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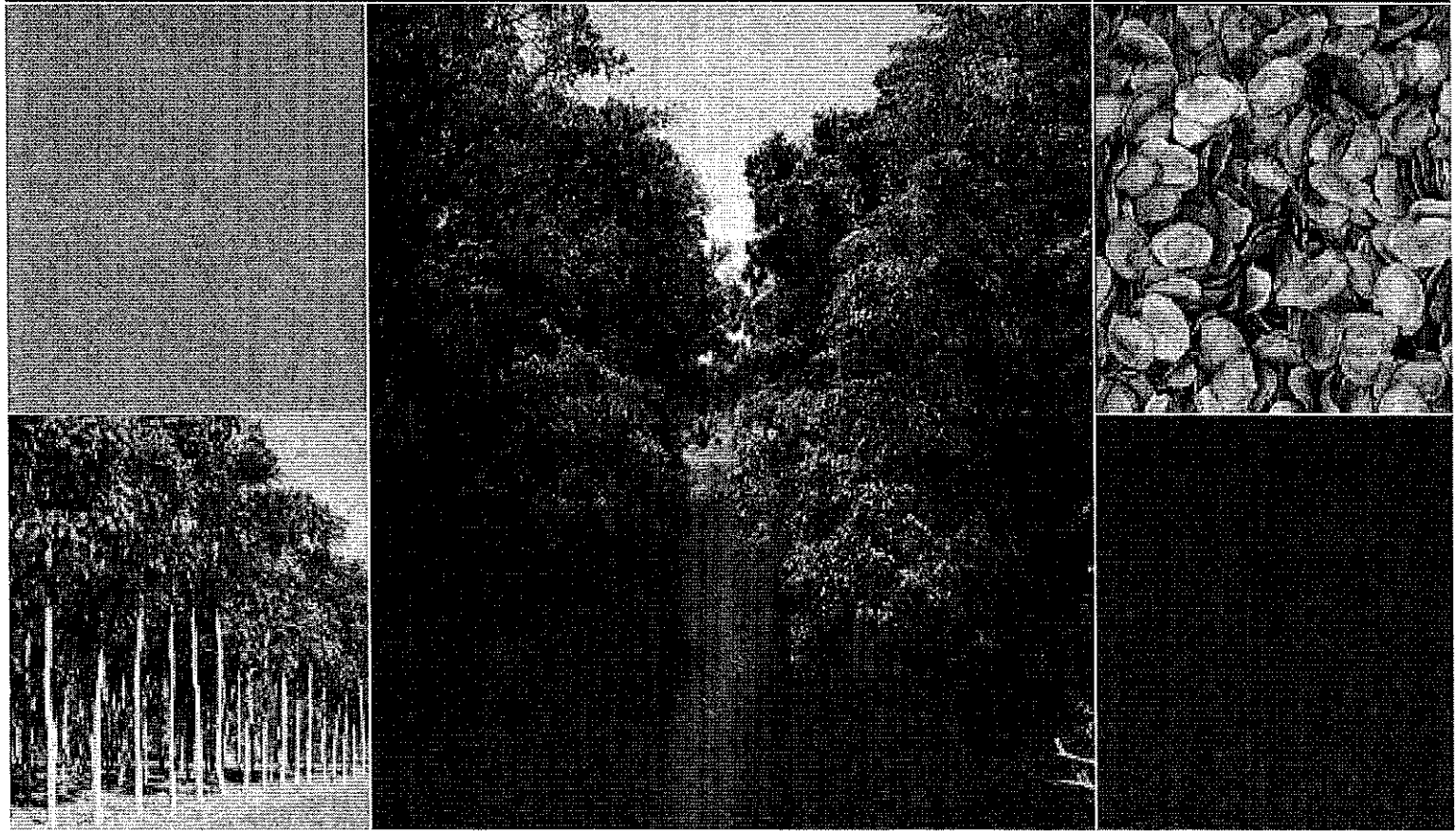


ISSUER: PRIMARY SECURITIES LTD
RESPONSIBLE ENTITY • ABN 96 089 812 635

NTT Mahogany Project

ARSN 103 557 517

PRODUCT DISCLOSURE STATEMENT



CORPORATE DIRECTORY

RESPONSIBLE ENTITY – ISSUER OF THIS PDS

Primary Securities Ltd
ABN 96 089 812 635
13 Nairn Street, Fremantle WA 6160

DIRECTORS OF THE RESPONSIBLE ENTITY

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Robert Garton Smith (Managing Director)
Anne Thome

CUSTODIAN

& SOLICITORS FOR RESPONSIBLE ENTITY

Garton Smith & Co
13 Nairn Street, Fremantle WA 6160

PLANTATION MANAGER – SUBCONTRACTOR OF THE RESPONSIBLE ENTITY

Northern Tropical Timbers Pty Ltd
ABN 43 100 784 192
Suite 2, Level 4 65 Berry Street,
North Sydney NSW 2059

DIRECTORS

OF THE PLANTATION MANAGER

Greg Hooker
Daniel Lowe
Gary Sexton

LAND OWNER

NTT Land Holdings Pty Ltd
ABN 48 100 784 209
Suite 2, Level 4 65 Berry Street,
North Sydney NSW 2059

SOLE DIRECTOR OF THE LAND OWNER

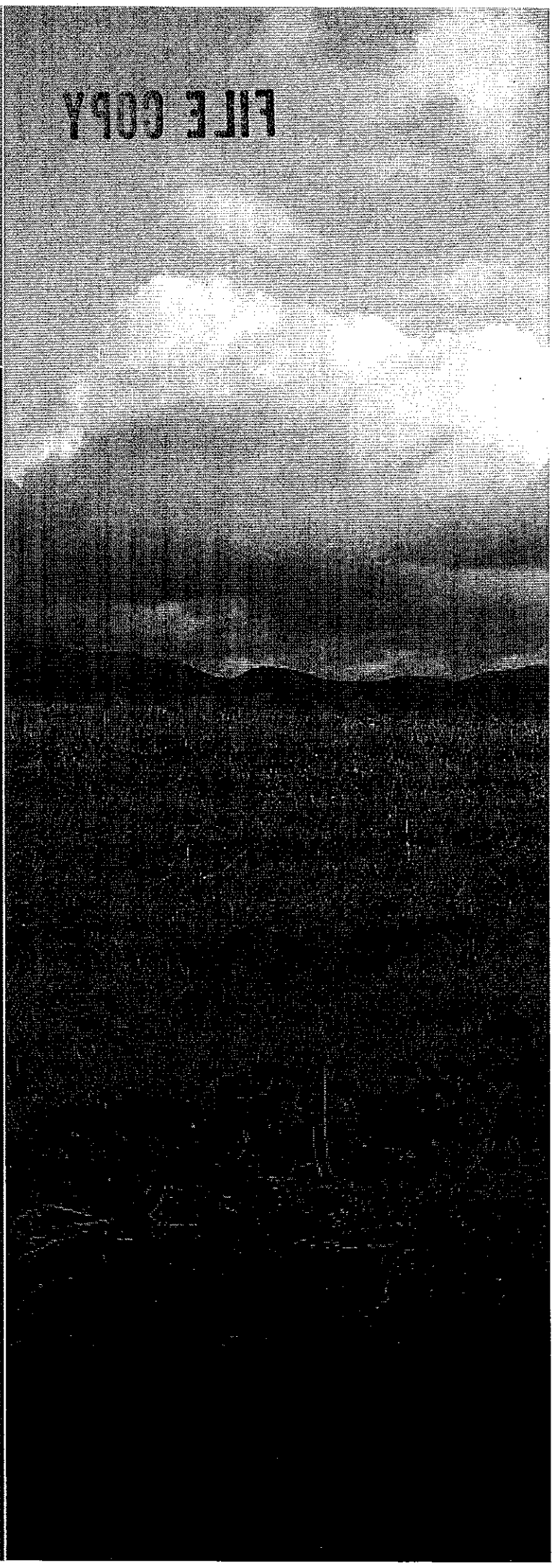
Greg Hooker

CONSULTANT FORESTER

Yulebar Enterprises (Mr Robin Yule)
Gympie Qld 4570

No photographs of African Mahogany trees in this PDS are assets of the Project. Except where specifically stated the only property photographed is Elderslie which is owned by the Land Owner.

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Section 1

THE NTT MAHOGANY PROJECT



These African Mahogany trees are not trees of the Project.

The NTT Mahogany Project has been established to provide you with an opportunity to carry on the business of commercially growing mahogany trees in the Northern Territory and in North Queensland. The timber from the Plantation will produce high value hardwood for use in the furniture and building industries.

As a Grower, you will receive a licence to grow mahogany on a minimum of 2 Woodlots, each Woodlot being 0.2 hectares or approximately 1/2 acre in size, on which the Plantation Manager will plant an average of no less than 82 Trees. The Plantation Manager will establish and maintain the Woodlots on your behalf. Your Woodlots will be established within 12 months of your application being accepted.

Under the terms of the Management Agreement, the Plantation Manager guarantees that there will be an average of at least 82 healthy Trees on each Woodlot at the end of the 13-month period following planting. Should the average not exceed the minimum planting density of 82 healthy Trees, the Plantation Manager will have replacement Trees planted to ensure the minimum planting density.

Three harvests will be undertaken during the term of the Woodlots. Half the trees will be harvested prior to year 6, a second harvest will take place at approximately year 10 and the final harvest will take place at year 15 of the Project. The Grower will receive the proceeds from the sale of the Timber and 50% of any carbon credits. Harvesting, milling, drying and marketing costs will be deducted prior to distribution of income.

WHAT YOU RECEIVE

When you become a Grower, you will receive:

- a Statement of Transactions which will include details of your Woodlots; and
- a statement of Application Money paid, GST details and dates of payment to assist in the preparation of your income tax return

During the Project you will receive:

- annual reports on the progress of the Plantation
- annual invoices for management and licence fees

Section 1

THE NTL MAHOGANY PROJECT

HOW MUCH WILL IT COST?

The Application Money for each Woodlot is \$3,366.00 comprising a \$2,997.50 Management Fee (plus \$299.75 GST) and a \$62.50 Licence Fee (plus \$6.25 GST), both payable on Application. You must apply for at least two Woodlots.

The initial Management Fee is for Plantation Establishment Services. Following the completion of the Plantation Establishment Services, a Management Fee of \$650.00 (plus \$65.00 GST) is payable for the period to the following 30 June.

Thereafter Management Fees and Licence Fees will be payable on an annual basis until harvesting is completed. Section 4 details the Management Fees and Licence Fees payable. There is provision for review of the Management Fees.

Growers will also pay a Harvest Fee (to pay for Harvesting and Milling costs), which will be deducted from the proceeds of the sale of the Timber and a Marketing Fee of 5% of Net Proceeds. In addition if we exceed the forecast yield of 18.5m³ average per Woodlot an Incentive Share of 25% of the amount of timber which exceeds the forecast yield will be deducted. The Incentive Share is passed on to the Plantation Manager.

Other possible ongoing costs for Growers will be interest if they choose to borrow.

PLANTATION MANAGEMENT OVER THE LIFE OF THE PROJECT

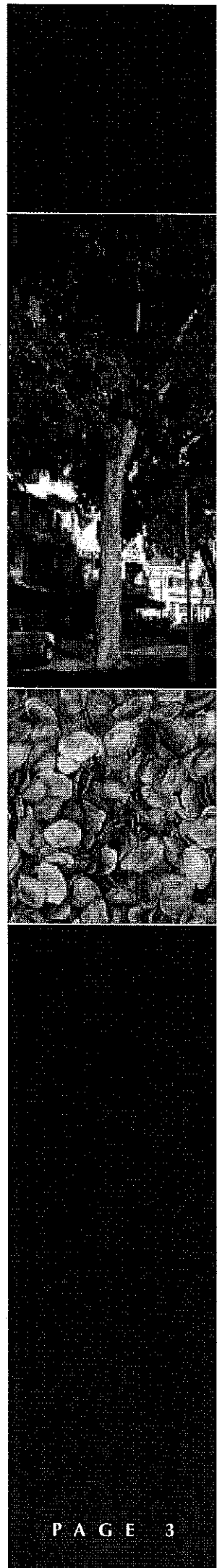
Under the Agreements and the Forestry Management Plan, the Responsible Entity will (through the Plantation Manager):

YEAR 1

- Ensure that suitable land has been selected and assessed by the Consultant Forester;
- Prepare the Woodlot for planting. This process includes fertilising to correct any nutrient imbalance, deep ripping and weed control;
- Install fire breaks to meet forestry code of practice, and implement the Consultant Foresters' recommendations to protect your Woodlot;
- Select seedlings grown from a range of imported provenances to insure that the best available seedstock is used and plant African mahogany plants at an average density of 82 plants per Woodlot;
- Monitor the Plantation on a regular basis for insects and for any necessary replacement of seedlings;
- Provide Growers with annual reports;

YEAR 2 – 15

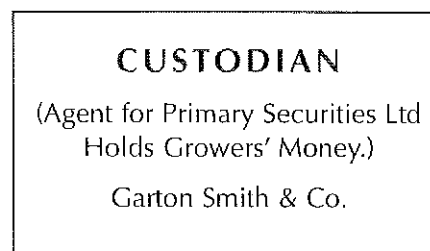
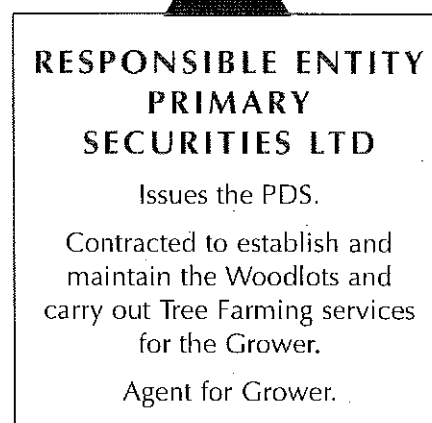
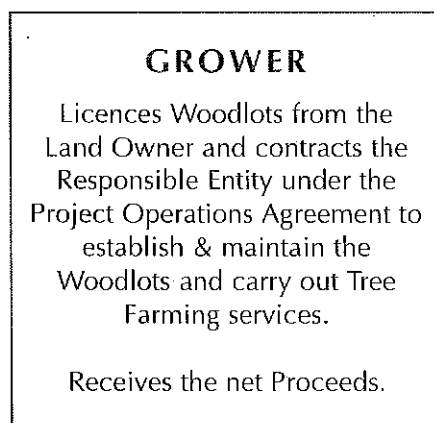
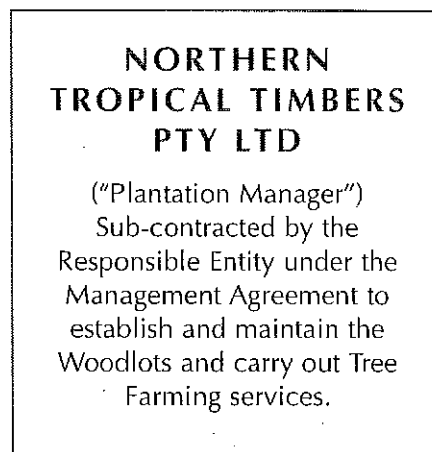
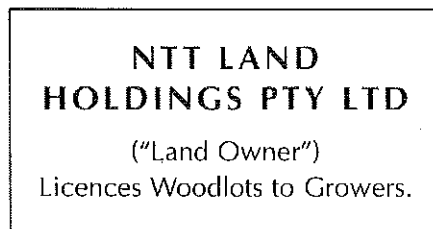
- Replant any additional seedlings to ensure minimum stocking density;
- Conduct regular tests for nutrient levels through soil and foliage analysis and apply fertiliser if required;
- Conduct regular inspections for insect infestation and spray if required;
- Conduct regular inspections for weeds or other pest issues and undertake weed and pest control measures as required;
- Maintain firebreaks;
- Maintain fencing, irrigation and general property infrastructure
- Undertake thinning at times determined by the Consultant Forester
- Coordinate regular inspections by the Consultant Forester
- Provide annual reports to Growers
- Arrange for the harvesting to be undertaken by suitably qualified contractors who apply best practice standards;
- Arrange for the logs to be transported to the timber mill for milling and drying
- Market the timber for the best possible price, be it on the domestic or international market





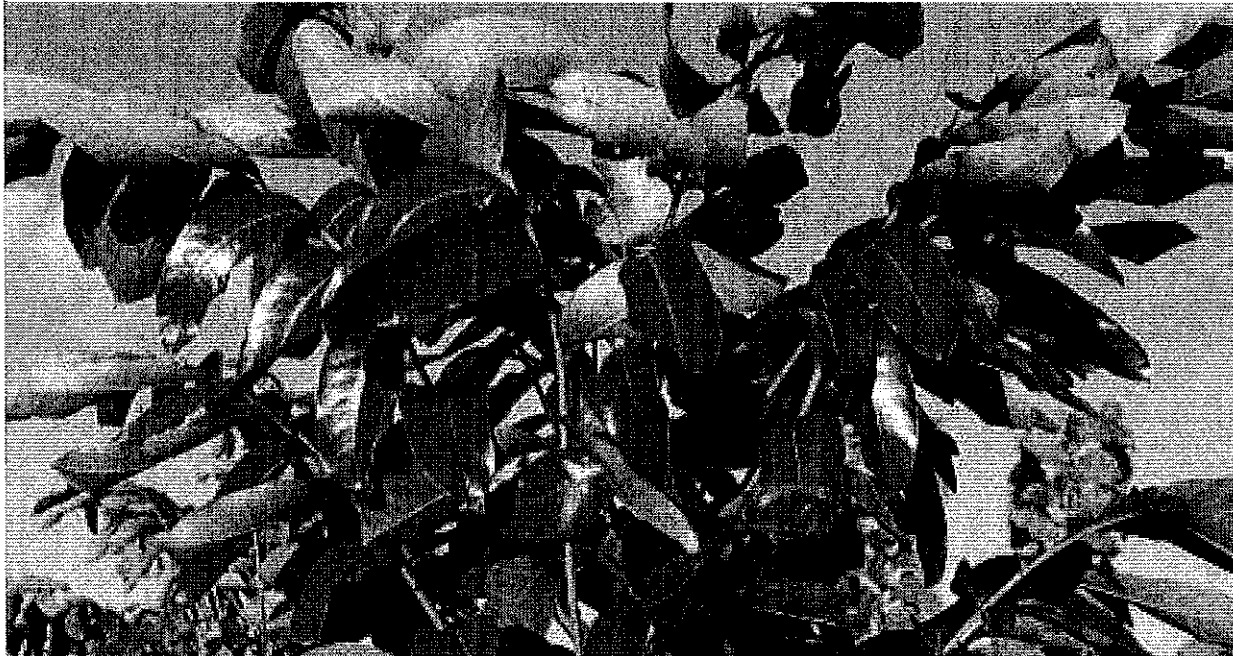
THE NTT MAHOGANY PROJECT

PROJECT STRUCTURE



Section 2

THE TIMBER INDUSTRY



African Mahogany (khaya senegalensis) – these trees are not trees of the Project.

PLANTATIONS FOR AUSTRALIA: THE 2020 VISION

In 1997 the Australian Government introduced the "Plantations for Australia: The 2020 Vision". The 2020 Vision strategy is designed to foster the expansion of Australia's plantation resource to encourage investment in value-adding regional development and the future long-term growth of an environmentally sustainable industry.

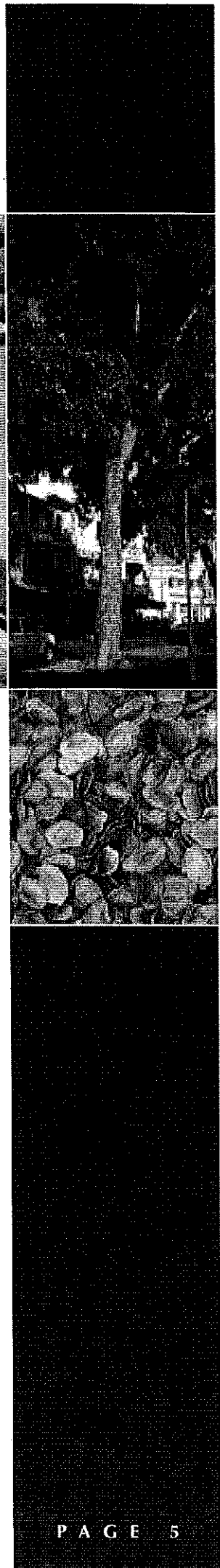
In the five years since its inception, over half a million hectares of new plantations have been established, with over 70% of all new plantations being established with private capital. This is an average rate of approx 75,000 hectares annually. The increase in private plantations has significantly increased investment opportunities and developed a more competitive industry. To achieve the Australian Government's 2020 vision, this rate of new forestry plantations will have to be maintained for the next eighteen years.

