitivity Analysis

At 31 March 2016, the effect on profit (after tax) as a result of a change in the heartwood yield, with all other variables remaining constant would be as follows:

	31 MAR 2016 $'000	30 JUN 2015 $'000
Change in profit		
Increase in heartwood yield by 10%	44,411	39,273
Decrease in heartwood yield by 10%	(44,411)	(39,273)

(iv) Discount Rate Risk Sensitivity Analysis

At 31 March 2016, the effect on profit (after tax) as a result a change in the tax discount rates, with all other variables remaining constant would be as follows:

	31 MAR 2016 $'000	30 JUN 2015 $'000
Change in profit		
Increase in discount rates by 2%	(67,969)	(63,839)
Decrease in discount rates by 2%	84,464	80,360

NOTE 7: BIOLOGICAL ASSETS

(c) Project Risk

The Group is exposed to risks relating to its Indian Sandalwood plantations including:

(i) Supply and Demand Risk

The Group is exposed to risks arising from fluctuations in the price and sales volume of Sandalwood. When possible, the Group intends to manage this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analysis for projected harvest volumes and pricing.

(ii) Climate and Other Risks

The Group's Indian Sandalwood plantations are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys. The Group is also insured against certain natural disasters such as fire and wind damage. The insured value of the plantation under the Group's existing insurance policy is less than the fair value of these plantations, but greater than the cost of re-establishing the plantations.

(iii) Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group has a natural hedge of this exposure in place by maintaining foreign currency denominated debt that partially offsets the currency exposure described.

	31 MAR 2016 $'000	30 JUN 2015 $'000
NOTE 8: INTANGIBLE ASSETS AND GOODWILL		
Goodwill – at cost	32,291	20,205
During the period the business combination of Santalis generated goodwill of $12.086m (refer Note 12).		
Supply agreements – at cost	478	478
Accrued income receivable		
Opening balance	93,696	66,924
Recognition of deferred fees	19,891	23,430
Deferred fees realised upon harvest	(422)	(141)
Impairment reversal / (allowance)	(3,338)	3,483
Closing balance	109,827	93,696
Other intangible assets – at cost (refer Note 12)		
Royalties	9,278	-
In-process research and development	114,520	-
Copywriting	85	-
Trademark	95	-
Patent	41	-
Accumulated amortisation	(152)	-
	123,867	-
Total intangibles	266,463	114,379

	31 MAR 2016 $'000	30 JUN 2015 $'000
NOTE 9: FINANCIAL LIABILITIES		
Current		
Hire purchase liability	-	9
Contingent consideration	8,536	-
	8,536	9

NOTE 9: FINANCIAL LIABILITIES

	31 MAR 2016 $'000	30 JUN 2015 $'000
Non Current		
11% Senior secured notes[(i)]	264,502	229,346
External MIS grower liabilities [(ii)]	134,705	120,038
Contingent consideration [(iii)]	32,418	-
	431,625	349,384

[(i)] A total of US$200 million has been raised from international markets from the issuance of 11% senior secured notes, with a maturity date of 15 July 2018. This liability has been converted to Australian dollars using an exchange rate of 1.305 (30 June 2015: 1.297). 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, refer Note 6. During the period a further US$25 million (A$36.007m) of additional notes was raised under the provisions of the existing Senior Secured Notes. These additional notes were issued at a premium to par of 5.75% and have the same terms and conditions as the existing notes. The effective interest rate to maturity is 8.5% for this tranche.

[(ii)] The external MIS grower liability arises from the consolidation of certain MIS for accounting purposes (refer Note 14). The liability will be settled with the proceeds arising from the monetisation of the external MIS grower interests in the Group's biological assets as detailed in Note 7, and will not require any additional cash contribution from the Group outside of the MIS projects. External MIS grower liabilities are carried at fair value through profit and loss. The basis of determining the fair value of the liability, Level 3 within the fair value hierarchy, is consistent with the method adopted by the Group to value its biological assets (refer Note 7) and factors in credit risk and the security provided by the underlying trees.

[(iii)] The contingent consideration is carried at fair value through profit and loss. Refer to Note 21 for the basis of determining the fair value of the liability within the fair value hierarchy.

NOTE 10: DEFERRED TAX LIABILITIES

	Opening balance $'000	Charged to income $'000	Charged directly to equity $'000	Acquisition $'000	Exchange differences $'000	Closing balance $'000
Deferred tax liabilities (31 MAR 2016)						
Sandalwood tree unrealised gain not assessable	109,094	18,534	-	-	-	127,628
Deferred income accrual not assessable	28,109	4,839	-	-	-	32,948
Plant & equipment – tax depreciation allowance	6,520	280	-	-	-	6,800
Unrealised foreign exchange	7	(7)	-	-	-	-
Revaluation adjustments	3,912	-	-	-	-	3,912
Deferred tax acquired in business combinations	-	-	-	43,330	-	43,330
Less: closing deferred tax assets						(21,439)
Net deferred tax liability						193,179

NOTE 10: DEFERRED TAX LIABILITIES

	Opening balance $'000	Charged to income $'000	Charged directly to equity $'000	Exchange differences $'000	Closing balance $'000
Deferred tax liabilities (30 JUN 2015)					
Sandalwood tree unrealised gain not assessable	65,334	43,760	-	-	109,094
Deferred income accrual not assessable	20,077	8,032	-	-	28,109
Plant & equipment – tax depreciation allowance	4,950	1,570	-	-	6,520
Unrealised foreign exchange	-	7	-	-	7
Revaluation adjustments	3,801	-	111	-	3,912
Less: closing deferred tax assets					(24,869)
Net deferred tax liability					122,773

NOTE 11: ISSUED CAPITAL

	31 MAR 2016 $'000	30 JUN 2015 $'000
343,012,536 fully paid ordinary shares (30 June 2015: 326,983,445)	212,958	188,948

	31 MAR 2016 No.	30 JUN 2015 No.
At the beginning of the period	326,983,445	324,157,408
Shares issued during the period:		
Shares exercised on 29 Sep 2014 at $1.28 per share	-	1,110,000
Shares issued on 10 Nov 2014 pursuant to dividend reinvestment plan at $1.49 per share	-	1,716,037
Shares issued on 4 Aug 2015 at $1.85 per share as part of business combination (refer Note 12)	12,675,405	-
Shares issued on 9 Oct 2015 at $1.85 per share as part of business combination (refer Note 12)	1,740,886	-
Shares issued on 9 Nov 2015 pursuant to dividend reinvestment plan at $1.65 per share	1,612,800	-
Total	343,012,536	326,983,445

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 included 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.

NOTE 11: ISSUED CAPITAL

There have been no changes in the strategy adopted by management to control the capital of the Group since the end of the prior financial year. The gearing ratios for the current period and past year end are as follows:

	31 MAR 2016 $'000	30 JUN 2015 $'000
Total borrowings	264,502	229,355
Less: Cash and cash equivalents	(22,608)	(72,674)
Net debt	241,894	156,681
Total equity	657,107	574,523
Total capital	899,001	731,204
Gearing ratio	26.91%	21.43%

NOTE 12: BUSINESS COMBINATIONS

On 31 July 2015, TFS Corporation Ltd acquired Santalis Pharmaceuticals Inc. ("Santalis") and ViroXis Corporation ("ViroXis"). Santalis manufactures and markets botanical pharmaceuticals using Indian Sandalwood oil, whilst ViroXis is a bio-pharmaceutical company focused on developing and commercialising innovative, proprietary, botanical pharmaceuticals derived from Indian Sandalwood oil. The strategic rationale behind the acquisition was:

- Extend the Group's vertically integrated business and bring within the Group the formulation and development of products which is likely to maximise the demand for the Group's Indian Sandalwood oil;
- Provide the Group with increased access to the significant potential returns from royalty and licensing fees from dermatology products; and
- Provide a direct contractual and operational relationship with leading global pharmaceutical companies.

	Name	Type	Location
31 July 2015	Santalis Pharmaceuticals, Inc.	50% of the shares in the Company (now 100% owned subsidiary).	San Antonio, TX, United States
31 July 2015	ViroXis Corporation	100% of the shares in the Company.	San Antonio, TX, United States

The business combinations contributed revenues of $0.141m from ViroXis and $0.446m from Santalis and net loss before tax of $1.412m from ViroXis and $1.268m from Santalis for the period ended 31 March 2016 from their date of acquisition. It is expected that the Group would have reported $162.033m in consolidated revenues and $65.696m consolidated net profit after tax attributable to members, for the period ended 31 March 2016, had the business combination occurred at the beginning of the reporting period.