Australia's hardwood plantation resource is almost all native Eucalypt species intended for woodchip for the pulp and paper industry. The percentage of plantations established for the high value timber trade is low and therefore remains an area for great potential especially for tropical timbers that are typically high value timbers.

EXISTING SUPPLIES OF LUXURY TIMBERS

The supply of luxury timber from plantations is a viable alternative to harvesting timber from rapidly diminishing natural rainforests. *Khaya senegalensis* is currently on the IUCN (The World Conservation Union) red list of species listed as vulnerable (VU A1cd) and in danger of extinction in the wild across its entire range in the following African countries: Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Ivory Coast, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Mali, Niger, Nigeria, Senegal, Sierra Leone, Sudan, Togo, and Uganda. The inevitable tightening of reliable supply from these sources presents an opportunity for supply being substituted from sustainably managed plantations as against the over cutting of forests often for fuel wood in the African countries.

Policies are being developed in the European Union and other OECD nations to ensure only timber and timber product from renewable resources will be accepted into the marketplace. Protocols are currently being developed (Montreal and Helsinki) to assist in implementing a certification system establishing not only the timbers origin, but also the chain of custody of the value added products from this resource to encourage the further development of timber grown under plantation conditions.



Section 2

THE TIMBER INDUSTRY

In Australia timber resources are undergoing similar pressures to those globally with policies in place for significant expansion of plantation activity to arrest the decline to meet future demand.

AFRICAN MAHOGANY

African mahogany is well known as a luxury timber. The timber has an established market on the international scene and is high in demand. Its uses include but are not limited to high-grade furniture, interior windows and doors, external joinery including timber decking and boat building and fittings.

A number of trial plantations of Khaya varieties have been established in the Northern Territory and North Queensland over the last 30 years. *Khaya senegalensis* has been recommended as a species with potential, in terms of its suitability to the Northern Territory northern savannah region and in the North Queensland dry tropics region, and the quality and growth rates of the timber.

The Northern Territory Government Primary Industry Group paper entitled "African mahogany Timber Industry Strategy for the Top End of the Northern Territory" (Version 2, February 2003) states:

The vision for the Timber Industry Strategy is that it will provide the Darwin / Katherine region with a plan to become a recognised centre for the production of African mahogany timber, while anticipating and meeting consumer demands. It will also encourage the development of a domestic and overseas market for African mahogany products to enable investors to optimise profitability, employment and development, through the availability of stable high quality products. It will also seek to balance the economic, environmental and social values of the region.

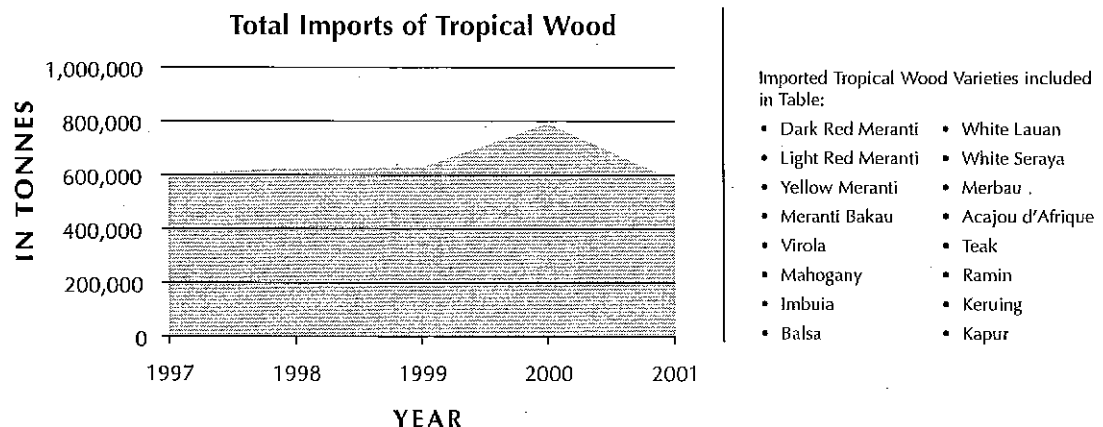
The Plantation Manager is committed to the establishment of a viable Australian African mahogany timber industry.

AUSTRALIA'S FOREST INDUSTRY – STABILITY AND GROWTH

Australia is consistently ranked among the top countries for international investors due to its stable political and financial structures, geographical position within the Asia Pacific region, high technical skills, a high consuming and affluent society. Australia's timber production is relatively cost competitive, possessing particular strengths in the areas of resource, transport and power.

Australia's forest industry is based on sustainably managed native and plantation forest resources. The forest industry generated sales of \$14.1 billion in 1999-2000, accounting for 7.5 per cent of Australia's manufacturing industry and 1 per cent of its gross domestic product. However, since Federation, Australia's wood production has been unable to meet domestic consumption demands. In 1999-2000 Australian forests produced only 70 per cent of the total wood based products consumed in Australia.

Demand for wood products is expected to continue, with world demand for forest products forecast to increase by 1.2 per cent per annum until at least 2020. Australia's domestic demand is expected to increase 5 to 15 per cent over the same period. Expanding plantation estates will provide additional product to meet increases in domestic demand and provide export market opportunities.



Australia's strong domestic consumption provides a sound basis for an integrated investment strategy targeting import replacement and international markets.

Section 2

THE TIMBER INDUSTRY



"Elderslie"

ENVIRONMENTAL AND SOCIAL BENEFITS

The establishment of large-scale African Mahogany plantations will assist in meeting the anticipated world wide shortage and increasing demand for this diminishing resource which is listed as being vulnerable and in danger of extinction. The inevitable tightening of reliable supply presents an opportunity for supply being substituted from sustainably managed plantations as against the over cutting of native forests. In Australia there has also been pressure to conserve what native forests remain, which will create further shortage in cabinet timber supplies evidenced by the void created by the World Heritage listing of Queensland's rain forests. The void is being filled by ecologically sustainable plantations utilizing exotic high value wood species which have had a long history of research and development in the region.

The plantations are being developed on cleared agricultural land, in areas where it is becoming increasingly difficult for farmers to continue with other agricultural pursuits. It will also bring a new industry to the tropical regions of Australia where employment opportunities are limited.

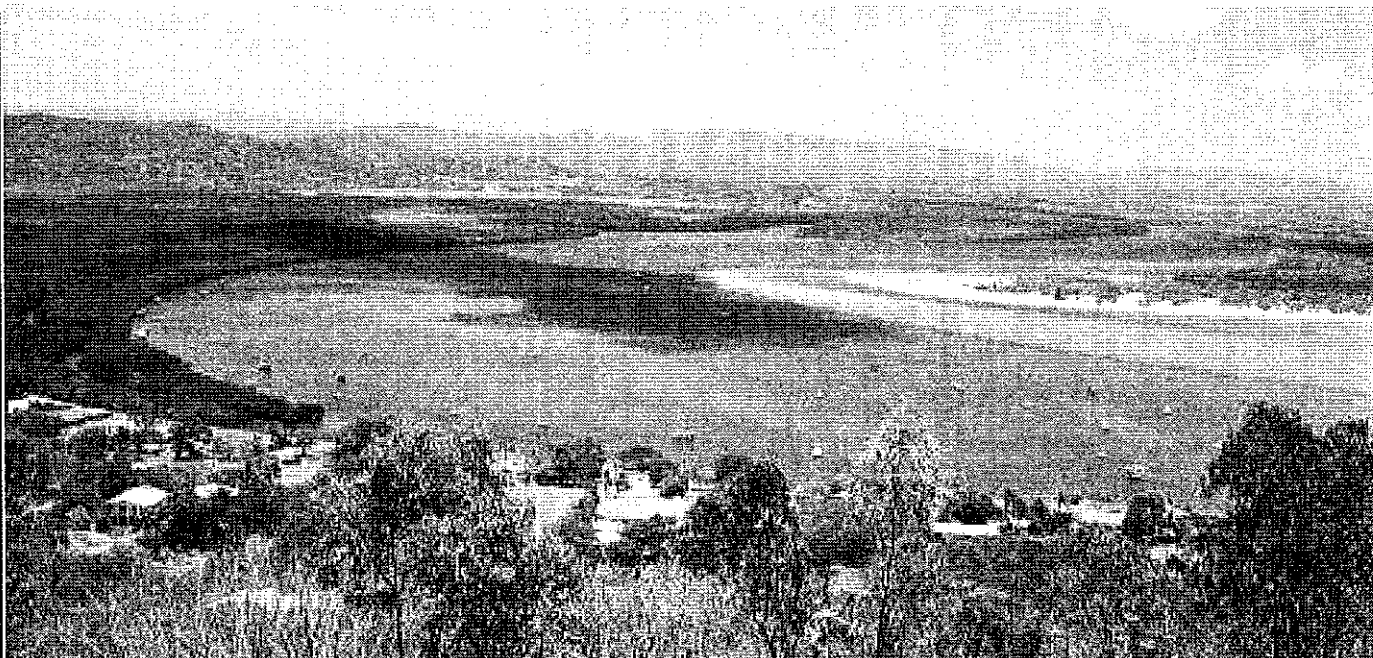
The outlook is bright for the plantation sector and there are major opportunities for investors in hardwoods. Australia has the technical expertise, the land and the climate to establish new timber industries and significantly expand its commercial wood production.

RESEARCH AND DEVELOPMENT

Although the mahogany industry is in its infancy in Australia, there has been significant research undertaken over the last 30 years by the Forestry divisions of both the Northern Territory and Queensland State governments and also by the CSIRO. The Plantation Manager is committed to continuing the research and development initiatives and to establishing a tree breeding program to develop advanced propagating techniques using clonal material from the best performing trees planted in previous trials.

Section 3

PLANTATION SITE & DEVELOPMENT



Cooktown, Queensland

THE LOCATION

The plantations for the Project will be located in the Cape York region in North Queensland and in the Northern Savanna region of the Northern Territory.

The important attributes necessary to achieve maximum growth for African mahogany are sunshine, summer rainfall, warm temperatures, plentiful water supply, open soils and nutrients.

THE LAND

The land to be used for the Project has been or is to be purchased by NTT Land Holdings Pty Ltd (the **Land Owner**), which allows for the ultimate flexibility in location and choice of land so that quality is assured. The interest of Growers will be protected on the title by the Responsible Entity lodging an umbrella licence.

All land selected has been or will be physically assessed by the Consultant Forester as being suitable for the establishment of tropical timber plantations to ensure that the attributes required for successful plantation establishment are present. The geological structure of the property is assessed and the soil is tested for nutrients and salinity levels and rated according to soil type, colour, ability to hold moisture, texture and physical characteristics with regard to drainage and depth.

Stage 1 of this Project will be conducted on Land known as Elderslie. The Elderslie site will comprise up to 400 hectares (or 1,000 acres) of timber plantation after allowing for the construction of firebreaks and roads, soil types and native forest retention. Elderslie is situated approximately 75kms above Cooktown in the North Queensland Tropical Coast region. The Land borders the McIvor River and has been soil tested. For further details regarding the land and soil, refer to the Consultant Forester's report in Section 10.

Further land will be purchased by the Land Owner as required in North Queensland or the Northern Territory.

CLIMATE

The North Queensland Tropical Coast region enjoys a dry tropical climate with dry warm winters and hot monsoonal summers. This is the preferred climate for growing the African Mahogany species. The rainfall in the Cooktown area is more reliable than in the drier regions of Australia. The average annual rainfall for the region is 1700 – 1800 mm with the lowest rainfall recorded of 1200mm. Since the African Mahogany trees occur naturally in a zone where the mean annual rainfall may vary from 400 to 1750 mm, survival of the trees in this project should not be compromised in a drought situation. The available irrigation water will compensate for any rainfall shortfall.

Section 3

PLANTATION SITE & DEVELOPMENT

WATER SUPPLY AND IRRIGATION

The Land Owner currently holds a licence for water harvesting from the McIvor River for 100 hectares and a maximum instantaneous extraction rate of 63 litres a second (being the equivalent of 50,000 gallons [0.225 megalitres] per hour) during June to August. Since this is the 'dry season', it will provide an opportunity for irrigation when it is most likely to be needed. The Land Owner has applied for an additional 200 megalitre water licence. The Land Owner at its own cost will construct water storages in the natural drainage line through the middle of the property if required and these will provide additional insurance against drought.

Water is applied to the trees using drip irrigation. To achieve optimum growth, soil moisture needs to be maintained at a consistent level. The Land Owner has commissioned the services of an irrigation consultant to prepare a comprehensive irrigation management plan that meets the particular needs of the species, maximizes water usage and minimizes wastage, and drainage characteristics of the property. The Landowner owns the entire infrastructure and other capital works it has carried out, including the water licence and the irrigation equipment.

PLANTATION ESTABLISHMENT

The Forestry Management Plan covers every aspect of plantation management to ensure optimum growth and takes into account management of potential plantation risks. The Forestry Management Plan also incorporates applicable State Code of Forest Practice guidelines as part of the plan.

GPS technology and aerial photographs are utilised to prepare the plantation layout plan and to accurately prepare the irrigation plan by the irrigation consultant to the Project.

Fire breaks and access roads are defined, dams and bores are specified and constructed. The planting block layout will be identified in the irrigation plan. Prior to the planting rows being pegged out, an application of broad-acre weed spray will be applied. A broad acre pre-planting fertilizer will be applied to each block as required. The tree rows will be deep ripped and the tree locations marked out.

The Trees will be planted on a 7m by 3.5m grid to give a density of approximately 408 stems per hectare. This spacing allows the Trees to grow without undue crowding and allows machinery to travel along the rows for weed control without damaging the trees.

Fertiliser will be added as required in the early growth phase to ensure that a long butt length is achieved. Pruning and a non-commercial thinning of 50% of the Woodlot will be undertaken prior to year 6 at the direction of the Consultant Forester.

BEST GENETIC STOCK AVAILABLE

A sufficient quantity of seed from selected superior trees has been imported from Ghana to supply the needs of the Project.

YIELDS, HARVEST AND PROCESSING

It is expected that the first commercial harvest of 50% of the remaining stand of trees on the Woodlot will be undertaken in the winter of the 10th year of the Project and the harvest of the balance of the stand of trees on the Woodlot will be undertaken in the winter of the 15th year of the Project.

	Dbhob [cms]	Log Length [m]	Log Volume [m ³]	Sawn Recovery [m ³]
1st thinning at year 10 [per tree]	38	6.0	0.58	0.30
Clearfall at year 15 [per tree]	50	7.0	1.24	0.60

- Dbhob – diameter over bark at breast height – 130cms from ground level
- Sawn Recovery – rough sawn volume based on 50% recovery from each log



Section 3

PLANTATION SITE & DEVELOPMENT



Basalt soils in the McIvor Valley

Based on these data, the anticipated productivity would be approximately 180 – 185 m³ per hectare of log timber giving a rough sawn recovery of 90 – 92.5 m³ per hectare or 18 – 18.5 m³ per woodlot.

This yield forecast is based on the figures of the Consultant Forester in his report in Section 10 and is subject to the risks set out on pages 21 to 23. Of course actual yields may vary from these figures due to events outside the control of the Plantation Manager. Further, the Woodlots may produce yields that are higher or lower than the estimated yields.

After being harvested, the Trees will be transported to one of a number of mills in the region where the logs will be milled into boards and dried. The timber will be marketed by the Plantation Manager which will obtain the best possible price for the timber.

CERTIFICATION

The objective of the Australian Forestry Standard is to provide forest managers and owners with economic, social, environmental and cultural criteria and requirements that support the sustainable management of forests for wood production. The Plantation Manager is committed to work towards certification under the Australian Forestry Standard. By adopting an environmental certification management system, the Plantation Manager will be able to address environmental concerns by identifying and controlling operations that produce adverse environmental impacts.

Section 4

WHAT YOU NEED TO KNOW ABOUT THE OFFER

THE OFFER OF WOODLOTS

Investors are offered 4000 uniquely identifiable Woodlots, each comprising a minimum of 0.2 hectares with an average of no less than 82 Trees to be planted on all the Woodlots.

Upon Allotment of a Woodlot, an investor will become a Grower in the Project and a party to the Licence and the Project Operations Agreement.

LICENCE

Growers will Licence two or more Woodlots from the Land Owner, according to the number of Woodlots they apply for in the Application Form.

The Term of the Licence is from Allotment to 30 June 2020. The Licence gives the Grower the right to be a tree farmer and to grow Trees on the specific area of the Woodlot, in return for the payment of a Licence Fee.

A summary of the Licence, including the Licence Fee, is contained in Section 13.

PROJECT OPERATIONS AGREEMENT

The Project Operations Agreement provides for the Responsible Entity to manage the Woodlots that are licensed to Growers. Each Woodlot will be managed in accordance with the Forestry Management Plan which is attached to the Project Operations Agreement and has been prepared by the Plantation Manager.

Management of the Plantation is sub-contracted to the Plantation Manager under the Management Agreement. The services provided by the Plantation Manager for establishment and management under the Management Agreement are set out in detail in Section 13.

The fees payable are described below and in the Details of the Principal Contracts in Section 13.

INITIAL COST OF PARTICIPATION IN THE PROJECT

The Application Money is \$3,366.00 (GST incl) per Woodlot, payable upon Application. This comprises the initial Licence Fee and the initial Management Fee. A minimum subscription of two Woodlot applies.

LICENCE FEE

The initial Licence Fee is \$62.50 plus \$6.25 GST (total \$68.75) per Woodlot due on Application. This Licence Fee is for the period from the date of Allotment to the first anniversary of Allotment and is due and payable on Application.

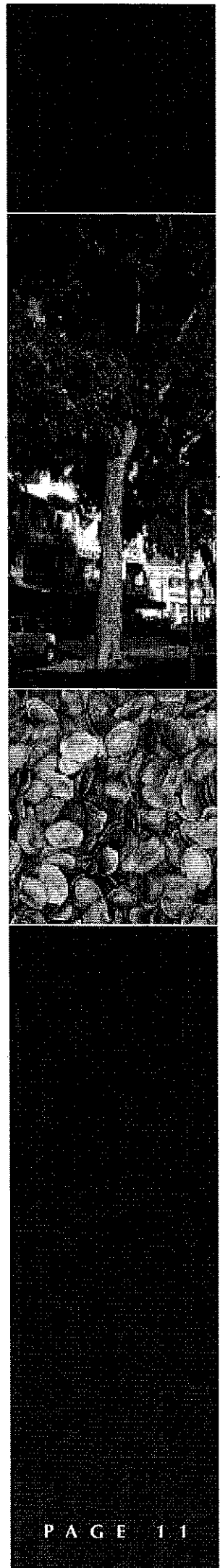
The second and subsequent annual Licence Fee is \$62.50 plus \$6.25 GST (total \$68.75) per Woodlot, payable in advance annually on the Anniversary Date in the relevant Financial Year, and which will be annually Indexed from 1 June 2006. The Land Owner reserves the right at any time in the future to adjust the invoices pro rata so that they are payable on 1 July.

The Land Owner shall be entitled to interest on any unpaid Licence Fee at the Interest Rate.

MANAGEMENT FEE

The cost of establishing each Woodlot from the date of Allotment until the completion of the Plantation Establishment Services is \$3,297.25 (comprising \$2997.50 initial Management Fee and \$299.75 GST). Growers who enter the Project on or before 30 June 2004 have the option of paying the full amount on Application or half upon Application and the balance on or before 31 December 2004.

Thereafter, the Management Fee is \$650.00 plus \$65.00 GST per Woodlot payable from the date of completion of Plantation Establishment Services until the following 30 June, and



Section 4

WHAT YOU NEED TO KNOW ABOUT THE OFFER

subsequently the annual Management Fee is \$450.00 plus \$45.00 GST per Woodlot per year thereafter, annually Indexed from 1 June 2006. The annual fee is payable annually in advance on 1 July of the relevant financial year. The services included in each Management Fee are described in the Project Operations Agreement, which is summarised in Section 13.

If, at any time during the Term, the Responsible Entity estimates that the total actual cost of providing Tree Farming, including corporate overhead costs, relevant insurance premiums and a commercial return, is likely to exceed the amounts referred to above, including any Indexation or annual increases, the Responsible Entity shall, no later than 30 days prior to 1 June of the relevant year, obtain the written approval of a Forestry Expert to that total estimated actual cost. No later than 14 days after the approval of the Forestry Expert is obtained, the Responsible Entity shall notify the Grower of the cost approved by the Forestry Expert and that amount shall be payable by the Grower on or before the following 1 June.

TOTAL COST OF PARTICIPATION PAYABLE ON APPLICATION (INCLUSIVE OF GST) PER WOODLOT

Initial Licence Fee	62.50
Initial Management Fee	2,997.50
GST	306.00
Total Application Money per Woodlot	\$3,366.00

FEES PAYABLE DURING THE PROJECT

Once the Project is under way, all Growers will be required to pay the annual Management Fee and Licence Fee for each year, as described above. Each Grower will also be required to pay the Timber Production Costs (which includes the Harvest Fee), the Marketing Fee and if applicable the Incentive Share. The Timber Production Costs will be deducted from the Gross Harvest Proceeds.

TIMBER PRODUCTION COST AND HARVEST FEE

The Timber Production Costs includes both the Harvest Fee payable to the Responsible Entity for Harvesting the Grower's Timber in accordance with the Project Operations Agreement, and all transportation, drying and other costs necessary to prepare the Grower's Timber for sale.

MARKETING FEE

Each Grower must pay to the Responsible Entity a Marketing Fee, being a sum equal to 5% of the Net Proceeds received from the sale of the Grower's Timber. This fee is to cover the costs of the marketing and sale of the Timber.

INCENTIVE SHARE

The Responsible Entity will receive an Incentive Share from each Grower, being 25% of the average amount of sawn Timber per Woodlot that exceeds 18.5 m³ of sawn Timber per Woodlot times the number of Woodlots held by the Grower. This Incentive Share is passed on to the Plantation Manager. This provides the Plantation Manager with a significant incentive to maximise the yield from each Woodlot.

FINANCE

An applicant may prefer to borrow funds for the purpose of investing in this Project. Please discuss your financing options with your financial adviser.

GUARANTEED SURVIVAL RATE

The Plantation Manager will guarantee the survival rate of the Trees to the end of the first critical 13-month period. If the Plantation does not have an average planting density of at least 82 trees per Woodlot 13 months after planting, the Plantation will be re-stocked by the Plantation Manager at its expense to bring the average planting density to 82 trees per Woodlot.

Section 4

WHAT YOU NEED TO KNOW ABOUT THE OFFER



Khaya senegalensis, 4 months. This tree is not a tree of the Project.

MINIMUM SUBSCRIPTION

A minimum number of 450 Woodlots must be applied for in order for the Project to proceed.

PROPOSED HARVEST PLAN

A non-commercial thinning of 50% of the trees will be undertaken at the time determined by the Consultant Forester. The first commercial harvest of 25% of the trees is expected to commence in year 10 of the Project with the remaining trees being harvested in year 15 of the Project.

SELLING THE TIMBER

Unless an election to sell their own timber is received in writing from a Grower by the Responsible Entity on or before the 30th June following the Allotment date, the Responsible Entity will sell the Timber on behalf of the Grower for the highest price practicable.

REPORTS

Growers will receive regular reports on the Plantation on or about 30 September following the completion of the Plantation Establishment Services; and annually thereafter on 30 September of each year.

The reports will update Growers on:

- annual Management Fees and Licence Fees;
- general state of the Plantation;
- Plantation management practices including compliance with arrangements in the Product Ruling;
- growth measurements where available;
- impact of pests, diseases or fire if any;
- a summary of the Consultant Foresters' report or the report itself;
- a summary of the operations performed on the Plantation;
- a summary of any material changes to the Forestry Management Plan;
- details of any foreseen outcomes which are likely to affect returns;
- market trends that may impact on the marketing plan;

- any changes to tax law that may impact on Growers and the Plantation Manager's response to or compliance with those changes;

The Responsible Entity will also provide Growers with a report within 60 days after the sale of any Timber setting out details of the sale of the Timber and any costs associated with the sale.

VISITS BY GROWERS

Growers will be able to visit their Woodlots, provided that reasonable notice is given to the Plantation Manager. The Plantation Manager will arrange guided inspections for Growers, but the cost of travel to the Plantation for these tours must be borne by those Growers who participate.

TAXATION

Under current taxation legislation, expenses incurred under this project are fully deductible provided the Project is carried out in accordance with the Product Ruling issued by the ATO. Refer to PR 2003/67 in Section 11.

Intending Applicants should seek advice from their professional tax advisers to confirm their own position in respect of taxation.

PLANTING STOCK

The Plantation Manager will use top quality seedlings.

CARBON CREDITS

As trees grow, they absorb carbon dioxide that has accumulated in the atmosphere. Carbon sequestration credits or "emission reduction units" are credits that may potentially accrue to the owners of tree plantations as a result of this carbon absorption by their trees. Internationally, mechanisms are being planned whereby these carbon credits will accrue to tree owners, who can then sell the credits to buyers likely to be carbon emission producing industries, who can use the carbon credits to offset emissions.

At present, the mechanisms by which carbon credits will be acquired or credited, and traded or transferred, and the timeframe in which they will be implemented, are not clear. However, should the establishment of the Project result in financial benefits arising from carbon credits or "emission reduction units" during the period of the Project; these benefits will be shared on the basis of 50% to the Growers, 50% to the Land Owner.

The Plantation Manager is continuously monitoring the developments in this area and will implement strategies as soon as mechanisms become clearer and benefits can be identified and obtained.

FIRE INSURANCE

The Plantation Manager will maintain fire insurance cover over the Trees and Timber.

PUBLIC LIABILITY INSURANCE

The Plantation Manager will maintain public liability insurance cover over all Woodlots in aggregate to a collective limit of \$10,000,000 for any one occurrence. Such insurance will cover individual Grower's liability to third parties with respect to bodily injury (including death) and/or property damage claims arising from the business of growing and Harvesting Trees.

CONFIRMATION

When you acquire your Woodlots, the Responsible Entity will provide you with a confirmation of the transaction. That confirmation may be in writing or electronic.

HOW TO APPLY

Anyone wishing to be a Grower should complete the Application Form on pages 79-80. Completed Application Forms should be sent to the Custodian at the following address:

Primary Securities Ltd, 13 Nairn Street, Fremantle WA 6160 or to PO Box 732, Fremantle, 6959.

Application details and Instructions for Lodgement are set out on page 78.

Applications can only be made on the Application Form attached to this PDS and are limited to Australian residents.

Note that the Grower's Application Form is also an offer to be bound to the Constitution and Rules, the Licence and the Project Operations Agreement.

Section 4

WHAT YOU NEED TO KNOW ABOUT THE OFFER



"Elderslie"

TOTAL APPLICATION MONEY

The total Application Money per Woodlot is \$3,366.00 (inclusive of \$306.00 GST) with a minimum subscription requirement of two Woodlots payable on Application, and payable to the Custodian. Payment of the total Application Money must be made in Australian dollars.

ALLOTMENT PROCEDURE

All Application Forms must be sent to the Custodian.

When the Responsible Entity accepts an Application and allots two or more Woodlots, the Grower automatically becomes bound to the Constitution and Rules. The Responsible Entity has entered into Standing Offers with the Plantation Manager so that upon the Allotment, the person who is allotted Woodlots also automatically becomes a party to the Licence and Project Operations Agreement as a Grower in respect of the specific Woodlots allotted.

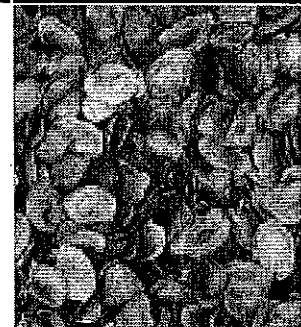
Each Woodlot will be uniquely identifiable on a master plan.

WHAT HAPPENS TO THE APPLICATION MONEY TO BE USED FOR THE PROJECT?

As agent for the Responsible Entity, the Custodian holds the Application Money in the Trust Account pending the Allotment of Woodlots. After the Allotment of Woodlots, the Responsible Entity has the power to apply the Application Money in payment of the first year's Licence Fee under the Licence and the first year's annual Management Fee under the Project Operations Agreement.

RECEIPTS

The Receipts of each Grower are paid to the Custodian who holds them in the Trust Account pending disbursement. The Responsible Entity must pay into the Trust Account all money received on behalf of Growers. Receipts and any other money in the Trust Account are to be used to pay the Grower's Project Fees and any outstanding expenses of the Responsible Entity and the Plantation Management Fees or Licence Fee, as set out in Section 4. Thereafter, Receipts and other moneys will be paid to Growers, each receiving their Prescribed Proportion, until the Project terminates.



Section 5

QUESTIONS & ANSWERS

WHAT IS THE DURATION OF MY INVESTMENT?

The recommended duration of the investment is 15 years after planting as this is the optimum growing period recommended by the Plantation Manager and Consultant Forester.

If all available Woodlots are taken up by 30 June 2004, and the Project keeps to the optimum growing period, then all planting will take place in 2004 and the Project will be for 15 years after planting, namely until 30 June 2019. However, if all available Woodlots are not taken up by 30 June 2004, the PDS will remain open an extra year until 30 June 2005 and there will be two planting seasons, 2004 and 2005 and all Growers will remain in the Project for 16 years after planting, namely until 30 June 2020. Hence the timings in this Section 5 may need to be extended by one year to allow for the second planting.

Circumstances may arise where the Plantation Manager via the Responsible Entity recommends to you that Trees be Harvested either earlier or later than year 10 and year 15 after planting. Should Harvest be delayed for any reason, the Licence and the Project Operations Agreement will be extended at the discretion of the Responsible Entity up to but no later than a further 2 years beyond the initial 15-year term.

WHEN WILL I RECEIVE INCOME?

It is expected that 50% of the remaining stand of timber after the first thinning will be Harvested in the winter season following year 10 after planting and the remaining 50% of the stand will be Harvested in the winter season following year 14 after planting, although this is subject to a range of factors. The Responsible Entity will advise you prior to each harvest.

MAY A GROWER SELL OR ASSIGN A WOODLOT?

The Responsible Entity is not obliged to repurchase a Grower's Woodlot.

In the Application Form, each Applicant declares an "intention to continue in the Project until receipt of proceeds of Harvest". Nonetheless, a Grower may sell or assign a Woodlot under the Licence and Project Operations Agreement. Any sale proceeds are classified as income for income tax purposes.

WHAT IS THE MINIMUM INVESTMENT?

You must apply for at least two Woodlots (although we reserve the right in our absolute discretion to accept Applications for one Woodlot).

TERM OF PROJECT

Woodlots will be planted within 12 months from the date of the Grower entering into the Project Operations Agreement, with approximately 408 trees to be planted per hectare.

Woodlots will be subject to a non-commercial thinning of 50% of the trees in year 6 after planting, leaving approximately 41 trees per Woodlot standing to year 10 after planting at which time 50% of the remaining stand will be harvested. The final 21 trees per Woodlot are expected to be harvested at year 15 after planting. The total program, contracted with the Responsible Entity, is for up to 15 years after planting, but at the direction of the Responsible Entity, might be extended for up to 2 years.

CAN I INSPECT MY TREES?

Regular Grower visits and inspections are encouraged. The Plantation Manager will be pleased to assist you with any arrangements. Naturally, any travel expenses will be at your cost.

Section 6

PROJECT MANAGEMENT



African Mahogany seedlings.

THE RESPONSIBLE ENTITY

The Responsible Entity for the NTT Mahogany Project is Primary Securities Ltd. The Responsible Entity holds Australian Financial Services Licence No 224107 and is the contract responsible entity for eight separate managed investment schemes, all of which have independent managers. These include a property trust, a Division 10BA film scheme, a viticulture project and four other forestry projects.

The Responsible Entity has the primary responsibility to operate the managed investment scheme and to perform functions conferred on it by the *Corporations Act*, the Constitution and the Compliance Plan.

The Responsible Entity acts in four capacities:

- a) as the party issuing Woodlots under the PDS;
- b) as the head-contractor of the Tree Farming services under the Project Operations Agreement;
- c) as the Grower's agent for various purposes in relation to the Project; and
- d) as trustee of the Grower's money. In this regard, the duties of the Responsible Entity are performed by the Custodian as agent for the Responsible Entity.

In all of its capacities, the Responsible Entity has a statutory obligation under the *Corporations Act* to act honestly, exercise the degree of care and diligence that a reasonable person would exercise if they were in the Responsible Entity's position and act in the best interests of Growers. The Responsible Entity has other statutory duties under the *Corporations Act*, as set out in Section 13.

Initially, the Responsible Entity must ensure that the money of the Grower is applied in accordance with the Constitution and the Agreements.

The Responsible Entity will sub-contract the performance of Tree Farming obligations to the Plantation Manager and will then monitor and oversee the performance of the Plantation Manager under the Management Agreement. This is principally done by appointing an independent Forestry Expert to advise and report on the Tree Farming services of the Plantation Manager each year. In the event the independent Forestry Expert forms the view that the Plantation Manager is not performing its obligations under the Management Agreement, the Responsible Entity will inform Growers and has the power to terminate the services of the Plantation Manager after due notice.

THE CUSTODIAN

Primary Securities Ltd has appointed the law practice Garton Smith & Co to act as Custodian for the Project through its regulated trust account. The Custodian holds Application Money, Project Fees, Receipts and certain other Project Property as the Responsible Entity's agent. The principal of Garton Smith & Co is Robert Garton Smith.

DIRECTORS OF THE RESPONSIBLE ENTITY

GEOFFREY THOMAS BARRETT

– LLB (HONS), B.COM (ACCOUNTING) (CHAIRMAN)

Geoff Barrett is the Managing Director of Watershed Marketing & Management Pty Ltd and Watershed Wines Ltd. He is also a Director of Watershed Land Ltd. Until 30 June 2002, he was managing partner of the law firm Garton Smith & Barrett, advising in relation to managed investments in forestry, viticulture, wineries and manufacturing and Managing Director of the Responsible Entity. Prior to practising law he had over 18 years experience in banking and finance. He managed several major banking projects, including the development and introduction of automated teller machines. Geoff has previously lectured in International Taxation Law, International Business Law and Contract Law and tutored in Corporations Law at Curtin University.

ROBERT GARTON SMITH

– LLB, B.COM, GDIPFINPLANNING (SEC INST), ASIA (MANAGING DIRECTOR)

Robert Garton Smith is the principal of the corporate and commercial law practice Garton Smith & Co. He has practised law since 1970 and is admitted as a practitioner in Western Australia, the federal courts, New South Wales and in England and Wales. Since 1981 he has worked in the area of capital raising and managed investments and has been the solicitor for more than 100 public capital raisings and many share, debenture stock and unsecured notes issues. He is Chairman of a small technology company Beverage Technologies Pty Ltd and former chairman of a fund manager.

ANNE THOUME

– B.TEC, MBA

Anne Thome has extensive experience in the commerce, banking and the trustee industries. Beginning as a trust officer, and moving into management of unit trusts, she has acted as both Manager – Trust and Corporate and Company Secretary of a major international bank. She has also worked as a senior executive with Perpetual Trustees Australia Limited and as General Manager of a Singaporean trust company. As a former director of Professional Funds Management Pty Ltd, Anne was responsible for the day to day operations and administration of that company's trustee and corporate service division.

THE PLANTATION MANAGER

Under the Management Agreement, the Plantation Manager is responsible for cultivating and caring of the Trees and taking every measure necessary to ensure the Growers' Woodlots achieve the yields predicted in this PDS. The Plantation Manager will maintain the Woodlots in accordance with good forestry practice and pay all costs and expenses of establishing and maintaining the Plantation.

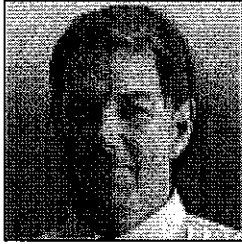
The Plantation Manager will utilise the services of experts, technical advisers, contractors and other consultants in performing its obligations in the development and management of the Plantation.

The directors of the Plantation Manager have the necessary qualifications in forestry, accounting, securities and corporate management for success of the Project. The Consultant Forester has stated in his report that the silvicultural and management strategies as proposed will ensure the Plantation will meet yield expectations.

Section 6

PROJECT MANAGEMENT

PLANTATION MANAGER DIRECTORS' PROFILES



GREG HOOKER

Greg has been associated with both the Horticulture and Timber Industries for 30 years. Qualifying initially as a Horticulturist with the Wellington Parks & Reserves Dept including working in their native forests.

Moving to the timber manufacturing industry in the early 80's, Greg managed two timber-manufacturing companies both in New Zealand and Australia before joining Northern Tropical Timbers Pty Ltd.

Greg has been working with both Australian and Ghanaian forestry experts to ensure the quality of the plant stock to be used in the plantations.



GARY SEXTON

– B. ARTS (GEOGRAPHY AND TROPICAL ENVIRONMENTS)
HONS

Gary has extensive experience in tropical forestry management and research having worked in North Queensland with the Department of Primary Industry – Forestry, the Forest Research Institute (QFRI), the Cooperative Research Centre for Rainforests (Cairns) and the Department of Natural Resources (RM). He joined Northern Tropical Timbers Pty Ltd in 2002 after managing the Community Rainforest Reforestation Program (CRRP) for the State and Commonwealth governments. This farm forestry program was responsible for the design and establishment of over 2000 hectares of tropical agroforestry, in addition to the funding and supporting of many silvicultural research projects.

He has conducted lectures in Farm Forestry and Plantation Design and was instrumental in the development of Tropical Agroforestry Studies at James Cook University. Gary has carried out forestry consultancies in the tropics both across Northern Australia and internationally. An author of a number of published articles and reports on Tropical Forestry and Ecology, he continues to work with Government on industry development matters. Gary is currently working on his PhD thesis which focuses on aspects of tropical silvicultural management.

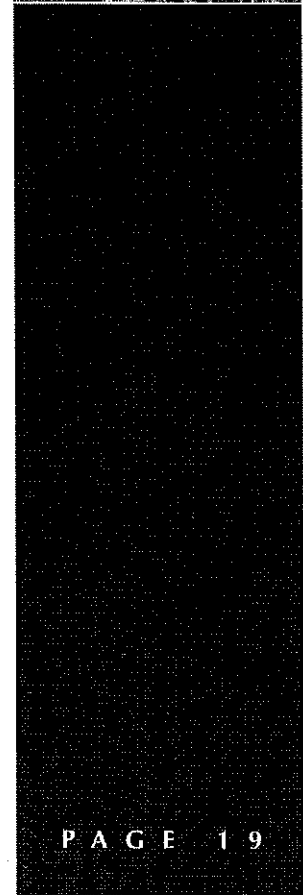
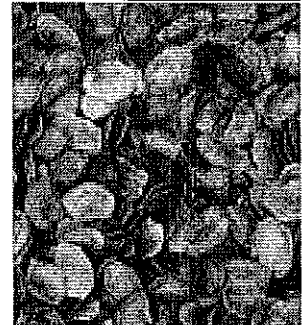
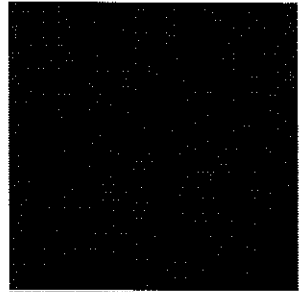


DANIEL LOWE

– M. MGT

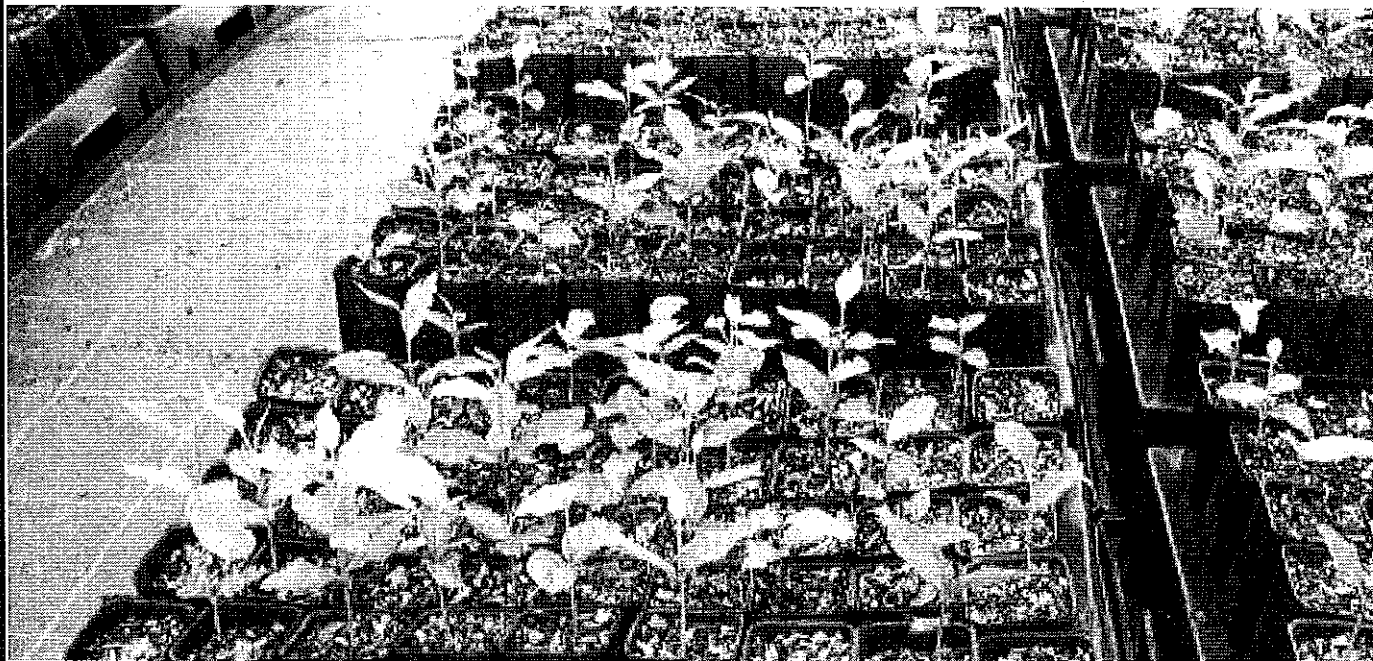
Daniel Lowe has experience in the Financial Services, Real Estate Investment and Commercial sectors. Beginning as a sales consultant and moving into sales management, Daniel held the position of Major Accounts Manager within a large multi-national corporation.