NOTE 12: BUSINESS COMBINATIONS

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	Provisional fair value recognised on acquisition (31 July 2015) $'000		
	Santalis Pharmaceuticals Inc.	**ViroXis Corporation**	**Consolidated**
Assets			
Cash	789	1,123	1,912
Accounts receivable	107	186	293
Other assets	149	201	350
Intangible assets	60,938	62,945	123,883
Property, plant and equipment	5	20	25
	61,988	64,475	126,463
Liabilities			
Trade and other payables	(2,199)	(74)	(2,273)
Financial liability	(9,862)	(137)	(9,999)
Deferred tax liability	(21,310)	(22,020)	(43,330)
	(33,371)	(22,231)	(55,602)
Total identifiable net assets at fair value	28,617	42,244	70,861
Goodwill arising on acquisition	12,086	-	12,086
Discount arising on acquisition	-	(290)	(290)
	40,703	41,954	82,657
Analysis of cost of acquisition			
Cash (including the exercise of warrants)	-	4,883	4,883
Equity instruments	5,274	17,421	22,695
Contingent consideration	18,669	19,523	38,192
Fair value uplift on pre-existing interests	16,760	127	16,887
Value of total consideration	40,703	41,954	82,657

In accordance with "AASB 3: Business Combinations", an acquirer has one year from the acquisition date ("the measurement period") to finalise the business combination accounting. At the date of lodgement of these financial statements, the Group is still in the process of finalising the business combination accounting. Due to the proximity of the acquisition to balance date, the acquisition accounting is provisional.

(a) Equity instruments

The fair value of the 2,565,176 ordinary shares issued to Santalis, and 916,255 ordinary shares to be issued to Santalis, and 11,851,115 ordinary shares issued to ViroXis as part of the consideration paid ($5.274m and $17.421m respectively) was measured using the closing market price of TFS ordinary shares on acquisition date.

(b) Financial assets

Included in the assets acquired were receivables with a gross contractual and fair value of $0.293m resulting from trade sales with customers and related parties. Management expects these amounts to be collected in full and converted to cash consistent with customer terms.

(c) *Consideration*

(i) Cash consideration: A portion of the consideration of $4.883m was paid in cash to ViroXis during the period. On acquisition, the Group acquired the cash balances of $0.789m in Santalis and $1.123m in ViroXis, resulting in a net cash movement of $2.971m as shown as a payment on the Consolidated Statement of Cash Flows for the period.

(ii) Contingent Consideration: The Group will pay the vendors further consideration over the next 8 years if further milestones and performance criteria are achieved (as detailed below). The additional future contingent consideration has been assessed to have a fair value (discounted) of $38.192m at the date of acquisition. At 31 March 2016, the fair value of the contingent consideration had increased to $40.954m due to the unwinding of the discount ($0.194m), changes in foreign currency ($2.325m), and changes in other valuation inputs ($0.243m).

NOTE 12: BUSINESS COMBINATIONS
Performance criteria
Milestone payments
The purchase price for ViroXis will increase by a maximum of US$26.0 million if the following milestones are achieved within certain periods in up to five years after completion:
1. US$2.0 million on the launch of an over-the-counter ("OTC") product
2. US$4.0 million on the enrolment of the first patient in a Phase 3 FDA trial for a skin indication
3. US$4.0 million on the enrolment of the first patient in a Phase 3 FDA trial for a second skin indication
4. US$8.0 million on FDA approval of a prescription product for a skin indication
5. US$8.0 million on FDA approval of a prescription product for a second skin indication

The purchase price for Santalis will increase by a maximum of US$20.0 million if the following milestones are achieved in the five years after completion:
1. US$5.0 million on the launch of a new OTC product
2. US$2.5 million on the enrolment of the first patient in a Phase 3 FDA trial for a skin indication
3. US$2.5 million on the enrolment of the first patient in a Phase 3 FDA trial for a second skin indication
4. US$5.0 million on FDA approval of a prescription product for a skin indication
5. US$5.0 million on FDA approval of a prescription product for a second skin indication

If FDA approval of a prescription product (milestones 4 and 5 above) is granted between five and eight years post completion then 50% of the relevant milestone payment will be payable.

All milestone payments are payable in shares and/or cash, at TFS's election and in such proportions as TFS determines.

Base earn out payments
The purchase price for ViroXis will increase by a maximum of US$50.0 million based on the level of aggregate net cash flow ("NCF") generated by the business in the five years post completion. The base earn out payment thresholds are:

No earn out payment	Less than US$4.3 million
US$5.0 million	NCF equal to or greater than US$4.3 million and less than US$8.6 million
US$15.0 million	NCF equal to or greater than US$8.6 million and less than US$12.8 million
US$35.0 million	NCF equal to or greater than US$12.8 million and less than US$17.1 million
US$50.0 million	NCF equal to or greater than US$17.1 million

The purchase price for Santalis will increase by a maximum of US$31.0 million based on the level of aggregate net cash flow ("NCF") generated by the business in the five years post completion. The base earn out payment thresholds are:

No earn out payment	Less than US$2.5 million
US$5.0 million	NCF equal to or greater than US$2.5 million and less than US$5.0 million
US$10.0 million	NCF equal to or greater than US$5.0 million and less than US$7.4 million
US$20.0 million	NCF equal to or greater than US$7.4 million and less than US$9.9 million
US$31.0 million	NCF equal to or greater than US$9.9 million

All base earn out payments are payable in shares and/or cash, at TFS's election and in such proportions as TFS determines.