Daniel then worked as a Sales Manager within the Financial Services Industry before co-founding National Equity (Sydney) Pty Ltd in November 2000 which owns and operates L J Hooker PropertySource, one of the franchises within the L J Hooker network and also National Equity Financial Services Pty Ltd which provides both Financial Planning and Mortgage Broking services.



Section 7

TAXATION



Khaya senegalensis seedlings in the nursery.

7.1 PRODUCT RULING

The Responsible Entity, as part of the process of establishing the Project, made a formal written application to the Australian taxation Office ("ATO") for the issue of a binding Product Ruling on the Project. To obtain a Product Ruling it is necessary to provide extensive information on the proposed arrangements to the ATO, together with technical tax arguments and support for the taxation position proposed in the application.

The ATO, in response to the Responsible Entity's application, issued on 12 November 2003 Product Ruling No 2003/67 for the NTT Mahogany Project ("PR2003/67"). A copy of PR2003/67 is incorporated in this PDS in Section 11. PR2003/67 will apply to persons who enter into binding agreements in relation to the Licence and Project Operations Agreements described in this PDS. For a Product Ruling to apply to a Grower it is a pre-requisite for the Grower to intend to remain in the project for its duration. It is expected that this Project will operate for approximately 15 years following the planting of the trees.

Product Rulings provide certainty for participants as to the entitlements to taxation benefits provided the project is implemented in the manner detailed in the applicable Product Ruling.

A Product Ruling is only a ruling on the application of taxation laws and is in no way expressly or impliedly a guarantee or endorsement of the commercial viability of the Project, of the soundness or otherwise of the Project as an investment, or of the reasonableness or commerciality of any fees charged in connection with the Project. Notwithstanding the Product Ruling, Investors should seek their own independent taxation advice in relation to their personal tax position.

7.2 GOODS AND SERVICES TAX

As you are carrying on an enterprise in farming a Woodlot, any GST paid in relation to Project Fees will represent a GST Input Tax Credit. You should therefore register for GST and apply for an ABN if you have not already done so, otherwise your return on your investment may be affected. Moreover, failure to register for an ABN will result in withholding tax on sales made by you at the top marginal rate of tax.

Section 8

KEY RISK FACTORS AND SAFEGUARDS

Under the Project, the Growers, the Responsible Entity and the Plantation Manager are in the business of cultivating, growing, and harvesting the trees with a view to selling the timber from those trees. These activities are long term and carry with it all the inherent risks of forestry and other primary production activities. As with any investment in agricultural projects, there are inherent risks in primary production due to matters beyond the control of the Responsible Entity and the Plantation Manager. In addition the Project is subject to the commercial risks of a long-term venture. These risks have been reviewed and disclosed and where applicable include strategies to minimise the potential of risks occurring and causing loss.

8.1 MANAGEMENT RISK

The Project has been registered as a managed investment scheme pursuant to the *Corporations Act*. Under the managed investments regime, the Responsible Entity is responsible for the management and operation of a project and to ensure compliance with the *Corporations Act*. If the Responsible Entity were not to comply with its licence conditions or the *Corporations Act*, its licence could be revoked and a new Responsible Entity would have to be appointed. This may disrupt the continuity of the Project. Management of the Plantation has been sub-contracted to the Plantation Manager. The Plantation Manager will appoint agents and service providers to carry out the day-to-day operations of the Project. If the Plantation Manager does not properly supervise those agents and service providers and those entities are not performing their duties then the Project could be adversely affected. In the event of insolvency or breach by the Plantation Manager, the Responsible Entity is obliged to try and find some other entity which will carry out the Plantation Manager's obligations.

The Plantation Manager has considerable experience in managing agricultural projects. Refer to Section 6.

PLANTATION MANAGEMENT

The Growers are dependent upon the expertise of the Plantation Manager, its staff and contractors. The Consultant Forester will inspect the plantation on a regular basis and prepare a report to the Responsible Entity which will be made available to Growers.

LOSS OF KEY STAFF

Loss of key staff could impact negatively on the financial returns to the Project. This risk will be mitigated by the Plantation Manager entering into long term contracts with key staff and service providers, as well as having a stringent selection process.

8.2 FINANCIAL RISKS

PRICE

Economic and market supply & demand will impact on timber prices. As world trade in timber is quoted in \$US, any change in the Australian currency may also affect the price.

GROWERS' PROJECT FEES AND APPLICATION MONEY

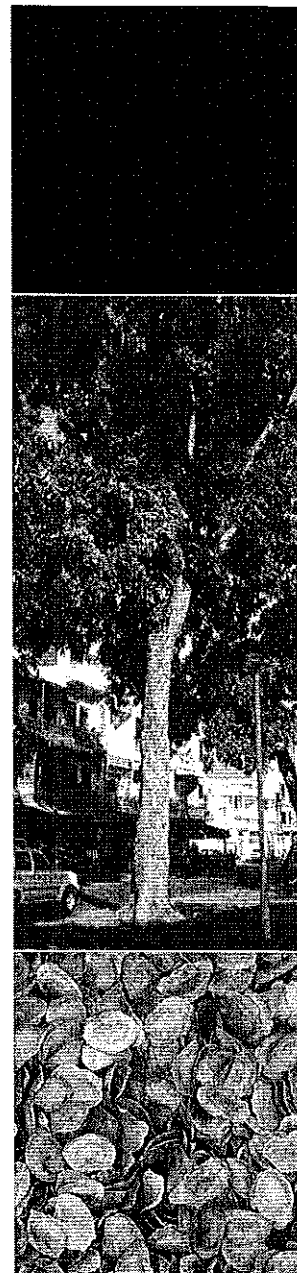
There is a risk that some of the Growers may fail to meet the payments due in future years for Management Fees and Licence Fee. If this were to occur in whole it may impact on the establishment or ongoing management of the Plantation. There is a risk that 450 Woodlots are not applied for by 30 June following the date on which you apply, in which case your money will be returned to you without interest.

GROWERS' LIABILITY TO THIRD PARTIES

The Grower is liable for breach of the Licence and the Project Operations Agreement.

NO OR LITTLE MARKET FOR WOODLOTS

In the event that an investor wishes to sell their Woodlots, there is unlikely to be a substantial market. The Responsible Entity and the Plantation Manager are under no obligation to repurchase any Woodlots from Growers. This investment should be viewed as long term.



Section 8

KEY RISK FACTORS AND SAFEGUARDS

TAX DEDUCTIONS

There is a risk of any anticipated deduction being disallowed, if the arrangements as detailed to the Australian Taxation Office and/or as set out in PR2003/67 are not followed or for some other unexpected reason. The Plantation Manager will be making every effort to comply with the terms of the Product Ruling and compliance will be monitored by the Responsible Entity.

UNEXPECTED EXPENDITURE

Unexpected expenditure is a risk to any project. The budget has been prepared with all care and due diligence. However, to ensure that the Responsible Entity is able to meet its obligations after completion of the Plantation Establishment Services, the Plantation Manager will lodge cash or bank backed securities in the sum of 10% of the budgeted expenditure for that financial year with the Responsible Entity to be held in trust by the Responsible Entity to secure the performance by the Plantation Manager of its obligations under the Management Agreement or any other agreement. The amount of the security will thereafter be re-assessed on an annual basis.

8.3 MARKET RISKS

MARKET FOR TROPICAL TIMBERS

There is always an element of uncertainty in predicting markets. There is a risk that the international market price could drop and this may have an effect on prices in Australia.

SUBSTITUTE PRODUCTS

There is a possibility of substitute products being developed which replace the demand for hardwood timbers. The Plantation Manager does not consider this risk as being very likely to eventuate.

EXCHANGE RATES

Adverse movements in the Australian dollar could make foreign imports more attractive in Australia.

QUALITY OF TIMBER

The Plantation Manager will utilize the best available mahogany varieties chosen for colour and growth characteristics and employ modern horticultural and silvicultural techniques to ensure the quality of the timber is of the desired standard.

8.4 REGULATORY RISK

GOVERNMENT CONTROLS

There is always a possibility of the introduction of government controls, which impact negatively on the price and demand for hardwood timbers. The Plantation Manager believes that because of the pressure on Australian governments from environmentalists, the likelihood is for regulation which increases the demand for plantation timbers rather than the reverse.

8.5 AGRICULTURAL AND FORESTRY RISKS

TREE SURVIVAL

In every plantation a small proportion of trees fail. Under the Management Agreement, the Plantation Manager has agreed that if at 13 months from the completion of planting, the average number of Trees per Woodlot is less than 82, then the Plantation Manager will plant additional Trees so that there is an average of no less than 82 Trees per Woodlot on the Plantation.

CLIMATE

Prejudicial climate and climate change could affect the Trees. The McIvor River continued to flow through the 2002 drought and there is adequate water to essentially drought proof the Project. Climate factors beyond the control of the Plantation Manager remain a risk.

PESTS

Some insect or pathogen infestation could occur. The Plantation Manager will be vigilant in relation to such infestations and is ready to implement appropriate control procedures.

FIRE

As is apparent from the Consultant Forester's report, rain forest species have low tolerance to fire. The Plantation Manager will observe all the recommendations of the Consultant Forester in relation to fire protection.

Section 8

KEY RISK FACTORS AND SAFEGUARDS

SCALE OF OPERATIONS

A plantation which is too small would be unviable.

LACK OF NUTRITION

The rapid growth of the trees is reliant upon adequate nutrients being supplied. The Plantation Manager will apply nutrients through the irrigation system as required, based on regular monitoring of the soil and foliar analysis.

DISEASES

All plantations are susceptible to damage by plant disease. The sound management practices employed by the Plantation Manager will reduce such risks by monitoring and by applying biological control agents and pesticides as required to control outbreaks if they occur.

WEEDS

An ongoing program of weed control forms part of the Forestry Management Plan and is necessary to ensure maximum growth and reduce fire risk. Refer to the comments on weed control in the Consultant Forester's Report.

YIELD

Actual yields may differ from the forecast mean yield, being dependent on the above-mentioned risk factors as well as micro-site variations across the property. Good silvicultural practices by the Plantation Manager will reduce the likelihood that risks will impact negatively on yield. Refer to the Consultant Forester's Report in Section 10.

FLOOD

Low lying areas of the plantation that could potentially be prone to flooding will be identified and taken into account in designing the plantation layout.

LOCATION

The distance of the plantation site from a major industrial centre must be considered a risk factor. Native forest logging is an active industry in the vicinity of the Elderslie site and will provide the logistics necessary to transport the product to saw mills and to market. Transport costs have been taken into account by the Plantation Manager. The Queensland Government is progressively sealing the road between Cairns and Cooktown, which is expected to be completed by mid 2004. Refer to the Consultant Forester's Report.

8.6 OTHER RISKS

SOCIAL CHANGE

There is a possibility of social change, which impacts upon the demand for hardwood timbers. The Plantation Manager believes that presently apparent social attitudes towards timber harvesting will support the Project for many years to come.

SUBSTITUTE PRODUCTS

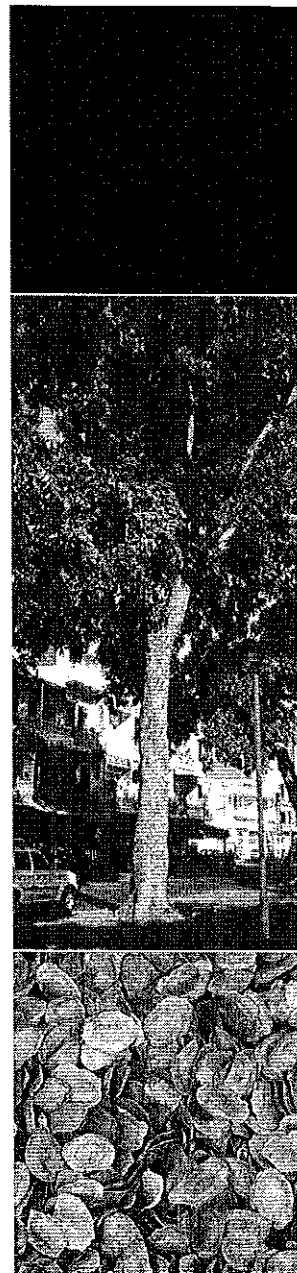
There is a possibility that new products will substitute for mahogany in the market or result in oversupply, thereby reducing demand.

SUPPLY AND DEMAND

Other factors which may be unexpected such as adverse movements in the price of imported timber or an increase in value of the Australian dollar resulting in buyers preferring imported mahogany, could result in a reduction of demand.

EVENTS OF FORCE MAJEURE

Unexpected events beyond the control of the Responsible Entity or the Plantation Manager could affect the Project.



Section 9

MARKETING REPORT

Unisearch

Unisearch Limited – Expert Opinion Services
The University of New South Wales, Sydney 2052
DX 957, Sydney
Ph: 1800 676 948
Fax: 1800 241 367
www.expertopinion.com.au
Email: experts@unisearch.com.au

9 December 2003

The Directors
Primary Securities Limited
13 Nairn Street
Fremantle WA 6962

INTRODUCTION

This Report has been prepared for inclusion in the NTT Mahogany Project Product Disclosure Statement.

Unisearch Limited has been requested to prepare a report on marketing the timber end product from trees belonging to the genus *Khaya*.

The Unisearch Limited consultant James Muir is a qualified architect and landscape architect who has 25 years experience in major landscape soil evaluation, nursery establishment and plant propagation projects and 20 years experience in high tech. Timber furniture manufacturing, importing and associated value added timber technologies. He is also currently engaged in a major research initiative at University of Technology Sydney and CSIRO Melbourne developing new materials through incorporating the application of nano-particles and nano-technologies in and on various substrates and components used in the building industry to enhance their performance over a range of uses.

The principle sources of data and statistics used for the preparation of this report have been extracted from various databases world wide, and include, but are not restricted to:

- Food and Agriculture Organisation New York USA
- International Tropical Timber Organisation, Yokohama Japan
- International Research and Development Centre Ottawa Canada
- Australian Bureau of Agriculture and Resource Economics, Canberra
- World Resources Institute Washington USA
- Canadian International Development Agency
- Natural Resources Canada

THE SOUTH AMERICAN MAHOGANIES

Mahoganies all belong to the one plant family Meliaceae containing 600 species in 60 genera.

The term "True" mahogany (big-leaf mahogany) refers to all species of the genera *Swietenia*, native only to the New World. Since the early 1990's arguments have been advanced as to whether the eighteen mahogany species in this genera qualify for regulation under the Convention on International Trade in Endangered Species (CITES). The World Conservation Union (IUCN) considers the species *Swietenia* or Big-leafed mahogany vulnerable because of declining or unsuitable habitat and a level of exploitation that may be unsustainable. This species in the past has been exported from at least 14 Latin American countries and imported by 15 countries, primarily in North America and Europe. In excess of 120,000m³ of Big-leafed mahogany enters international trade annually, of which 76,000m³, or 60% of global trade is imported by the United States. The furniture industry absorbs about 90% of the top grade mahogany in the U.S. while the lower grade mahogany goes into the production of doors and architectural millwork. (Smith, Hass and Luppold, 1995)

Section 9

MARKETING REPORT

Commercial depletion, over-harvesting and illegal supply of big-leafed mahogany primarily into the United States market has led to various South American countries starting to put into effect strategies to conserve a sustainable supply of this resource and prevent the demise of local and international industries that depend on this timber. In some cases this has taken the form of imposing a logging moratoria and improved national legislation. These countries have also re-established a mahogany working group to identify conservation priorities for the species under CITES. Unfortunately despite these efforts, illegal and unmanaged exploitation of mahogany particularly in Brazil, Bolivia and Peru remains a problem underscoring the enforcement and management challenges which government officials are faced with in those countries.

Fluctuations in mahogany availability and accessibility resulting from unsustainable harvesting are reflected in trade data. From 1995 to 1998, U.S. imports from Bolivia decreased by two-thirds, while U.S. imports from Peru surged nearly fourfold. According to TRAFFIC North America (funded by the World Wildlife Fund US), several U.S. importers confirm that they have reacted to negative changes in their ability to obtain or maintain supply of mahogany by importing from new source countries. The increasing tight supply of big leafed mahogany is reflected in the escalating retail price for this resource, which is 25% higher today than a decade ago.

THE AFRICAN MAHOGANIES

The African mahoganies have 17 species in two genera; *Khaya* and *Entadrophragma* ranging through the lowlands of Africa from Liberia to Kenya and Mozambique to Namibia, generally found in the savanna country between the equator and 10° north. These are tall semi-deciduous trees up to 35 metres in height attaining up to one metre stem diameter with bole lengths up to 10 metres, and growing in areas that receive a rainfall between 400mm-1500mm per annum. The genera *Khaya* produces one of the world's finest cabinet timbers and is a close relation to Australia's Red Cedar (*Toona ciliata*).

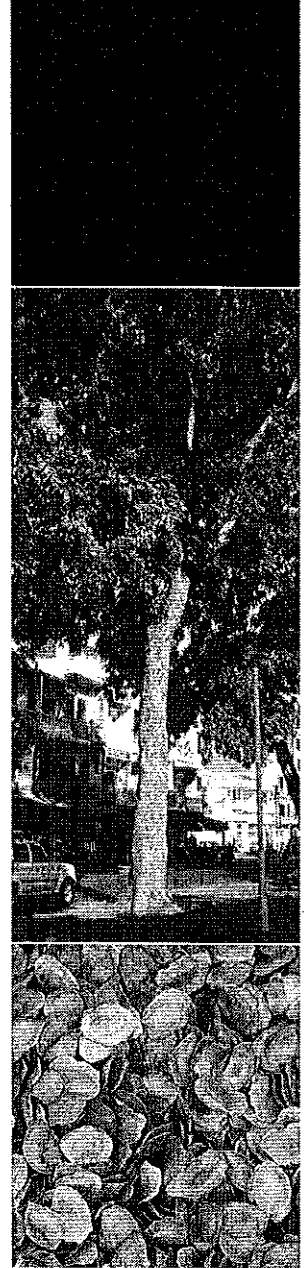
There is now a growing reliance by U.S. importers on substitute species such as African mahogany (*Khaya* spp.) and Philippine mahogany (*Lauan* spp.). This shift in supplier countries to the U.S. market is probably driven in response to the increasing public pressure to restrict the use of Big-leafed mahogany in the U.S. and for reasons of price has also led to U.S. importing companies boosting their imports of African mahogany from 4,100 m³ in 1991 to 20,000 m³ in 1998, the highest levels since the mid-1970's.

The growing reliance on African mahogany and in particular *Khaya senegalensis* by the U.S. and the European market is placing supply pressures on the various African countries where this species is widely distributed. Large tracts of lowland forests are highly fragmented largely due to human activity such as slash and burn agriculture, but also industrial logging and harvesting of wood has put on additional pressure through the building of access roads, opening up the forests to further human occupation and exploitation. Without management and conservation measures being put in place by the various countries in the African lowlands future guaranteed supply of *Khaya* is in jeopardy and some species are currently listed as endangered. *Khaya senegalensis* is currently on the IUCN red list of species listed as vulnerable (VU A1cd) and in danger of extinction in the wild across its entire range in the following African countries; Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Ivory Coast, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Mali, Niger, Nigeria, Senegal, Sierra Leone, Sudan, Togo, and Uganda.

The inevitable tightening of reliable supply from the above sources presents an opportunity for supply being substituted from sustainably managed plantations as against the over cutting of forests often for fuel wood in the African countries.

ALTERNATIVE SUPPLY SOURCES

The climate and environment of Australia is well suited to the propagation and management of *Khaya senegalensis* evidenced by a pilot program carried out in the Northern Territory in 1997 in which *K. senegalensis* was successfully grown in a series of trial plots.