Incentive earn out payments
The purchase price for ViroXis will increase by an incentive earn out payment equal to 20% of the NCF in excess of US$10.0 million for each of the three years ending on the six, seven and eight year anniversaries of completion. The incentive earn out payment is capped at US$60.7 million.

The purchase price for Santalis will increase by an incentive earn out payment equal to 20% of the NCF in excess of US$10.0 million for each of the three years ending on the six, seven and eight year anniversaries of completion. The incentive earn out payment is capped at US$37.5 million.

All incentive earn out payments are payable in shares and/or cash, at TFS's election and in such proportions as TFS determines.

NOTE 12: BUSINESS COMBINATIONS

Final earn out payments

The purchase price for ViroXis will increase by a final earn out payment equal to 20% of the amount, if any, that aggregate NCF for the 8 year period after completion exceeds US$111.9 million, subject to the maximum purchase price cap for all purchase payments of US$154.9 million.

The purchase price for Santalis will increase by a final earn out payment equal to 20% of the amount, if any, that aggregate NCF for the 8 year period after completion exceeds US$111.7 million, subject to the maximum purchase price cap for all payments of US$90.0 million.

All final earn out payments are payable in shares and/or cash, at TFS's election and in such proportions as TFS determines.

Description of contingent consideration arrangements

The undiscounted total of all future payments that the Group could be required to make under the contingent consideration arrangement is between US$0 and US$221.500m (A$0 and A$289.057m based on the 31 March 2016 spot rate).

The fair value of the contingent consideration arrangement relating to all milestone payments of $38.192m was estimated by using the discounted cashflow methodology less, the fair value of the option to settle in shares at TFS's election. The fair value measurement is based on significant inputs that are not observable in the market, which AASB 13 *Fair Value Measurement* refers to as Level 3 inputs. Key assumptions include a discount rate of 15 per cent, revenue from the successful commercialisation of products, and USD exchange rate of 1.305 AUD being the spot exchange rate at balance date.

(d) *Separately recognised assets*

No transactions were required to be recognised separately from the acquisition assets and assumptions of liabilities in the business combination.

(e) *Acquisition-related costs*

Direct costs relating to the acquisition totalling $1.848m have been recognised as corporate and other administration expenses in the Statement of Profit or Loss and Other Comprehensive Income for the period ended 31 March 2016.

(f) *Goodwill on acquisition*

The goodwill of $12.086m in Santalis arising from the acquisition consists largely of synergies and economies of scale expected from combining the operations of these entities and TFS, and the assembled workforce acquired. None of the goodwill recognised is expected to be deductible for income tax purposes.

(g) *Gain on deemed disposal of Associate/Investment*

(i) Immediately prior to the acquisition of Santalis, the Group held a 50% non-controlling interest in Santalis which was carried at nil value by the Group. As part of the business combination, the Group is deemed to have disposed of its 50% interest in the Associate. At acquisition date, the fair value of these equity interests was deemed to be $16.760m which was derived from the consideration from the payment of the acquired 50%. This resulted in a net gain on disposal of Associate of $16.760m, factoring in a control premium.

(ii) Immediately prior to the acquisition of ViroXis, TFS exercised a warrant to acquire a 7% non-controlling interest in ViroXis which was carried at $1.979m in the Group. As part of the business combination, TFS is deemed to have disposed of its 7% interest in ViroXis. At acquisition date, the fair value of the initial 7% interest was deemed to be $2.106m which was derived from the consideration for the remaining 93%. This resulted in a net gain on disposal of Investment of $0.127m, factoring in a control premium.

NOTE 13: CONTROLLED ENTITIES

	Country of Incorporation / Place of Business	31 MAR 2016 % owned	30 JUN 2015 % owned
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
Gulf Natural Supply Co.	UAE	100	100
Santalis Pharmaceuticals Inc. (b)	USA	100	-
ViroXis Corporation	USA	100	-
TFS Sandalwood Project 2004 Premium (a)	Australia	14	14
TFS Sandalwood Project 2005 (a)	Australia	14	14
TFS Sandalwood Project 2006 (a)	Australia	17	17
TFS Sandalwood Project 2007 (a)	Australia	33	33

(a) The Group has interests in a number of Managed Investment Schemes. As a wholly owned subsidiary is the Responsible Entity for these schemes, it has the power to affect the returns of the schemes through contractual arrangement, for example by its management of the plantations. A review of the Group's interests in the Managed Investment Schemes at the end of the period, for which the Company or one of its controlled entities is the Responsible Entity, has identified that these schemes are controlled by the Company based on the definition contained in AASB 10: *Consolidated Financial Statements*.