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Since that date *Khaya senegalensis* has been established on semi dry tropical sites across Northern Australia as well as in the Wet Tropical region of Queensland where it has also performed well. *Khaya senegalensis* appears able to tolerate both seasonal drought and moderate flooding once it has been established and responds well to irrigation and fertilizers containing nitrogen and phosphorous. Problems that occur in the wild can also be controlled under managed plantation conditions such as natural damage to plantlings leading to various deformities by form pruning leading to the desired straight stem development to achieve the required bole height. Growth rates of African mahogany indicate that harvesting of plantation timber is feasible on a 15-20 year cycle.

The following properties may be expected for Australian grown African mahogany based on work carried out to date.

AFRICAN MAHOGANY TIMBER PROPERTIES

(AUSTRALIAN GROWN) (SOURCE DPI WA, 2000, BOOTLE K, 2001).

Weight	Typical density for this species is approximately 680 kg/m ³ at 12% moisture content.
Stability	Shrinkage is about 1.5% radial and 3% tangential which is low and contributes to this timbers overall stability when seasoned under controlled conditions.
Milling	Green sawn recovery from natural forest logs may be around 36% due to the fluted shape of the butt log. However on plantation grown logs grown under best practice conditions green sawn recovery can be expected to be around 50%.
Durability and Rot Resistance	The timber's durability is class 2- Highly resistant to decay when fully exposed to weather, clear of the ground, well drained with free air circulation.
Lyctid Susceptibility	Untreated sapwood is susceptible to lyctid borer attack.
Preservation	Sapwood generally accepts preservative impregnation but penetration of heartwood is negligible using current commercial impregnation techniques.
Seasoning	Easy to dry using conventional air and kiln drying seasoning methods.
Hardness	Moderately hard, Janka hardness 3.2 kN green, 4.1kN dry in relation to indentation and ease of working with hand tools. More resistant to denting than <i>Sweitenia</i> spp. which has a hardness of 3.1kN wet and 3.6kN dry.
Machinability	The timber will dress and mould to a smooth finish with sharp blades and cutters
Fastening	No difficulty has been experienced with the use of standard fittings and fastenings.
Gluing	Has good bonding characteristics using standard procedures
Timber Colour and Grain	The wood of this species is pink through to a deep red-brown with very distinctive grain, coarse and open to straight with growth rings prominent in back sawn timber due to its ring porous structure. It can also contain flame and crown patterns favoured by the furniture industry. The occasional presence of a wavy interlocked grain can produce an attractive fiddleback timber
END USES	Typically used in furniture manufacture and decorative trimming turnery carving and inlay work. Extensively used as a decorative veneer and extensively in joinery because of its stability and durability.

SUBSTITUTE SPECIES

As mentioned above, other tropical hardwoods have been suggested as a substitute species for the various mahoganies, prime amongst these being *Shorea* spp. and *Lauan* spp. grown in South-East Asia.

However, despite the economic importance of these species, their tropical forest habitats are disappearing at record rates particularly in the South East Asian Region. The actual rate of tropical deforestation in this region are subject to debate but probably are of the order of 130,000 km² per year, with some estimates running as high as 170,000 km² per year.

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The unregulated exploitation of these tropical forests has led to a situation where guaranteed supply to world market of hardwoods for manufacture into plywood, furniture and veneers is proving problematical as government authorities in countries producing tropical hardwoods attempt to stem the flow of illegally harvested logs from their forests by banning log exports. Notwithstanding these attempts at control, it has been estimated that illegal supply of timber in the form of log, sawn and manufactured items such as plywood and other value added timber represents accompanied by false documentation as to origin accounts for a major percentage of the total timber harvest from tropical timber supply countries as set out in the following table:

Source	Estimated percentage of illegal logging
Indonesia	73
Malaysia	35
Cameroon	50
Brazil	80
Gabon	70

Source: EU Illegal Timber Imports, EU Forest Watch July/August 2001

What this means in the case of Indonesia and Malaysia, is that species identified as being endangered under (CITES), is being flouted by the illegal log trade. This is of grave concern for in the case of Ramin, a timber now only surviving in Indonesia, and used extensively for highly finished joinery and cabinetry manufacture will be completely cut out within eight years at present levels of harvest. The various Shorea species and in particular Lauan also known as Philippines mahogany are also in the same situation.

As a consequence policies are being developed in the European Union and other OECD nations to ensure only timber and timber product from renewable resources will be accepted into the marketplace. Protocols are currently being developed (Montreal and Helsinki) to assist in implementing a certification system establishing not only the timbers origin, but also the chain of custody of the value added products from this resource to encourage the further development of timber grown under plantation conditions.

Countries with substantive forest resources have responded to this situation in various ways, ranging from conservation strategies, to implementing a program of re-forestation and the development of fully managed plantations. It is now forecast that the volume of timber sourced from plantations will increase significantly over the next few decades. Currently only about 3% of the worlds forests i.e. 96.63 million hectares of a total of 3221 million hectares are contained within plantations (FAO 1999).

AUSTRALIA'S TIMBER RESOURCES

In Australia timber resources are undergoing similar pressures to those globally with policies in place for significant expansion of plantation activity to arrest the decline to meet future demand. The domestic market for sawn timber is expected to rise from 4.45 million m³ in 1999/2000 to 5.2-5.6 million m³ by the year 2030. Since 1995, 1.377 million hectares of new plantations have been established in Australia. Of these plantations, 71% are softwood and 29% hardwood, with the percentage of hardwood plantations continuing to increase. In 1999, out of the total of 94,812 hectares planted, 84,632 hectares were hardwood, representing 89% of the total for that year. (Source - National Forest Inventory (2000), National Plantation Inventory Tabular Report - March 2000; Bureau of Rural Sciences, Canberra.) These hardwood plantations predominately established to supply the short fibre woodchip market in Japan. However recent developments in the hardwood industry are moving toward using several native Australian hardwoods for joinery and cabinet making purposes concomitant with new modification technologies being developed within the industry.

Figure 1 (on the following page) shows the Australian Sawnwood consumption in cubic metres up to the end of the year 2000.

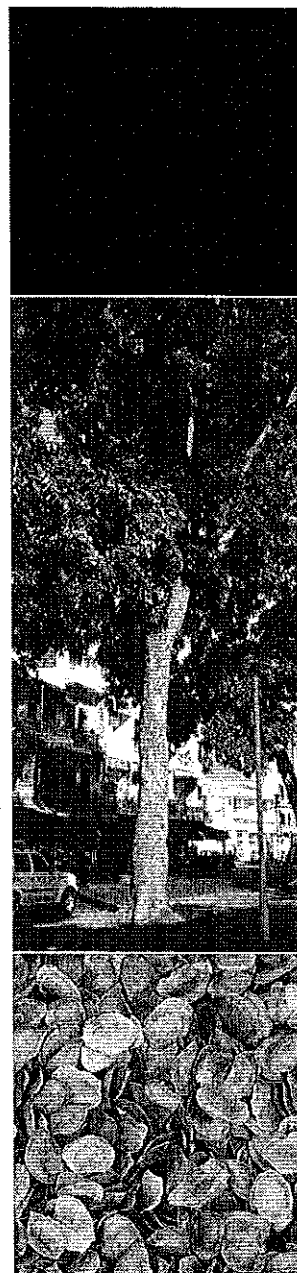
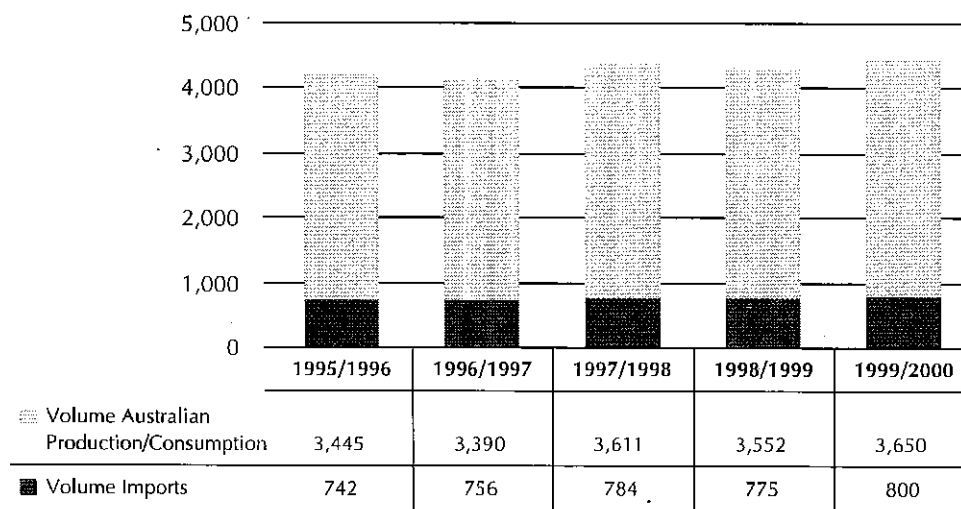


Figure 1 – Australian Rough Sawn Wood Production and Imports
(All species)



Source: ABARE – Forest Product Statistics

The rate of further plantation expansion and development being predicated on:

- Access to remaining natural forests being limited, due to economic viability, political pressure, and the need to conserve bio-diversity.
- New value added composite products such as, various timber panels (Lamipanel and solid core veneered products for example) requiring particular grades of timber with quality control and certification of the chain of custody from plantation to manufactured article being asked for in several markets. These requirements being partially satisfied by plantation timber where quality control and origin can be assured.
- Land availability for plantations that will in all likelihood come from degraded land previously used for agriculture.
- A selection of species propagated linked to identified markets for end product,
- Well-managed industrial wood plantations especially in the southern hemisphere being capable of yields that are substantially higher than those obtained from natural forests.

Notwithstanding, the development of plantations, and in particular the development of hardwood plantations, there is a shortage of joinery and furniture grade timbers. This represents an opportunity to establish such species as *Khaya* spp. in plantations and to identify, develop, and market value added products to niche markets in Australia, and overseas, focussing on Europe (EEC), and selected Asia Pacific nations, such as Japan and China.

TRADE IN TIMBER

OVERVIEW

Timber is a major commodity traded on the international market, with the trend in trade shifting from logs (unprocessed timber) and sawn (semi-processed timber), to composite timber products such as lamipanel, other composite boards such as solid core (SC), Oriented strand boards (OSB), veneers and plywood (processed timber).

In specialist cabinet and joinery class timbers such as the mahoganies, the trend is for the source country to value add the sawn product in the form of mouldings and semi finished components before shipping to their various consumer markets.

This shift brought about by the increasing scarcity of timber resources resulting from global deforestation and over cutting, particularly in the Asia-Pacific Region and African regions, where several supplier countries are no longer willing to sell non value added product into the international market. Additionally, with

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many species that would substitute for mahogany being sourced from Sabah and Sarawak, part of the drop in imports of roundwood and sawn timber over the period may also be directly attributable to scarcity of supply, as Malaysia attempts to bring its harvesting levels in conformity with International Tropical Timber Organisation (ITTO) recommendations made in 1996.

Up to now Malaysia's harvesting rates have only fallen from 44million m³ in 1992 to 31million m³ in 1997 still a long way short of its sustainable level of harvest determined by the world bank of 14million m³. Add to its official harvest figure the fact that it is estimated that 35% of Malaysia's harvest is illegal (see Table 1) and goes unreported puts their harvest level at 42 million m³ almost equal to their harvest levels in 1992. It is inevitable that there will be shortages in log supplies of key timber such as *Shorea* spp. Ramin and Lauan in the near future as a direct result of these unsustainable practices.

Indonesia the other key South East Asian supplier of tropical hardwoods has to restrict its harvest level to 22million m³ /year according to Blakeney (1997). The official harvest fell from 42 million m³ in 1992 to 33 million m³ in 1996. Illegal logging is rampant in Indonesia estimated by the EU Forest watch to currently stand at 73% (Table 1). Taking this figure into account would suggest that the true harvest is of the order of 57 million m³/year. With no effective legal controls in place illegal logging is likely to continue at unsustainable levels until the resource becomes exhausted.

CERTIFICATION OF FORESTS

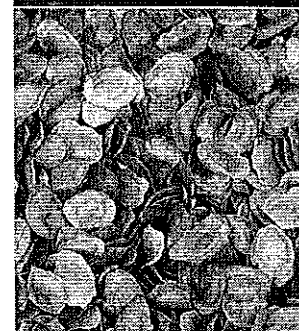
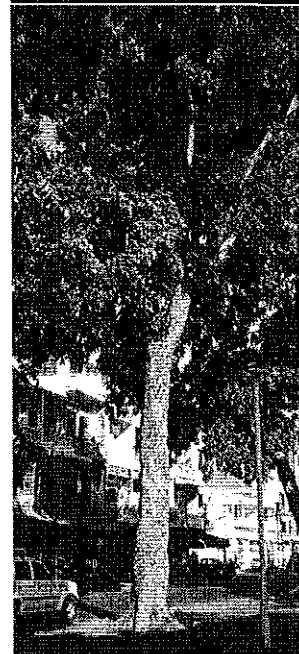
The formation and incorporation the major forest certification schemes has been brought about as a direct result of the Montreal and Helsinki Processes, The Amazon Co-operation Treaty and the International Tropical Timber Organisations "Guidelines for the Sustainable Management of natural Tropical Forests."

These schemes are in response to the substantial forest loss and exploitative harvesting of this resource worldwide and in particular in the major tropical hardwood supply countries, the primary source of mahogany species. It is in these countries and in particular Africa, the primary source of *Khaya senegalensis*, followed by Central and South America the primary sources of *Swietenia* spp. that the most substantial changes in forest area and loss of species are occurring, indicated in table 1 below.

REGION	FOREST AREA 2000		FOREST COVER CHANGE 1990-2000	
	Total Forests ('000 ha)	Forest Plantations ('000 ha)	Annual Change ('000 ha)	Annual Rate of Change (%)
Africa	649,856	8,036	-5,262	-0.8
Asia	547,793	115,847	-364	-0.1
Central America	78,740	1,295	-753	-0.7
Oceania	197,623	2,848	-365	-0.2
South America	885,618	10,455	-3,711	-0.4

There are currently five major international forest certification schemes and in descending order of area of forest certified these are; the Pan European Forest Certification Scheme (PEFC, 41%), The Forest Stewardship Council (FSC, 25%), the Sustainable Forest Initiative (SFI, 15%), the American Tree Farm System (ATFS, 12%), and the Canadian Standards Association (CSA, 6%),

In terms of areas of world forest resources certified, the latest figures available indicate that there are about 43 million hectares certified through the PEFC and about 17 million hectares certified through the FSC throughout Europe. Over the rest of the world about 8 million hectares are certified by the FSC with 15.5 million hectares certified through the SFI, predominately located in the USA.



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The area of FSC-certified forests in South America, Asia and Africa totalled 2.8 million hectares with most of that area being plantation forest, mainly consisting of tropical and sub-tropical coniferous species. Up to now there has not been any evidence of a significant amount of the tropical hardwoods coming under any system of certification which does not auger well for the future of reliable supply from these sources.

Taking the two largest certification systems in their turn reveals the following major differences in approach to certification.

THE PEFC SYSTEM

In 1998 small private forest owners in Nordic and Central Europe who were hostile to the FSC system set up an alternative certification system in Europe, known as the Pan European Forest Certification (PEFC) system, which unlike the FSC certification is based on individual member countries standards brought about by the National industry bodies in those countries arguing that the NGO's have too much control over the FSC. Through the development of their own certification, the European forestry industry groups hope to create an international alternative to the established FSC, basing its standards on the Helsinki Guidelines. However, that said the PEFC has come under heavy criticism from environmental NGO's in Europe for failing to deal with the environmental problems associated with forestry, particularly that of clear felling practices and the unregulated use of pesticides in the environment, and for the PEFC group generally weakening the participatory role of non-industry stakeholders in the certification process. Despite these criticisms in the year 2000 nearly all Finland's privately owned forests, 21.9 million hectares, were certified under the PEFC, together with 5.6 million hectares in Norway and 3 million hectares in Germany. This has resulted in a dramatic increase in supply of certified timber in Europe under this system, although overwhelmingly of softwoods.

THE FSC SYSTEM

The major world environmental NGO's are sceptical that the PEFC would be effective in representing wider stakeholder interests and have backed the FSC system. This is despite the fact they still view the FSC as a compromise between social, economic and environmental factors, but are willing to support it, because the FSC has one third of its representation from NGO's. This is seen as preferential to the PEFC, which offered just two of its eighteen seats on its national bodies to NGO's and which no NGO has taken up.

Without canvassing all the arguments, the FSC is seen being potentially compatible with the environmental management systems developed under the International Organisation for Standardisation (ISO), ISO 14001, this combined with external performance standards set by the FSC is seen as a way forward for a forest certification system.

THE AUSTRALIAN SITUATION

Australia is developing an Australian Forestry Standard aiming to provide a certification for all forestry types in Australia, which include plantations and native forests, as well as public and private forests. This standard is also being developed to ensure that issues unique to this country or regions are incorporated in the certification process and to overcome some of the perceived and real problems associated the FSC system.

The development of this standard will also include Australia's obligations under the Montreal Process and Indicators to which it is a signatory ensuring mutual recognition of the various schemes between countries. The Montreal and Helsinki Processes having observer status at each others meetings, differing from each other in that the indicators for the Montreal processes are described in much greater detail. The Montreal Process is a supporting document for the Helsinki Process, but gives greater credibility to the notion that these criteria can be used on a wider international scale, rather than just within the European Union.

Along with the ITTO and the Helsinki/Montreal Processes framework, it has been argued that this framework could provide a plan for the world's forests on its own, the ITTO being used for tropical forests and Helsinki/Montreal for the temperate and boreal forests, bringing into question the necessity and importance of the FSC and ISO global criteria, plus the generalisation of the FSC/ISO principles to all the worlds forests.

Notwithstanding the above several Australian producers have gained recognition and compliance under the ISO 9000 and 14000 series of standards seen as compatible with the objectives of the FSC system. Currently, one of Australia's large agribusiness and investment managers is pursuing certification of its forest estate of 96,0000 hectares through the FSC using ISO 14001 as its environmental and management standard.

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Other developments regarding certification of product include the appointment of an FSC representative since May this year to assist in implementing the FSC process in Australia and to lead to the creation of a fully-fledged initiative and national standards development process.

The Institute of Foresters Australia (IFA) supports the development and implementation of appropriate forest certification schemes for application in Australia, but does not express support for either of the major certification schemes. All that can be said at this time is that the debate regarding the most appropriate certification system for this country has only just begun between the various stakeholders.

Despite certification and labelling programs being developed under the FSC, PEFC and others and although traders and industrial buyers offer certified products in Northern Europe (UK, Netherlands and Germany), it is not yet a requirement of buyers, nor are they generally prepared to pay a price premium, unless it is a specialist niche market. Part of the problem stems from the fact that consumers have a low level of awareness of timber certification in terms of its meaning and purpose. Consumers are therefore unlikely to create a demand for certified products. This seems an odd situation when it is considered that part of the loss in market share for tropical timber exporting countries has been caused by negative public perceptions in their traditional markets arising from campaigns by NGO's linking tropical timber (hardwoods) consumption with tropical forest depletion particularly in Northern Europe. Notwithstanding, it is thought that demand will only increase if industrial buyers believe they will gain market advantage by offering certified timber and if sales actually confirm this belief.

This presents an opportunity for plantation grown tropical hardwoods through a well-directed marketing campaign aimed at particular niche markets to increase their market share by overcoming these negative perceptions.

CONSUMPTION

CHINA

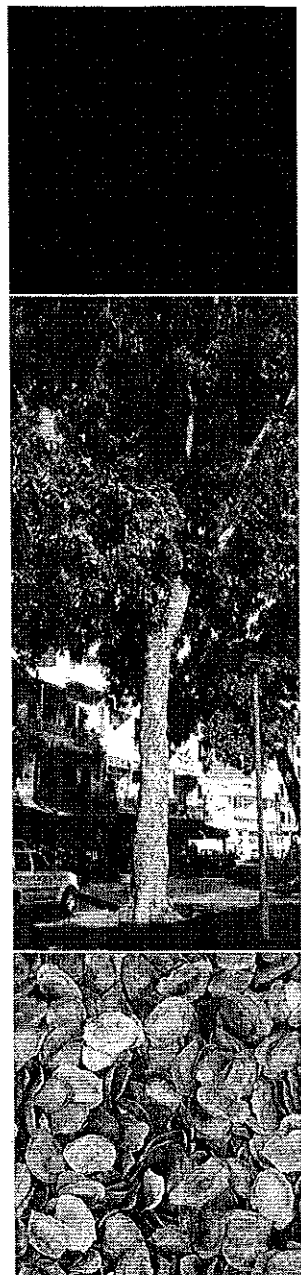
China's economy, which has now strengthened for the first time since its economic expansion peaked in 1992, is compounding the scarcity of tropical hardwoods. The gap between timber demand and supply in China is expected to widen for the foreseeable future. In 1999 China only produced 52 million m³ of commercial grade timber. In the year 2000 the figure dropped to 47.35 million m³ following the implementation of its National Forest Protection Plan (NFPP). In 1999 China's total import of log and sawnwood was 38 million m³, this figure being expected to increase concomitant with rising living standards and stricter controls on timber harvesting from its native forests. If China's pace of growth is maintained at present levels, its consumption of hardwoods would exceed Japan's average consumption over the past 35 years of 90 million cubic metres by an estimated nine times over the next 20 years which at present forestry resource levels is totally unsustainable.