To assess whether the Group is exercising its decision making rights in the capacity of a principal or agent, the Group considers a number of factors including the quantum of its exposure to variable returns. In determining the Group's exposure to variable returns from these schemes, the direct and indirect interests are considered and converted into a measure of the Group's overall effective economic interest in the scheme. Where this economic interest is 30% or more of total returns, the Group considers that for accounting purposes it has control over the scheme.

The ownership interest reflected in the table above represent TFS' direct interest in the wood lots within the schemes. In addition to these direct interests the Group had an indirect interest in TFS 2004 Premium, TFS 2005, TFS 2006, and TFS 2007 of 37%, 23%, 26% and 16% respectively.

(b) At 30 June 2015, Santalis was held as an Associate and equity accounted and not considered a subsidiary hence the % owned in the table is shown as nil.

NOTE 14: RESTATEMENT RELATING TO THE APPLICATION OF AASB 10 CONSOLIDATED FINANCIAL STATEMENTS

As more fully explained in the financial statements for the year ended 30 June 2015, the group restated its financial statements as a result of the application of AASB 10, which was effective for the first time in the year ended 30 June 2014. AASB 10 requires a continuous assessment of control to be performed. A review of the Group's interests in the Managed Investment Schemes in 2015, for which the Company or one of its controlled entities is the Responsible Entity, identified that the following schemes were controlled by the Company:-

TFS Sandalwood Project 2004 Premium
TFS Sandalwood Project 2005
TFS Sandalwood Project 2006
TFS Sandalwood Project 2007

The assessment of control was performed based on the factors outlined in Note 13. As a significant interest in each of the schemes listed above was acquired in the financial year ended 30 June 2014 due to the acquisition of 354 hectares from six existing growers in July 2013, it was determined that control of these schemes was obtained in 2014. The consolidation of the four schemes was accounted for in the financial statements for the year ended 30 June 2015 from the date control was obtained. Comparative information in the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the interim period ended 31 March 2015 has also been restated to consolidate these entities.

As disclosed in the financial statements for the year ended 30 June 2015, the impact of consolidating these schemes on the Group's assets and liabilities as at 30 June 2015 and 30 June 2014 was as follows:

	30 JUN 2015 $'000	30 JUN 2014 $'000
Increase in biological assets	$120,038	$86,135
Increase in total assets	$120,038	$86,135
MIS grower liabilities	$120,038	$86,135
Increase in total liabilities	$120,038	$86,135
Change in net assets	-	-

The impact on the Group's net profit or loss for the nine months ended 31 March 2016 and 2015 is as follows:

	31 MAR 2016 $'000	**31 MAR 2015 $'000**
Revaluation of biological assets – external MIS growers	14,755	43,356
Re-measurement of external MIS grower liabilities	(14,755)	(43,356)
Increase in net profit or loss	-	-

The consolidation of the four Schemes had no impact on net assets as at 31 March 2016 or 30 June 2015 nor did it have an impact on opening retained earnings at 1 July 2014 or EPS disclosures. Refer to Note9(ii) for details on the realisation and settlement of the related assets and liabilities.

NOTE 15: SHARE-BASED PAYMENTS

On 13 November 2015, 250,593 performance rights were granted to the Managing Director under the TFS Long Term Incentive Plan ("TFS LTIP"). The performance rights are subject to two performance hurdles which are independent and will be tested separately. Details of the performance hurdles are as follows:

EPS performance hurdle - Basic cash EPS – performance rights will be subject to the Group's basic cash EPS growth performance over the period 1 July 2015 to 30 June 2019.

TSR performance hurdle – performance rights subject to the Group's growth in Total Shareholder Return ("TSR") over the period 1 July 2015 to 30 June 2019.

The number of performance rights, subject to the EPS hurdle and TSR hurdle, that vest, if any, will be determined by the Board with reference to the EPS achieved and annual TSR growth over the performance period.

NOTE 15: SHARE BASED PAYMENTS

A Monte Carlo simulation was used to value the TSR performance rights, given they are subject to a market based vesting condition. The Monte Carlo simulation model determines the probability that the market condition will be fulfilled and arrives at a value based on the number of rights that are likely to vest. The risk free rate of the performance rights on the grant date was 2.15%. The EPS performance rights are not subject to a market condition and therefore have been valued using the Black Scholes valuation methodology to determine the present value of the rights at the grant date.