THE EUROPEAN UNION

At its original size the EU had only 3% of the world's forest area, and was a leading producer of wood-based products, in particular panels, and other wood composites accounting for 38% and 37% of the value of world exports and imports of wood based products respectively. Sweden, Finland, Germany, France and Austria are among the world's top ten exporters of forest products, and Germany, the United Kingdom, France the Netherlands, Spain and Belgium/Luxembourg are among the top ten importers.

There has been a general decline in the importation of tropical primary products into Europe over the past decade, accompanied by a marked shift in the regions of supply. Accompanying this decline in primary imports there has been a marked shift in the level of imports of secondary processed products, which in 1998 accounted for a third of the value of all tropical products imported into Europe with this trend likely to continue.

The European market was also affected by the severe storm events from the December 1999 storms, resulting in devastating windthrow in France Germany, Switzerland, and Denmark.



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As a consequence there was an exceptional oversupply of sawn hardwood in 2000. In 2001 this led to a decrease in removals of 10% following the 11% increase experienced in 2000 creating some supply shortages, nonetheless there was still a 13% drop in exports accompanied by weak prices. This was the steepest fall since the first oil shocks in 1970's and the collapse of the Soviet Union in the early 1990's.

Not all the drop in exports was directly attributable to the windstorm's windthrow leading to oversupply in the European market, there are other underlying causes emerging, regarding the future viability of forestry management in Europe.

The European enlargement including Poland, the Czech Republic, Slovenia and Hungary is making its presence felt, for these countries, plus Slovakia, former Yugoslavia and Romania, have large forest resources with a substantial proportion of these resources being prime hardwoods such as oak, beech and birch. The current harvest levels in these countries are well within the allowable annual cut, and there is the potential for substantial increases in production. Low labour and wood costs, increasing Western European investment in these countries and their incorporation into the EU and Euro-zone make it likely that these countries will become even greater competitors with tropical timber exporting countries than they are at present. In general, standards of forest management are high and there should be no major difficulties in these forests becoming certified. Poland for example already has 2.7 million hectares of FSC-certified forest.

The shift of supply potential away from traditional tropical timber supply sources has brought profound changes to the market, which at present is unclear. At one extreme mutual recognition of standards and increased supplies of certified timber could result in most European timber supplies being certified more or less automatically. This could induce timber specifiers to stipulate certified timber as one of their requirements alongside grade, class, and mechanical properties for example. This in turn could make it difficult for non-certified timber to compete in the market further eroding the market for uncertified tropical timber.

At the other extreme buyers groups and companies fail to achieve any market advantage from certification and abandon specifying certified timber.

What we are dealing with is a market that is in flux and with potential new supply coming from within the expanded European common market resulting in a loss of market from traditional supply countries such as Africa and South East Asia.

Factors found to influence the loss of traditional markets for tropical timbers have been identified as: (FAO, 2003)

- Change in fashion from dark coloured species to lighter coloured species;
- Increased competition from other wood, as well as non-wood products (e.g. plastics in window manufacture);
- Reduced margins within the timber industry 'squeezing' tropical timber profitability;
- Policy changes by exporting countries (especially South-East Asia), shifting export emphasis from primary products (logs, sawn-wood, plywood and veneers) to secondary processed products (see above).

Notwithstanding the above, the same study also revealed some signs of optimism regarding the future supply of tropical timbers resulting from;

- The public perception of timber changing with wood products in general being seen by many as a 'green' material;
- Mounting concern over the environmental credentials of substitute materials, particularly plastics;
- There is some evidence suggesting a reversal in the trend for lighter coloured species with darker woods gaining popularity in some areas.

With the restrictions on log exports by producing countries and the development of processing industries in the exporting regions (often owned or managed by European companies), alongside cheaper labour supplies in producer countries compared to the relatively high labour and production costs in Europe, make imports of processed products more competitive. Where conversion does take place in Europe this is likely to become more specialised, with sawmills in the exporting countries producing more and more finished products for manufacturers for end users within Europe.

Overall, the future of tropical timbers in this market are seen to be in the maintenance of existing 'traditional' markets (joinery and furniture components) with the possible regaining of market share lost in recent years.

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The supply of plantation (and lesser known species) is likely to increase in the future. The opportunities for the marketing of these materials dependent on product development and value adding through the manufacture of secondary processed products by the exporting countries.

This represents an opportunity for sustainably managed plantation timbers to penetrate this market with specific value added products from sustainable Australian plantations to substitute for species such as Shorea spp., Lauan, Ramin and Kapur in increasingly short supply.

THE UNITED STATES OF AMERICA

The United States is the world's No.1 importer and No.2 exporter of forest products with total trade valued in the range \$US40-60 billion a year.

Although trade in timber has slowed following the general recession in the United States there is still a demand for high value hardwoods and in particular the mahoganies into this marketplace. This situation is not expected to change in the foreseeable future.

With the increase in price of broad-leaved mahogany and unreliable supply, the United States is currently importing increasing amounts of African mahogany, which is also in increasingly short supply and of variable quality from the source countries. This opens an opportunity for select-grade plantation timber from Australia to substitute for timber grown in Africa into this market

CONCLUSION AND PRICING

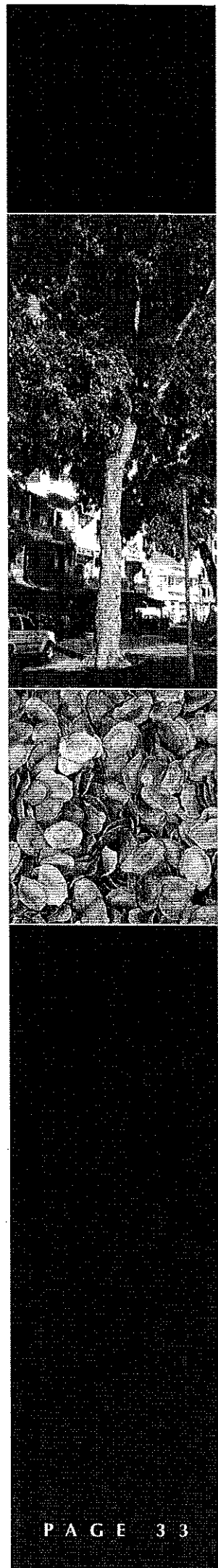
The growing world population primarily concentrated in the Asia Pacific region, concomitant with its expected future economic growth and raising of living standards is predicted to ensure increased demand for timber products, putting pressure on finding alternative sources of supply of substitutes for tropical timber currently supplied to the world market.

Coupled with the above is an increasing requirement from several markets such as some member states of the EU and increasingly the US for certification of the origin and a chain of custody being supplied for timber products, ensuring that they have been harvested from a legal and sustainable resource.

Based on these requirements, it is reasonable to assume that the special qualities of Khaya grown under plantation conditions are such, that it should be able to take a percentage and ultimately over the next eight years become a replacement for light rainforest timbers such as and in particular, Lauan and Ramin as these species become increasingly scarce in the world market.

Other issues to be considered are the high costs of production in some of the target markets such as the EC, leaving an opportunity for cheaper regions of production and value adding becoming more competitive in this market. This is of particular relevance, for with the adoption of a common currency in Europe by a majority of its member states, production costs could be expected to level out in the medium run cancelling out the comparative advantage enjoyed by the newly admitted eastern block countries.

The Euro gaining strength against the US dollar leaves growers and producers in this country in a competitive position despite the AUD's rise against the US dollar. Couple this with Australia's reputation for producing clean green product and having a technically advanced work force places it in a sound position to penetrate markets such as the EU with certified value added product at competitive prices.



PRICING

Current pricing data from Australian Importers and wholesalers of African and South American Mahogany are listed below:

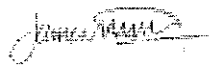
Fijian Brazilian Mahogany (Swietenia spp.) 50mm thick	AUD2,200.00m ³
Ghanaian Khaya – air dry FOB FAS select grade 50 mm thick	AUD 2,500.00m ³
Australian Khaya spp select grade 50mm Thick	AUD 2,200.00m ³

The above prices compare favourably with prices currently being achieved for native Australian cabinet grade timber species listed below.

Blackwood	AUD 1,150.00 – 2,500.00m ³
Crows Ash	AUD 2,400.00 – 2,800.00m ³
White Beech	AUD 2,300.00 – 3,000.00m ³

The conclusion is that Khaya spp will grow well and achieve commercial quantities of timber based on my knowledge of Khaya spp. and analysis of suitable environmental and marketing parameters existing in Australia for its propagation and sale.

I declare that this is an independent report, as I have no interest in Primary Securities Limited, Northern Tropical Timbers Pty Ltd, or in the Project.



Mr James Muir
MARKETING CONSULTANT

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CONSULTANT FORESTERS REPORT ON NTT MAHOGANY PROJECT

5 December 2003

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INTRODUCTION

The conservation revolution which has dominated world forestry during the past few decades has created a unique opportunity for reforestation in order to provide alternative timber resources for an ever increasing world population. In the past, timber plantations were established by forward-planning governments to augment local natural timber resources which were being diminished by logging and, more importantly, by the apparently insatiable desire for agricultural and horticultural land. It is curious to note that during the early 20th century, when these plantation projects commenced, the species chosen were almost exclusively exotics and this was a world phenomenon and not confined to Australia alone. That there should now be such strident opposition from so many diverse quarters to the use of exotics to replace the masses of forests now locked away is really quite surprising. It is also interesting and somewhat mystifying to observe that governments are now quite reluctant to provide much more than 'lip service' to the need to address the massive timber shortage created by the recent 'conserve at all cost' mentality which has created the deficit in timber resources.

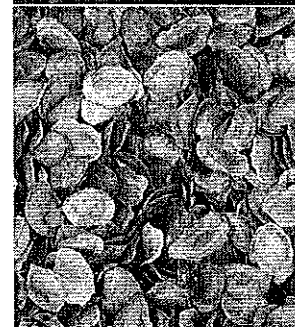
It is within this unusual situation that private enterprise has accepted the challenge and embarked on reforestation ventures throughout Australia. The majority of the plantations recently established have utilised native species, however, an increasing number are now employing exotic species, particularly high value cabinet wood species, to fill the void created by the World Heritage listing of Queensland's rain forests. The species being used are those with a relatively long history of research and development which provides an opportunity to minimise this expensive and often lengthy process. It also provides the freedom to employ such species with confidence and exceptionally low risk. It permits large scale plantation establishment using a species for which the essential optimal growth parameters are known.

Primary Securities Ltd (Responsible Entity) through Northern Tropical Timbers Pty Ltd (Plantation Manager) are to embark on such a Project which will establish a plantation utilising the valuable African mahogany species *Khaya senegalensis* and its close relatives. These species have a long history R & D throughout the world and Australia. It is with the knowledge gleaned from such studies that this project evolved. The Project will be managed by forestry staff with considerable forestry experience and expertise acquired through local rain forest management roles. These managers are also familiar with the location chosen for the Project.

Yulebar Enterprises is a specialist agroforestry consultancy practice with over 30 years experience in forestry and agroforestry. Mr Robin Yule, B.Sc., B.Sc.For., Dip.For., has an extensive background in forest research embracing forest pests, trees on farms, the irrigation of trees with domestic effluent and horticulture. Neither Mr Yule nor Yulebar Enterprises has any financial interest in this Project or the companies associated with it. No remuneration will be received other than consultancy fees at the normal rate for such services.

THE SPECIES

Khaya senegalensis [African mahogany] is a deciduous evergreen tree with a broad distribution in its native Africa and may be found throughout the central equatorial region from Sudan and Uganda in the east to Senegal, Sierra Leone and Gambia in the west. It is closely related to our own red cedar [*Toona ciliata*]. It has been planted as an exotic species in Australia, Cuba, India, Indonesia, Puerto Rico, Singapore, South Africa and Vietnam.



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Individual trees may be 30 meters tall with a log length of 8 –16 meters and a diameter of 1 meter. The sapwood is a pinkish tan in colour and the heartwood an attractive dark red-brown. It is a moderately dense timber with a density of 680 kilograms per cubic meter and is regarded as one of the hardest of the African mahoganies. The timber is quite stable when seasoned and may be used for furniture, high-class joinery, flooring, wood turning, veneer and boat building. It is stated in 'Agnote No.G25 [2002]' published by the Northern Territory Government, that the heartwood of the species "is categorised as durable [Class 2], highly resistant to decay when fully exposed to the weather, clear of the ground and well drained with free air circulation". The sapwood is susceptible to *Lyctus* beetle infestation and pre-treatment prior to sale would be obligatory [a simple and cheap dipping or pressure treatment process at the saw mill].

The wide distribution of the species in its native habitat does provide the opportunity to select potential planting material with a broad genetic base for this Project. The Plantation Manager has imported seed collected by Department of Forestry experts from a number of native stands in Ghana.

FIRST SITE

The first site for this Project [Elderslie] is located approximately 75 kilometers north of Cooktown to the south west of Cape Flattery. It is approximately 10 kilometers from the coast with the McIvor River comprising the southern and south western boundary of the property. The current licence for water harvesting from the McIvor River is 50000 gallons [0.225 megalitres] per hour during June to August. Application to extend the harvest period from May to August has been made and is likely to be successful. Since this is the 'dry season', it will provide an opportunity for irrigation when it is most likely to be needed. The Plantation Manager also plan to construct water storages in the natural drainage line through the middle of the property and these will provide additional insurance against drought.

While addressing the water issue it is important to recognise that the rainfall in this region is more reliable than in the drier regions of Australia. The average annual rainfall for the region is 1700 – 1800 mm with only a 10% chance that it may be no more than 1200 mm. Since the trees occur naturally in a zone where the mean annual rainfall may vary from 400 to 1750 mm, it is clear survival of the trees in this Project will not be compromised. The available irrigation water will compensate for any rainfall shortfall. It is also important to understand that irrigation does not mimic rainfall with the primary difference being atmospheric humidity. During dry periods the humidity is always low. This affects the physiological and metabolic processes in plants such that growth activity slows. Irrigation in these circumstances will ensure the trees survive but productivity will be affected.

Observations of the surrounding uncleared areas and the small area of forest remaining in the plantable section indicate that the original forest cover was typical lowland rain forest – mixed eucalypt forest. Red Cedar, the most valuable species in this forest type, is now quite rare, with large figs, black bean, eucalypts, ironwood and a plethora of vines other typical features. While they are valuable ecological floral and faunal forests, they were never highly productive timber sites compared with the more luxuriant rain forest of the nearby tablelands. It must also be clearly understood that all these forests have been logged for over a century with the most valuable species consistently removed as soon as they reached a merchantable size. Retention of the relatively small area of remnant lowland rain forest on the block is not planned in view of its productivity potential for *Khaya senegalensis* plantations.

The McIvor River channel is 15 –20 meters below the adjacent flood plain and this riparian area must remain undisturbed. It is a most attractive asset for the property and would provide wonderful amenity value, particularly when the river has a more normal flow.

The section of 'wallum' scrub in the south is unplantable and will remain essentially as it is. These soils, which appear to be soloths, are extremely prone to erosion and there is substantial evidence of deep gullies throughout this landscape. It will, therefore, be essential to maintain the vegetation cover and to ensure run-off from the road does not exacerbate the erosion. It would be appropriate to utilise part of this area as a water storage site. Of major concern in relation to this section of "wallum" is the fire risk. It will be absolutely essential to isolate the area from the plantation in such a way that wild fires will not threaten the Project. This may involve the need to consider a series of internal fire breaks as well as a primary fire break of 50 meters width between the 'wallum' zone and the plantation and ensure that it is regularly slashed.

The soils in the plantable area of the Elderslie site are of volcanic origin. Weathering of the original lava flows and sedimentary deposition has produced three primary soil as distinguished by colour and texture – grey/brown to reddish/brown silty light clays/clay loams, dark red/brown medium clays and a dark

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grey/black medium to heavy clay. Soil analyses reflect the past exploitation of these soils for crop production and indicate that many key elements, e.g. nitrogen, calcium, phosphorus and potassium, will need attention prior to plantation establishment. The relatively low pH's [4.7 - 6.1] will need particular attention. While it is known *Khaya* will tolerate highly acidic soils, it is also considered that optimal growth occurs in near neutral soils [pH 6.5 - 7.0] and the Plantation Manager will initiate a soil amendment program to achieve this status. This treatment will also assist in balancing the chemical elements of the soils which will greatly enhance nutrient uptake by the trees.

My initial inspection of the Elderslie site revealed no impediments to the successful cultivation of African mahogany. The specifics of plantation design will follow a detailed contour survey of the property.

PLANTING STOCK

The planting stock will be raised on site or be produced at a local nursery under contract from genotypes selected for specific characteristics such as log length, vigour, stem straightness, crown structure etc. Either approach will produce top quality seedlings for the Project.

The Plantation Manager proposes to adopt a nominal planting density of 408 stems per hectare.

SITE PREPARATION

Following the contour survey of the property it is proposed to broadly locate the major soil types on this map to facilitate the site preparation and plantation design strategies.

Having considered the primary elements of the soils, the landscape and the weather it will be appropriate for site preparation to incorporate deep ripping [to at least 1.0 metre] and cultivation [rotary hoeing or discing] of the planting lines. The planting lines will then be formed into mounds [raised beds] to facilitate water management and erosion control. There are machines regularly used in plantation site preparation which effectively create this planting profile as a one pass operation.

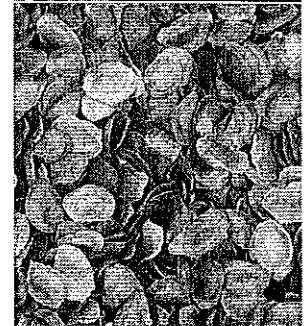
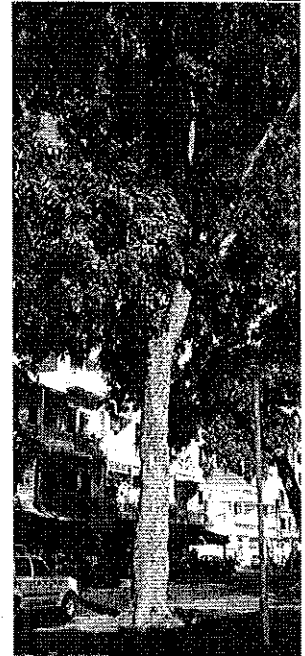
Prior to planting the irrigation mains and sub-mains will be located, with the laterals [the tree drip line system] set out following planting. The irrigation system will incorporate the facility to fertigate.

SILVICULTURAL STRATEGIES

Following site preparation and the application of any initial soil amendment required, planting may proceed and the irrigation laterals installed. [It would be appropriate to apply any soil amendments prior to the cultivation phase of site preparation so that they may be mixed into the soil and be immediately available to the seedlings.] Irrigation management will be a key parameter in maximizing the benefits of fertilization and it will be essential to monitor rainfall and soil moisture to ensure leaching from the root zone is minimised.

The planting density of 408 stems per hectare is an effective tree spacing of 7 meters x 3.5 meters i.e. 7 metres between each row and 3.5 metres between each tree. This will permit considerable management flexibility throughout the proposed rotation of 15 years, e.g. it is intended to non-commercially thin 50 % [204 stems] of the growing stock before year 6, commercially thin 50 % [102 stems] of the remaining stems at age 10 years and clear-fall the remainder [102 stems] at age 15 years. The impact of such a regime on yield is discussed in the following section.

Weed control will be a prominent component of management until canopy closure occurs. It is essential to minimise competition for nutrients and moisture during the first two years in particular by keeping an area of at least 1.5 meters radius around each tree weed free. The inter-row will be planted with a suitable cover crop and regularly slashed to limit erosion and to provide mulch. This mulch will enhance the soil structure through the incorporation of organic matter and improve soil moisture by reducing evaporation losses. Comparatively little



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is known about the suite of weeds that will be a potential nuisance in this region. It is apparent that a species known as 'sickle pod' will be a primary competitor at the outset and it will be essential to rapidly develop an economical control strategy for it while continuing to monitor other potential problem species.

There will be a need to prune the trees in order to develop long straight stems with a minimal knotty core. The usual rule of thumb in this context is to ensure that no more than one third of the crown is removed during this procedure. Adoption of this approach is recommended in order to limit its impact on productivity. It is unlikely the process should commence before age three or four except where it may be desirable to remove the odd branch to facilitate the safe use of machinery in the inter-rows.

The projected rotation length is 15 years after planting. It will be the Plantation Manager's role during the rotation to develop and adopt strategies and procedures that will permit the trees to achieve as nearly as is feasible optimal productivity. Since this is a comparatively new industry with very limited local knowledge on broad-acre timber production using African mahogany in this region, it is essential that the Plantation Manager adopts a proactive approach based on consistent science, monitoring and observation. The need to be flexible and in tune with the crop throughout the rotation will also be essential.

In order to monitor the productivity of the plantation and to objectively assess that the proposed strategies are adopted, it is proposed that I inspect the plantation twice each year. In order to monitor plantation performance I will establish up to 10 permanent increment plots that will be measured annually. An annual report on these inspections and measurements will be provided to the Responsible Entity for distribution to all Investors.

YIELDS

It is the Plantation Manager's objective to produce log timber from this Project through a commercial thinning at age 10 years after planting and a clearfall operation at age 15 years after planting. The projected yields are as follows:

	Dbhob [cms]	Log Length [m]	Log Volume [m ³]	Sawn Recovery [m ³]
1st thinning at year 10 [per tree]	38	6.0	0.58	0.30
Clearfall at year 15 [per tree]	50	7.0	1.24	0.60

- Dbhob – diameter over bark at breast height – 130cms from ground level
- Sawn Recovery – rough sawn volume based on 50% recovery from each log

Based on these data, the anticipated productivity would be approximately 180 – 185 m³ per hectare of log timber giving a rough sawn recovery of 90 – 92.5 m³ per hectare or 18 – 18.5 m³ per woodlot.

The estimated value of sawn African mahogany assessed on imports of similar products from throughout the world gives an indicative price of AUD \$2,200.00 per cubic metre. The limited resources of quality rain forest timbers and the continuing high demand for them would suggest this price is realistically achievable. The current costs associated with harvesting, milling and seasoning are estimated at \$400.00 per cubic metre and there will also be the need to accommodate transport cost to the nearest point of sale.

PROJECT RISKS

There are a number of key elements to assess when reviewing the risks associated with a project of this type. They include –

- Tree survival
- Climate
- Pests
- Fire
- Scale of operations
- Location

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TREE SURVIVAL

The Plantation Manager has agreed that if at 13 months from the completion of planting, the average number of Trees per Woodlot is less than 82, then the Plantation Manager will plant additional Trees so that there is an average of no less than 82 Trees per Woodlot on the Plantation. African mahogany has been planted in many locations throughout tropical north Queensland and in the Northern Territory with exceptional success considering the wide variations in soils and climate at these sites. The species is also regarded as highly tolerant to dry conditions. In these circumstances and considering the Plantation Manager's intention to adopt the silvicultural and management strategies outlined in this Product Disclosure Statement on a site which is eminently suited for the purpose, tree survival will not be a significant element.

CLIMATE

For the first time in perhaps a century all Australians have become acutely aware of the fact that Australia is the driest continent on earth. The very clear consequence of this is simply that no agricultural, horticultural or forestry pursuit will succeed without the provision of adequate water resources. The mean annual rainfall for the dry topics region of North Queensland is 1800 mm per annum and lowest recorded annual rainfall was 1200 mm. It is also interesting to note that during the drought of 2002 the McIvor River continued to flow. This would sustain the view that there are adequate water resources for the production of this crop at or near optimal conditions. The intention to construct water storages on the property to collect overland flow from a relatively large catchment area, together with the ability to augment this resource from the McIvor River or other water sources as necessary, essentially drought proofs the Project.

Hail and wind are other important but entirely unpredictable elements of the weather which are potentially damaging natural phenomenon.

Given the strategies to be adopted in this Project are approaching 'state of the art' forestry, the climatic risk has been reduced to elements that are beyond control.

PESTS

African mahogany is an exotic species and so far as is known has been successfully introduced to Australia without any of its native pests. While its history in this country is relatively short – some 30 years – there are no recorded instances of catastrophic insect or pathogen infestation. Continued vigilance will be necessary to ensure this situation continues although it must be stated that the need to employ control procedures should they be required is relatively easy in a monocultural crop such as this.

FIRE

It will be absolutely essential to protect the plantation from fire as rain forest species have exceptionally low tolerance to this element. A fire control strategy will be prepared by the Plantation Manager and the plantation design will incorporate adequate fire breaks to protect the trees. Suitable fire control equipment will be available on site if required and all staff will be regularly trained in its use and in routine fire control practices. The fire hazard posed by the 'wallum' section at the south of the property has been discussed above and will be catered for in the Forestry Management Plan.

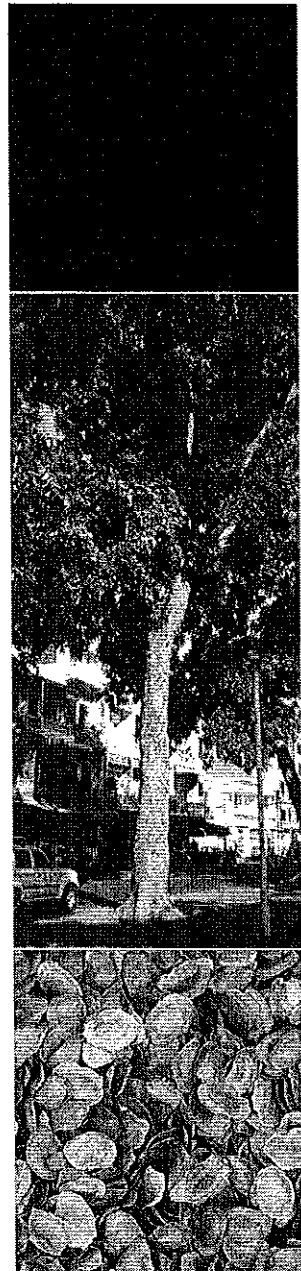
SCALE OF OPERATIONS

Total Plantation Area

The dimensions of this Project are considered to be of a magnitude to permit an economically viable operation. The forecasted plantation area will be 800 hectares and this will provide a profitable timber resource.

Minimum Subscription Area

The minimum subscription area of 90 hectares would yield an estimated 8.325m³ of timber on maturity and therefore would constitute an economically viable operation.



LOCATION

The distance of the Elderslie site from a major industrial or population centre must be considered a risk factor. While the costs of supervision and management may be more expensive than in many other localities, they should not have a negative impact on the Project's operation. It is also anticipated, based on local experience, that labour will not be difficult to obtain. In common with most rural regions there is a large pool of local unemployed from which suitable labour may be drawn as required.

Difficulties in transporting the product to market from the Elderslie site are not envisaged to be a major problem. Native forest logging is an active industry in the vicinity of the Elderslie site and will provide the logistics necessary to transport the product to saw mills and to market. It is also anticipated the road from Mareeba to Cooktown will be fully sealed by the time the need for product transport occurs. The timing of logging activities will be planned to avoid the 'wet season'.

FURTHER SITE SELECTION

Additional sites for the NTT Mahogany Project must first satisfy the ecological, climate and silvicultural requirements of *Khaya senegalensis* prior to being approved for the purpose. The criteria used in assessing a site include:

- Rainfall
- Topography and slope
- Aspect
- Soil types
- Drainage patterns
- Adequate water sources at a potential site
- Existing water licence or subject to the granting of a water licence sufficient for planting requirements
- Proximity to major roads
- Standard of access to major roads
- Proximity to markets, ports and end users
- Economic viability of each site
- Environmental considerations
- Access to a local labour resource

CONCLUSIONS

In assessing this Project and having inspected the Elderslie site I am satisfied the Responsible Entity and Plantation Manager have considered all the key facets relevant to meeting Plantation yield expectations. The management strategies proposed meet the specific needs of the target species and accommodate those of the investors in that their aim is to produce an economically sound operation.

The first site chosen for this Project satisfies the ecological, climatic and silvicultural requirements of *Khaya senegalensis* and its close relatives. Further sites will be first inspected and certified as being suitable for the purpose before being approved.

The available evidence and the advice from experts in this field indicate the Project will be established in an appropriate manner on a site suited for the purpose. It will also provide a valuable timber resource to assist in reducing this Nation's dependence on overseas timber supplies to meet the demand for rain forest species now preserved in perpetuity through the World Heritage listing of these forests.

It is my opinion, as the Consultant Forester, that the silvicultural and management strategies outlined in this report will ensure the Plantation meets yield expectations. I act in no other capacity for the Responsible Entity or Plantation Manager and accept no responsibility for information in this Product Disclosure Statement other than that contained in this report. I have been engaged to certify that prospective sites chosen for the purpose outlined in this Product Disclosure Statement will be suitable for that purpose. I have also been engaged to monitor the productivity of the site throughout the term of the rotation and to prepare reports to ensure Investors are independently informed of the progress of the project annually. I have no financial interest in the project or the Companies associated with it. I receive remuneration at the accepted consultancy rates for any work I undertake for the Responsible Entity.

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CONSULTANT FORESTERS REPORT

CREDENTIALS AND DATA SOURCES

Yulebar Enterprises was established in July 1992. The responsible entities in the business are Mrs Barbara Yule and myself. The charter of the business is to provide agroforestry consultative services to a standard which meets the aspirations of our clients.

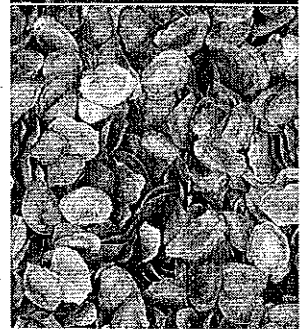
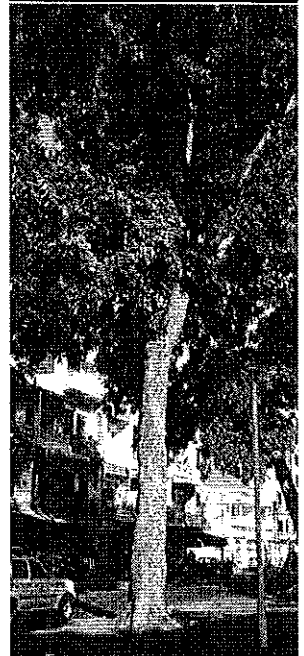
Mr Robin Yule is a graduate Forester and graduate Entomologist with 37 years experience in forest research, forest management and forest research management. During this period Mr Yule has visited China, U.S.A., India, Nepal, New Zealand and South Africa to investigate a wide range of forestry related issues. While managing the Forest Research Institute, Gympie Mr Yule was involved with the preparation and supervision of several projects targeting the potential of a range of native Australian species and exotic species for reforestation in sub-tropical and tropical Africa, Indonesia and southern China. Since retirement from the Department of Forestry in 1991, Mr Yule has established a mango orchard comprising 1200 producing trees and a fruit packing and marketing facility which services the Cooloola region of the Sunshine Coast. In addition to these activities the consultancy business has provided forestry and agroforestry services to a wide range of clients during the past 13 years.

The data sources used in the preparation and assessment of this report include:

- World Agroforestry Centre – Agroforestry Database
- Robertson, B. [2002] Agnote No. G25 – Growing African Mahogany in Northern Australia.
- Australian Forest Product Statistics – Australian Bureau of Agricultural and Resource Economics.
- Several unpublished reports on native and exotic tropical species trials established by the Queensland Department of Forestry.



Robin Yule
Manager
YULEBAR ENTERPRISES



Section 11

ATO PRODUCT RULING 2003/67

PREAMBLE

The number, subject heading, and the What this Product Ruling is about (including Tax law(s), Class of persons and Qualifications sections), Date of effect, Withdrawal, Arrangement and Ruling parts of this document are a 'public ruling' in terms of Part IVAAA of the Taxation Administration Act 1953. Product Ruling PR 1999/95 explains Product Rulings and Taxation Rulings TR 92/1 and TR 97/16 together explain when a Ruling is a public ruling and how it is binding on the Commissioner.

NO GUARANTEE OF COMMERCIAL SUCCESS

The Australian Taxation Office (ATO) **does not** sanction or guarantee this product. Further, we give no assurance that the product is commercially viable, that charges are reasonable, appropriate or represent industry norms, or that projected returns will be achieved or are reasonably based.

Potential participants must form their own view about the commercial and financial viability of the product. This will involve a consideration of important issues such as whether projected returns are realistic, the 'track record' of the management, the level of fees in comparison to similar products, how the product fits an existing portfolio, etc. We recommend a financial (or other) adviser be consulted for such information.

This Product Ruling provides certainty for potential participants by confirming that the tax benefits set out below in the **Ruling** part of this document are available, **provided** that the arrangement is carried out in accordance with the information we have been given, and have described below in the **Arrangement** part of this document.

If the arrangement is not carried out as described below, participants lose the protection of this Product Ruling. Potential participants may wish to seek assurances from the promoter that the arrangement will be carried out as described in this Product Ruling.

Potential participants should be aware that the ATO will be undertaking review activities to confirm the arrangement has been implemented as described below and to ensure that the participants in the arrangement include in their income tax returns income derived in those future years.

TERMS OF USE OF THIS PRODUCT RULING

This Product Ruling has been given on the basis that the person(s) who applied for the Ruling, and their associates, will abide by strict terms of use. Any failure to comply with the terms of use may lead to the withdrawal of this Ruling.

WHAT THIS PRODUCT RULING IS ABOUT

1. This Ruling sets out the Commissioner's opinion on the way in which the 'tax law(s)' identified below apply to the defined class of persons, who take part in the arrangement to which this Ruling relates. In this Ruling this arrangement is sometimes referred to as the 'NTT Mahogany Project', or just simply as 'the Project'.

TAX LAW(S)

2. The tax laws dealt with in this Ruling are:
 - Section 6-5 of the *Income Tax Assessment Act 1997* (ITAA 1997);
 - Section 8-1 (ITAA 1997);
 - Section 17-5 (ITAA 1997);
 - Division 27 (ITAA 1997);
 - Division 35 (ITAA 1997);
 - Division 328 (ITAA 1997);
 - Section 82KL of the *Income Tax Assessment Act 1936* (ITAA 1936);
 - Section 82KZL (ITAA 1936);
 - Sections 82KZME - 82KZMF (ITAA 1936);
 - Section 82KZMG (ITAA 1936); and
 - Part IVA (ITAA 1936).

GOODS AND SERVICES TAX

3. All fees and expenditure referred to in this Ruling include the Goods and Services Tax (GST) where applicable. In order for an entity (referred to in this Ruling as a 'Grower') to be entitled to claim input tax credits for the GST included in its expenditure, it must be registered or required to be registered for GST and hold a valid tax invoice.

CHANGES IN THE LAW

4. The Government is currently evaluating further changes to the tax system in response to the Ralph Review of Business Taxation and continuing business tax reform is expected to be implemented over a number of years.

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ATO PRODUCT RULING 2003/67

Although this Ruling deals with the taxation legislation enacted at the time it was issued, later amendments may impact on this Ruling. Any such changes will take precedence over the application of this Ruling and, to that extent, this Ruling will be superseded.

5. Taxpayers who are considering participating in the Project are advised to confirm with their taxation adviser that changes in the law have not affected this Product Ruling since it was issued.

NOTE TO PROMOTERS AND ADVISERS

6. Product Rulings were introduced for the purpose of providing certainty about tax consequences for participants in projects such as this. In keeping with that intention the Tax Office suggests that promoters and advisers ensure that participants are fully informed of any legislative changes after the Ruling is issued.

CLASS OF PERSONS

7. The class of persons to whom this Ruling applies is those who are more specifically identified in the Ruling part of this Product Ruling and who enter into the arrangement described below on or after the date this Ruling is made. They will have a purpose of staying in the arrangement until it is completed (i.e. being a party to the relevant agreements until their term expires), and deriving assessable income from this involvement as set out in the description of the arrangement. In this Ruling, each of these persons are referred to as 'Growers'.
8. The class of persons to whom this Ruling applies does not include persons who intend to terminate their involvement in the arrangement prior to its completion, or who otherwise do not intend to derive assessable income from it. Growers who elect to harvest and market their own timber produce are also excluded from the class of persons to whom this Ruling applies.

QUALIFICATIONS

9. The Commissioner rules on the precise arrangement identified in the Ruling. If the arrangement described in the Ruling is materially different from the arrangement that is actually carried out, the Ruling has no binding effect on the Commissioner. The Ruling will be withdrawn or modified.
10. A Product Ruling may only be reproduced in its entirety. Extracts may not be reproduced. As each Product Ruling is copyright, apart from any use as permitted under the *Copyright Act 1968*, no Product Ruling may be reproduced by any process without prior written permission from the Commonwealth. Requests and inquiries concerning reproduction and rights should be addressed to:

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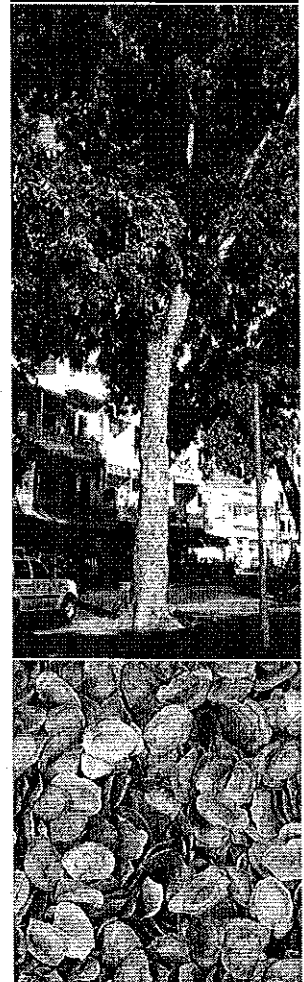
or by e-mail: commonwealth.copyright@dcita.gov.au.

DATE OF EFFECT

11. This Ruling applies prospectively from 12 November 2003, the date this Ruling is made. However, the Ruling does not apply to taxpayers to the extent that it conflicts with the terms of settlement of a dispute agreed to before the date of issue of the Ruling (see paragraphs 21 and 22 of Taxation Ruling TR 92/20).
12. If a taxpayer has a more favourable private ruling (which is legally binding), the taxpayer can rely on the private ruling if the income year to which the private ruling relates has ended, or has commenced but not yet ended. However, if the arrangement covered by the private ruling has not begun to be carried out, and the income year to which it relates has not yet commenced, this Ruling applies to the taxpayer to the extent of the inconsistency only (see Taxation Determination TD 93/34).

WITHDRAWAL

13. This Product Ruling is withdrawn and ceases to have effect after 30 June 2007. The Ruling continues to apply, in respect of the tax law(s) ruled upon, to all persons within the specified class who enter into the specified arrangement during the term of the Ruling. Thus, the Ruling continues to apply to those persons, even following its withdrawal, who entered into the specified arrangement prior to withdrawal of the Ruling. This is subject to there being no change in the arrangement or in the persons' involvement in the arrangement.



ARRANGEMENT

14. The arrangement that is the subject of this Ruling is described below. This arrangement incorporates the following documents:
- Application for Product Ruling dated 19 June 2003, received 24 June 2003 and additional correspondence, including emails, received 10 September 2003, 9 October 2003 and 29 October 2003;
 - Draft Product Disclosure Statement (PDS) for the NTT Mahogany Project to be issued by Primary Securities Ltd ('Responsible Entity'), dated 17 September 2003, received 29 October 2003;
 - Draft Constitution for the NTT Mahogany Project, dated 13 October 2003;
 - Draft Project Operations Agreement between Primary Securities Ltd and the Grower, undated, received 29 October 2003;
 - Draft Licence Agreement between NTT Land Holdings (the Licensor), Primary Securities Ltd and the Grower, received 29 October 2003;
 - Draft Standing Offer – Licence between Primary Securities Ltd and NTT Land Holdings Pty Ltd (the land owner), received 20 June 2003;
 - Responsible Entity Services Agreement between Northern Tropical Timbers Pty Ltd (Plantation Manager) and Primary Securities Ltd, dated, 11 December 2002;
 - Draft Forestry Management Plan, dated 18 August 2003, received 10 September 2003;
 - Draft Management Agreement between Primary Securities Ltd and Northern Tropical Timbers Pty Ltd, received 10 September 2003; and
 - Draft Compliance Plan for the NTT Mahogany Project, dated 28 January 2003, received 24 June 2003.
- Note: certain information has been provided on a commercial-in-confidence basis and will not be disclosed or released under Freedom of Information legislation.*
15. The documents highlighted are those that Growers may enter into. For the purposes of describing the arrangement to which this Ruling applies, there are no other agreements, whether formal or informal, and whether or not legally enforceable, which a Grower, or any associate of a Grower, will be a party to, which are a part of the arrangement to which this Ruling applies.
16. All Australian Securities and Investment Commission (ASIC) requirements are, or will be, complied with for the term of the agreements. The effect of these agreements is summarised as follows.