The weighted average fair value of the options at grant date was $1.69 (EPS performance right) and $0.91 (TSR performance right) and is calculated applying the following inputs:

Weighted average exercise price	$0
Expiry date	22 January 2023
Underlying share price at date of grant	$1.69
Share price volatility	45.73%
Dividend yield	1.9%

On 22 January 2016, 1,192,321 performance rights were granted to Key Management Personnel under the TFS Long Term Incentive Plan ("TFS LTIP"). The performance rights are subject to two performance hurdles which are independent and will be tested separately. Details of the performance hurdles are as follows:

EPS performance hurdle - Basic cash EPS – performance rights will be subject to the Group's basic cash EPS growth performance over the period 1 July 2015 to 30 June 2019.

TSR performance hurdle – performance rights subject to the Group's growth in Total Shareholder Return ("TSR") over the period 1 July 2015 to 30 June 2019.

The number of performance rights, subject to the EPS hurdle and TSR hurdle, that vest, if any, will be determined by the Board with reference to the EPS achieved and annual TSR growth over the performance period.

A Monte Carlo simulation was used to value the TSR performance rights, given they are subject to a market based vesting condition. The Monte Carlo simulation model determines the probability that the market condition will be fulfilled and arrives at a value based on the number of rights that are likely to vest. The risk free rate of the performance rights on the grant date was 2.15%. The EPS performance rights are not subject to a market condition and therefore have been valued using the Black Scholes valuation methodology to determine the present value of the rights at the grant date.

The weighted average fair value of the options at grant date was $1.55 (EPS performance right) and $0.78 (TSR performance right) and is calculated applying the following inputs:

Weighted average exercise price	$0
Expiry date	22 January 2023
Underlying share price at date of grant	$1.55
Share price volatility	45.73%
Dividend yield	1.9%

NOTE 16: 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 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.

A new operating segment has been created to capture the pharmaceutical product business, arising from the acquisition of Santalis and ViroXis. The results and position of this segment are included in internal reports that are reviewed and used by the Board of Directors for decision making.

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 16: SEGMENT INFORMATION

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, including pharmaceutical products. All material operations are conducted in Australia and in USA.

Primary reporting in business segments

Operating segments	**Plantation management**		**Finance**		**Sandalwood products**		**Pharmaceutical**		**Group**	
	31 MAR 2016 $'000	**31 MAR 2015 $'000**	**31 MAR 2016 $'000**	**31 MAR 2015 $'000**	**31 MAR 2016 $'000**	**31 MAR 2015 $'000**	**31 MAR 2016 $'000**	**31 MAR 2015 $'000**	**31 MAR 2016 $'000**	**31 MAR 2015 $'000**
Revenue										
Establishment fees and land sales	37,792	29,250	-	-	-	-	-	-	37,792	29,250
Land sales	-	-	-	-	-	-	-	-	-	-
Lease and management fees	17,985	19,835	-	-	-	-	-	-	17,985	19,835
Product sales	-	-		-	18,580	19,542	76	-	18,656	19,542
Interest – external	911	907	1,823	1,375	4	-	1	-	2,739	2,282
Interest – inter segment	-	-	-	-	-	-	-	-	-	-
Other – external	5,216	4,750	225	87	47	-	510	-	5,998	4,837
Other – internal	329	54	-	-	638	318	-	-	967	372
Accrued income recognition	16,553	21,665	-	-	-	-	-	-	16,553	21,665
Gain on fair value of plantation – TFS interest	62,261	138,007	-	-	-	-	-	-	62,261	138,007
Total segment revenue	141,047	214,468	2,048	1,462	19,269	19,860	587	-	162,951	235,790
Reconciliation of segment revenue to group revenue										
Other income (refer to Note 2)									(62,432)	(138,022)
Inter segment revenue									(967)	(372)
Total group revenue from ordinary activities									99,552	97,396

NOTE 16: SEGMENT INFORMATION

Operating segments	Plantation management		Finance		Sandalwood products		Pharmaceutical		Group	
	31 MAR 2016 $'000	**31 MAR 2015 $'000**	**31 MAR 2016 $'000**	**31 MAR 2015 $'000**	**31 MAR 2016 $'000**	**31 MAR 2015 $'000**	**31 MAR 2016 $'000**	**31 MAR 2015 $'000**	**31 MAR 2016 $'000**	**31 MAR 2015 $'000**
Result										
Earnings before interest, tax, depreciation and amortisation (EBITDA)	85,076	125,647	1,903	599	7,358	7,690	(2,663)	-	91,674	133,936
Reconciliation of segment EBITDA to group EBITDA										
Inter segment profit									(967)	(372)
Unallocated gain – Acquisition of controlling interest									17,177	-
Share of net profits of associates									6,114	2,105
Total group EBITDA									113,998	135,669
Segment result before income tax	58,586	105,038	1,948	646	6,821	7,209	(2,679)	-	64,676	112,893
Reconciliation of segment result to group net profit before tax										
Inter segment profit									(967)	(372)
Amounts not included in segment results										
Unallocated gain – Acquisition of controlling interests									17,177	-
Share of net profits of associates									6,114	2,105
Net profit before tax from continued operations									87,000	114,626

NOTE 16: SEGMENT INFORMATION

Operating segments	Plantation management		Finance		Sandalwood products		Pharmaceutical		Group	
	31 MAR 2016 $'000	30 JUN 2015 $'000	31 MAR 2016 $'000	30 JUN 2015 $'000	31 MAR 2016 $'000	30 JUN 2015 $'000	31 MAR 2016 $'000	30 JUN 2015 $'000	31 MAR 2016 $'000	30 JUN 2015 $'000
Segment Assets										
Segment Assets	1,067,599	990,696	38,913	63,123	44,458	46,298	136,944	-	1,287,914	1,100,117
Segment increases for the period:										
Capital expenditure	10,016	16,881	-	-	-	-	-	-	10,016	16,881
Acquisitions	6,301	8,482	-	-	1,078	1,023	-	-	7,379	9,505
	16,317	25,363	-	-	1,078	1,023	-	-	17,395	26,386
Included in segment assets are:										
Equity accounted associates and joint ventures	21,164	13,333	-	-	-	-	-	-	21,164	13,333
Reconciliation of segment assets to group assets										
External MIS grower interest in biological assets									134,705	120,038
Inter segment receivables eliminated on consolidation									(73,476)	(71,689)
Unallocated assets									-	-
Total group assets from continuing operations									1,349,143	1,148,466
Segment Liabilities										
Segment Liabilities	510,086	455,239	23,326	49,485	3,581	11,786	56,573	-	593,566	516,510
Reconciliation of segment liabilities to group liabilities										
External MIS grower liabilities									134,705	120,038
Inter segment eliminations									(36,235)	(62,605)
Unallocated liabilities									-	-
Total group liabilities from continuing operations									692,036	573,943

	31 MAR 2016 $'000	31 MAR 2015 $'000 Restated
NOTE 17: EARNINGS PER SHARE		
Earnings used in calculating basic and diluted earnings per share	66,156	81,322

	31 MAR 2016 Thousands	31 MAR 2015 Thousands Restated
Weighted average number of ordinary shares for basic EPS (i)	341,823	325,716
Effect of dilution from warrants	9,643	12,875
Weighted average number of ordinary shares adjusted for effects of dilution(ii), (iii)	351,466	338,591

(i) The weighted average number of ordinary shares takes into account the 916,255 shares to be issued at a future date relating to the acquisition of Santalis.
(ii) Excludes contingently issuable shares relating to the acquisition of Santalis and ViroXis.
(iii) The 31 March 2015 diluted EPS has been restated for the effect of dilution from warrants.
(iv) The weighted average number of shares for EPS and Diluted EPS in respect of all periods presented has been adjusted by a conversion factor of 1.00 relating to the bonus element of the placements described in Note 19.

	31 MAR 2016 $'000	31 MAR 2015 $'000
NOTE 18: DIVIDENDS		
Dividends paid		
Final fully franked dividend of 3 cents per share paid 9 Nov 2015 (2014: 3 cents per share)	10,242	9,758

NOTE 19: SUBSEQUENT EVENTS

Since the reporting date the following significant events have occurred:

- TFS successfully completed a placement to institutional shareholders of 39 million new ordinary shares to raise $60.450m;
- A share purchase plan was offered to eligible shareholders which raised a further $8.000m at an issue price of $1.55 per share; and
- TFS announced plans to acquire up to 221 hectares of MIS grower interests across five MIS projects. The buy-back is expected to have a maximum cost of $53.000m. The price offered by TFS to growers is based on the book value of the plantations as at 31 December 2016, using the same methodology the Company uses to value its own plantations.

NOTE 20: CONTINGENT LIABILITIES

(i) 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 each project. Possible associated costs associated with this replanting have not been provided for. These possible future costs are not considered to be material.

(ii) 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 $2.051m, being the amount of cash available in the First Loss Account (refer Note 5). The portfolio of loans consists of existing loans sold to the CBA in 2008 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 20: CONTINGENT LIABILITIES

(iii) Included in the sales to high net worth investors during June 2014 are put options whereby the investor can elect to sell the trees back to the Group at the lower of market value or a predetermined price. These put options are to be exercised in September 2018, and if exercised the Group would be required to pay the consideration in November 2018 and November 2019. If all the options were exercised the Group would be required to acquire the plantations from the high net worth investors at the lower of a predetermined price (estimated at $51.322m) or market value. The Group has deemed the likelihood of the put options being exercised to be low as the predetermined value is likely to be significantly below the fair value of the trees at the exercise date.

(iv) Included in the sales to an institutional investor during June 2014 is a put option whereby the investor can elect to sell the trees back to the Group at a predetermined price. This put option is to be exercised by 30 June 2016, and if exercised the Group would be required to pay the consideration by 30 September 2016. If the option is exercised the Group would be required to acquire the plantation from the institutional investor for $30.480m. The Group has deemed the likelihood of the put option being exercised to be low as the predetermined value is likely to be significantly below the fair value of the trees at the exercise date.

NOTE 21: FINANCIAL INSTRUMENTS

The Group's financial instruments consist of trade and other receivables, other financial assets (made up of cash deposits), trade and other payables and financial liabilities.

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

	31 MAR 2016		30 JUN 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
	$'000	$'000	$'000	$'000
Financial assets:				
Held to maturity financial assets - cash deposits:				
First loss, bank guarantee, escrow and custodian account	7,512	7,512	9,930	9,930
Loans and receivables	111,509	110,952	136,812	134,684
	119,021	118,464	146,742	144,614
Financial liabilities:				
Secured notes	264,502	277,106	229,346	247,077
External MIS grower liabilities	134,705	134,705	120,038	120,038
Trade and other payables	33,927	33,927	55,098	55,098
Contingent consideration	40,954	40,954	-	-
	474,088	486,692	404,482	422,213

(i) Fair Value Hierarchy

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values of assets or liabilities are categorised into different levels in the fair value hierarchy based on the lowest input used in the valuation techniques as follows:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

NOTE 21: FINANCIAL INSTRUMENTS

Financial liabilities measured at fair value are categorised as follows:

	31 MAR 2016			30 JUN 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	$'000	$'000	$'000	$'000	$'000	$'000
Financial liabilities:						
External MIS grower liabilities (ii)	-	-	134,705	-	-	120,038
Contingent consideration (ii)	-	-	40,954	-	-	-
	-	-	175,659	-	-	120,038

Reconciliation of recurring fair value measurements categorised within Level 3 of the fair value hierarchy:

	$'000
As at 1 July 2015	**120,038**
Loss on re-measurement of external MIS grower liabilities	14,755
Contingent consideration from business combination	38,192
Re-measurement of contingent consideration – Refer Note 12(c)(ii)	2,762
Addition/(disposal)	(88)
As at 31 March 2016	**175,659**
As at 1 July 2014	**86,135**
Loss on re-measurement of external MIS grower liabilities	34,226
Addition/(disposal)	(323)
As at 30 June 2015	**120,038**

(ii) Valuation methods and assumptions

External MIS grower liabilities

The fair value of the external MIS grower liabilities is determined using a probability weighted discounted cash flow method. This is consistent with the method adopted by the Group to value its biological assets (refer Note 7) and factors in credit risk and the security provided by the underlying trees.

Contingent consideration

As part of the acquisition of Santalis and ViroXis, part of the total consideration is contingent, based on performance of the acquired entities. A probability weighted discounted cash flow method has been used to determine the fair value of the contingent consideration, net of the fair value of the option to settle in shares.

Sensitivity analysis – Contingent consideration

(a) Foreign Currency Risk Sensitivity Analysis

At 31 March 2016, the effect on profit (after tax) as a result of a change in the Australian dollar to the US Dollar, with all other variables remaining constant would be as follows:

	31 MAR 2016 $'000
Change in profit	
Improvement in AUD to USD by 10%	3,245
Decline in AUD to USD by 10%	(3,245)

(b) Discount Rate Risk Sensitivity Analysis

At 31 March 2016, the effect on profit (after tax) as a result of a change in the discount rate, with all other variables remaining constant would be as follows:

	31 MAR 2016 $'000
Change in profit	
Increase in discount rate by 2%	1,449
Decrease in discount rate by 2%	(1,577)

NOTE 21: FINANCIAL INSTRUMENTS

(C) Revenue Risk Sensitivity Analysis

At 31 March 2016, the effect on profit (after tax) as a result of a change in revenue, with all other variables remaining constant would be as follows:

	31 MAR 2016 $'000
Change in profit	
Improvement in revenue by 10%	2,630
Decline in revenue by 10%	303

TFS CORPORATION LTD
(ABN: 97 092 200 854)
DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of TFS Corporation Ltd, I state that:

In the opinion of the Directors:

1. The un-audited financial statements and notes of the consolidated entity:

   (a) comply with AASB 134: *Interim Financial Reporting*; and
   (b) give a true and fair view of the consolidated entity's financial position as at 31 March 2016 and the performance for the nine months ended on that date.

2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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Dalton Gooding – Chairman of the Board

Dated at Perth this 31st day of May 2016.