OVERVIEW

17. This arrangement is called the NTT Mahogany Project. The salient features are as follows:

Location	Cape York region in North Queensland and the Northern Savanna region in the Northern Territory.
Type of business each participant is carrying on	Commercial growing and cultivation of <i>Khaya senegalensis</i> (African Mahogany) for the purpose of producing timber.
Number of hectares offered for cultivation	800
Minimum allocation	2 Woodlots
Size of each Woodlot	0.2 hectares
Number of trees established	408 trees per hectare planted.
The term of the Project	Approximately 16 years
Initial cost per woodlot	\$3,366
Initial cost per hectare	\$16,830
	Ongoing and other costs per woodlot
	Ongoing Licence Fee of \$68.75, indexed after 1 July 2006
	Management Fee of \$715 from Plantation Establishment to the end of that financial year.
	Ongoing Management Fee of \$495 indexed after 1 July 2006
	Potential Performance Bonus
	Costs of harvest and sale payable out of harvest proceeds
	Marketing Fee of 5% of net harvest proceeds

Section 11

ATO PRODUCT RULING 2003/67

18. The Project will be registered as a Managed Investment Scheme under the *Corporations Act*. The Responsible Entity for the Project is Primary Securities Ltd. The Project will be conducted on land located near Cooktown in far north Queensland on a property known as 'Elderslie'. Elderslie is described as the whole of the land of Lot 176 on Crown Plan BS24, County of Banks, Parish of McIvor and on further land that will be acquired in the Cape York region of North Queensland or in the Northern Savanna region in the Northern Territory.
19. This offer pertains to 4,000 Woodlots of 0.2 hectares each. There is a minimum subscription of 450 Woodlots for this Project. Growers must subscribe for a minimum of two Woodlots. However, the Responsible Entity has discretion to accept applications for less than two Woodlots (Clause 3 of the Constitution).
20. Growers participating in the arrangement will enter into a Licence Agreement. Under this Agreement, Growers licence an area of land called a 'Woodlot' for a term of approximately 16 years for the purpose of Tree Farming. Each Woodlot will be planted with Mahogany seedlings at the rate of 408 trees per hectare.
21. Under this offer, Growers may enter the Project in either the 2003/2004 income year or the 2004/2005 income year. Growers who are allotted Woodlot/s during the year ended 30 June 2004 are defined as '2004 Growers' for the purpose of this ruling. Growers who are allotted Woodlot/s during the year ended 30 June 2005 are defined as '2005 Growers'.
22. The Growers will also enter into a contract with the Responsible Entity for the management of their Woodlot. The Responsible Entity contracts the Plantation Manager to provide these services. The Plantation Manager will be responsible for establishing and cultivating the Trees. Growers may elect to harvest and sell their own timber by notice in writing to the Responsible Entity by 30 June 2005. Alternatively, the Responsible Entity will harvest and sell the timber on their behalf. A non commercial thinning of 204 Trees per hectare will be undertaken prior to year 6. Harvests are expected to take place when the Trees are aged 10, and 15 years.
23. The Responsible Entity will only accept applications made by Growers where Subscription Monies are paid in full. However, a 2004 Grower only, may elect to pay half of the Subscription Monies with the application and pay the balance by 31 December 2004.
24. Growers will execute a Power of Attorney enabling the Responsible Entity to act on their behalf as required when they make an application for a Woodlot. This will include the execution of the Licence and Project Operations Agreement.

CONSTITUTION

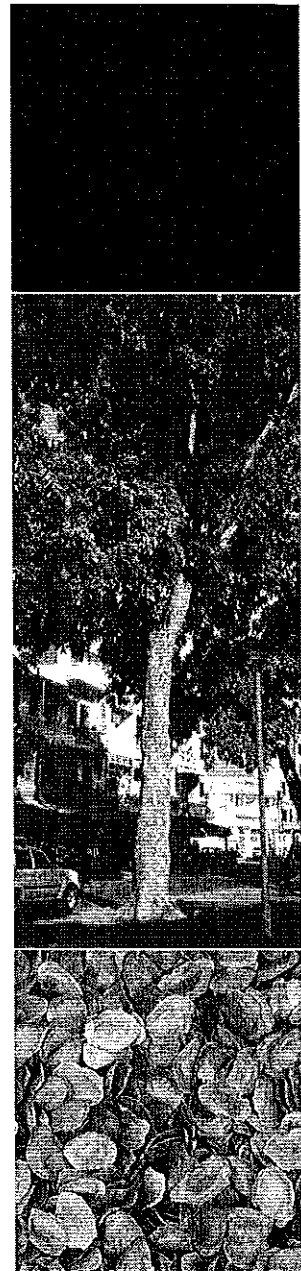
25. The Constitution establishes the Project and operates as a deed binding on all of the Growers and the Responsible Entity. The Constitution sets out the terms and conditions under which Primary Securities Ltd agrees to act as Responsible Entity and thereby manage the Project. The Licence and the Project Operations Agreement will be executed on behalf of a Grower following acceptance of the application by the Responsible Entity. Growers are bound by the Constitution by virtue of their participation in the Project.

COMPLIANCE PLAN

26. As required by the *Corporations Act*, a Compliance Plan has been prepared by Primary Securities Ltd. Its purpose is to ensure that the Responsible Entity manages the Project in accordance with its obligations and responsibilities contained in the Constitution and that the interests of Growers are protected.

LICENCE

27. Primary Securities Ltd procures the land from the land owner, NTT Landholdings Pty Ltd, a Standing Offer to enter into the Licence. Growers participating in the arrangement will then enter into a Licence Agreement with Primary Securities Ltd in its capacity as Responsible Entity and NTT Land Holdings Pty Ltd. Growers are granted a Licence to use their Woodlot for the purpose of conducting their afforestation business upon the terms and conditions as set out in the Licence. The Licence will commence on the date Woodlots are allotted to Growers and will continue until the completion of the final harvest in approximately 16 years.
28. Each Grower must pay a Licence Fee to the Licensor during the Term of the Project being an amount specified in Item 5 of the Schedule to the Licence Agreement (see paragraph 34).



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PROJECT OPERATIONS AGREEMENT

29. The Project Operations Agreement is between the Grower and Primary Securities Ltd as the Responsible Entity. Each Grower agrees to engage the Responsible Entity of the Project to perform services under the Agreement. The Responsible Entity may arrange for a contractor to carry out some or all of these duties. The Responsible Entity, by execution of the Management Agreement, contracts Northern Tropical Timbers Pty Ltd to manage the Woodlots.
30. The Project Operations Agreement sets out all the services to be performed under this agreement. The Plantation Establishment Services are defined as all services to be performed under the Project Operations Agreement relevant to the main planting and establishment of the Trees on the Woodlots. These include:
- tending to the seedlings prior to planting;
 - ripping;
 - mounding;
 - applying fertiliser or herbicide to the seedlings prior to and during planting; and
 - planting the seedlings.
31. The Plantation Establishment Services will be completed by:
- 30 September 2004 for applications accepted by 30 June 2004;
 - 30 June 2005 for applications accepted between 1 July 2004 and 30 March 2005; and
 - 30 September 2005 for applications accepted between 1 April 2005 and 30 June 2005.
- This is set out in The Forestry Management Plan.
32. The Plantation Manager will perform the ongoing services required to carry out a business of tree farming. These services include:
- tending to the Trees according to the principles of good forestry; including such nutrient analysis, pruning, fertilising and fumigating, as the Plantation Manager deems appropriate to promote tree growth and yields;
 - maintaining and repairing the irrigation system and such roads and fences as exist on the Land and otherwise keep the Woodlots in good and substantial repair and condition;
 - managing the Tree crop in accordance with the Forestry Management Plan; and
 - determining the harvest schedule and manage each harvest.

MANAGEMENT AGREEMENT

33. The Management Agreement is between Primary Securities Ltd as the Responsible Entity and Northern Tropical Timbers Pty Ltd as Plantation Manager. This Agreement appoints Northern Tropical Timbers Pty Ltd to perform the obligations of the Responsible Entity under the Project Operations Agreement.

FEEES

34. The fees payable under the Licence and the Project Operations Agreement on a per Woodlot basis are as follows:
- Licence Fee of \$68.75 on Application for a twelve month period from the Anniversary Date of Allotment. It is payable annually. The amount will be indexed by 3% per annum or the increase in the Consumer Price Index, whichever is the greater; and
 - Management Fee of \$3,297.25 payable on application. \$715 payable within 30 days of completion of the Plantation Establishment Services until the end of that financial year. Thereafter, an annual fee of \$495. The amount will be indexed by 3% per annum or the increase in the Consumer Price Index, whichever is the greater.

OTHER FEES

35. The Grower is also required to pay a Performance Fee to the Responsible Entity if the average sawn timber per woodlot exceeds 18.5m³. (Clause 4.1(d) of the Projects Operations Agreement).

PAYMENT OF FEES

36. Upon signing an Application Form, the Grower acknowledges that the full amount of the Subscription Money is immediately due and payable. All amounts are expressed on a per Woodlot basis.

Growers who enter the project on or before 30 June 2004

- \$3,366 payable on application. A grower can elect to pay in full on application or \$1,683 on application and \$1,683 by 31 December 2004;
- \$715 Management Fee payable within 30 days of completion of the Plantation Establishment Services;
- \$495 Management Fee payable annually from 1 July 2005. This amount is subject to indexation; and
- \$68.75 Licence Fee payable every twelve months on the Anniversary Date of Allotment. This amount is subject to indexation.

Section 11

ATO PRODUCT RULING 2003/67

Growers who enter the project after 30 June 2004 and on or before 31 March 2005

- \$3,366 payable on application;
- \$715 Management Fee payable within 30 days of completion of the Plantation Establishment Services;
- \$495 Management Fee payable annually from 1 July 2006. This amount is subject to indexation; and
- \$68.75 Licence Fee payable every twelve months on the Anniversary Date of Allotment. This amount is subject to indexation.

Growers who enter the project between 1 April 2005 and 30 June 2005

- \$3,366 payable on application;
- \$715 Management Fee payable within 30 days of completion of the Plantation Establishment Services;
- \$495 Management Fee payable annually on 1 July 2006. This amount is subject to indexation; and
- \$68.75 Licence Fee payable every twelve months on the Anniversary Date of Allotment. This amount is subject to indexation.

PLANTING

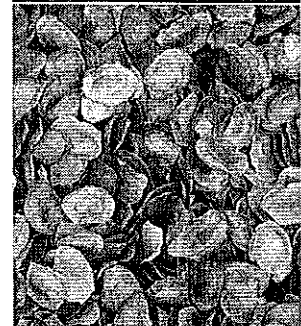
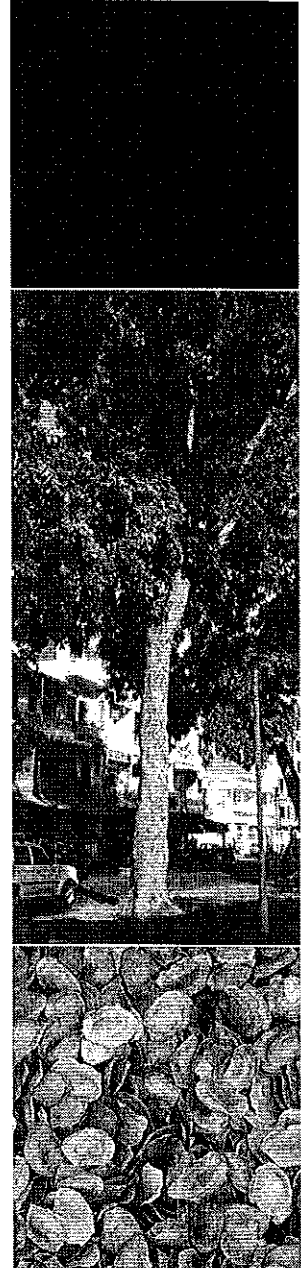
37. Under the Project Operations Agreement the Grower agrees to engage the Responsible Entity to select and purchase plant-stock to enable the cultivation of trees. During the Plantation Establishment Period, the Plantation Manager will plant sufficient Trees to an average of 82 trees per Woodlot. The Plantation Manager will conduct a survival count within 13 months of planting the Mahogany Trees and replant as necessary. The Manager will then maintain the Trees in accordance with the principles of good forestry.

HARVESTING AND MARKETING

38. The Grower has an interest in the Mahogany Trees to be planted on the Woodlot and a right to the Timber from those Trees. Harvesting will take place as and when deemed appropriate by the Responsible Entity and the Plantation Manager in producing the best overall result for the Grower. The Manager expects to conduct non-commercial thinning of 204 Trees per hectare in year 6 and a harvest of 102 Trees per hectare in year 10. The remaining Trees (approximately 102 per hectare) will be harvested in the final year of the Project.
39. The proceeds from sale of the Grower's Timber will be paid direct to the Responsible Entity which must then be deposited into a Trust Account. Proceeds received by the Responsible Entity are to be distributed in the following order of priority:
- to pay the Adjusted Prescribed Proportion of the costs of sale (unless the Grower has made an election to sell their Timber under the Projects Operations Agreement);
 - to pay to the Responsible Entity any outstanding Project Fees or other fees (including the marketing fee), costs, interest or taxes owing by the Grower to the Responsible Entity under the Constitution;
 - to pay to the Responsible Entity a reasonable estimate of the following 12 months estimated project fees that may be required;
 - to pay the Plantation Manager any amounts due under the Project Operations Agreement;
 - to pay any amounts due to the Licensor under the Licence; and
 - distribute the balance to the Grower provided that if the aggregate sum to be distributed to all of the Growers is less than \$1,000, then, at the discretion of the Responsible Entity, distribution may be postponed (clause 12 of the Constitution).

FINANCE

40. Growers can fund their participation in the Project themselves or borrow from an independent lender.
41. This Ruling does not apply if a Grower enters into a finance agreement that includes or has any of the following features:
- there are split loan features of a type referred to in Taxation Ruling TR 98/22;
 - there are indemnity arrangements or other collateral agreements in relation to the loan designed to limit the borrower's risk;
 - 'additional benefits' will be granted to the borrowers for the purpose of section 82KL, or the funding arrangements transform the Project into a 'scheme' to which Part IVA may apply;
 - the loan terms or rate of interest are of a non-arm's length nature;



- repayments of the principal and interest are linked to the derivation of income from the Project;
- the funds borrowed, or any part of them, will not be available for the conduct of the Project but will be transferred (by any mechanism) back to the lender or any associate;
- lenders do not have the capacity under the loan agreement, or a genuine intention, to take legal action against defaulting borrowers; or
- entities associated with the Project are involved in the provision of finance for the Project.

RULING

APPLICATION OF THIS RULING

42. This Ruling applies only to Growers who are accepted to participate in the Project:
- on or before 30 June 2004 where the Grower has executed Licence and Management Agreements on or before that date (2004 Growers); and
 - on or before 30 June 2005 where the Grower has executed Licence and Management Agreements on or before that date (2005 Growers).

MINIMUM SUBSCRIPTION

43. The Grower's participation in the Project must constitute the carrying on of a business of primary production. A Grower is not eligible to claim any tax deductions until the Grower's application to enter the Project is accepted and the Project has commenced. Under the terms of the PDS, a Grower's application will not be accepted and the Project will not proceed until the minimum subscription of 450 Woodlots is achieved.

THE SIMPLIFIED TAX SYSTEM ('STS')

Division 328

44. For a Grower who is accepted into this Project, the recognition of income and the timing of tax deductions will depend upon whether, in an income year(s), the Grower is an 'STS taxpayer' or is not an 'STS taxpayer'. To be an 'STS taxpayer' a Grower:
- must be eligible to be an 'STS taxpayer'; and
 - must have elected to be an 'STS taxpayer'.

QUALIFICATION

45. This Product Ruling assumes that a Grower who is an 'STS taxpayer' is so for the income year in which their participation in the Project commences. A Grower may become an 'STS taxpayer' at a later point in time. Also, a Grower who is an 'STS taxpayer' may choose to stop being an 'STS taxpayer', or may cease to be eligible to be an 'STS taxpayer' during the term of the Project. These are contingencies relating to the circumstances of individual Growers that cannot be accommodated in this Ruling. Such Growers can ask for a private ruling on how the taxation legislation applies to them.

TAX OUTCOMES FOR GROWERS WHO ARE NOT 'STS TAXPAYERS'

Assessable Income

Section 6-5

46. That part of the gross sales proceeds from the Project attributable to the Grower's produce, less any GST payable on those proceeds (section 17-5), will be assessable income of the Grower under section 6-5.
47. The Grower recognises ordinary income from carrying on the business of afforestation at the time that income is derived.

Deductions for Management Fee and Licence Fee

Section 8-1

48. A Grower who is not an 'STS taxpayer' may claim tax deductions under section 8-1 of the ITAA 1997, for the revenue expenses in the following Tables.

2004 Growers Per Woodlot Basis

Fee Type	ITAA 1997 Section	Year Ended 30 June 2004	Year Ended 30 June 2005	Year Ended 30 June 2006
Management Fee	8-1	\$3,297.25 See notes i), ii) & iii)	\$715 See note i) & iii)	\$495 See note i) & iii)
Licence	8-1	\$68.75 See notes i) & iv)	\$68.75 See notes i) & iv)	\$68.75 See notes i) & iv)

Section 11

ATO PRODUCT RULING 2003/67

2005 Growers Per Woodlot Basis

Fee Type	ITAA 1997 Section	Year Ended 30 June 2004	Year Ended 30 June 2005	Year Ended 30 June 2006
Management Fee	8-1	\$3,297.25 See notes i), ii) & iii)	\$715 See note i) & iii)	\$495 See note i) & iii)
Licence	8-1	\$68.75 See notes i) & iv)	\$68.75 See notes i) & iv)	\$68.75 See notes i) & iv)

Notes:

- i) If the Grower is registered or required to be registered for GST, amounts of outgoing would need to be adjusted as relevant for GST (e.g. input tax credits): Division 27. See Example 1 at paragraph 113
- ii) The first year Management Fee is expenditure for 'seasonally dependent agronomic activities' and is deductible in the income year in which it is incurred (see paragraphs 85 to 89 in the Explanation)
- iii) Where a Grower who is not an 'STS taxpayer', pays the Management Fee in the relevant income years shown in the Project Operations Agreement, those fees are deductible in full in the year that they are incurred. However, if a Grower **chooses** to prepay fees for the doing of a thing (e.g. the provision of management services or the leasing of land) that will not be wholly done in the income year the fees are incurred, the prepayment rules of the ITAA 1936 may apply to apportion those fees. In such cases, the tax deduction for the prepaid fee must be determined using the formula shown in paragraph 83 unless the expenditure is 'excluded expenditure'. For the purpose of this Ruling 'excluded expenditure' refers to an amount of expenditure of less than \$1,000, and
- iv) Where a Grower who is not an 'STS taxpayer', pays the Licence Fee in the relevant income years shown in the Licence, those amounts are a prepayment. The prepayment rules of the ITAA 1936 may apply to apportion those fees. In such cases, the tax deduction for the prepaid fee must be determined using the formula shown in paragraph 83 unless the expenditure is 'excluded expenditure'. For the purpose of this Ruling the Licence Fee is excluded expenditure as it is an amount of expenditure of less than \$1,000, where the Grower purchases 14 Woodlots or less. See Example 2 at paragraph 113.

TAX OUTCOMES FOR GROWERS WHO ARE 'STS TAXPAYERS'

Assessable Income

Section 6-5 and Section 328-105

49. That part of the gross sales proceeds from the Project attributable to the Grower's produce, less any GST payable on those proceeds (section 17-5), will be assessable income of the Grower under section 6-5.
50. The Grower recognises ordinary income from carrying on the business of afforestation at the time that income is received (paragraph 328-105(1)(a)).

Deductions for Management Fee and Licence Fee

Section 8-1 and section 328-105

51. A Grower who is an 'STS taxpayer' may claim tax deductions for the revenue expenses in the following Table. Deductions will be available in accordance with the year in which the Grower commences participation in the Project.
52. If, for any reason, an amount shown in the Table below is not fully paid in the year in which it is incurred by a Grower who is an 'STS taxpayer', then the amount is only deductible to the extent to which it has been paid, or has been paid for the Grower. Any amount or part of an amount shown in the Table below which is not paid in the year in which it is incurred will be deductible in the year in which it is actually paid.

2004 Growers Installment Payments

Fee Type	ITAA 1997 Section	Year Ended 30 June 2004	Year Ended 30 June 2005	Year Ended 30 June 2006
Management Fee	8-1	\$1,648.62 See notes v), vi) & vii)	\$2,363.63 See note v) & vii)	\$495 See note v) & vii)
Licence	8-1	\$68.75 See notes v) & viii)	\$68.75 See notes v) & viii)	\$68.75 See notes v) & viii)

2004 Growers Per Woodlot Basis

Fee Type	ITAA 1997 Section	Year Ended 30 June 2004	Year Ended 30 June 2005	Year Ended 30 June 2006
Management Fee	8-1	\$3,297.25 See notes v), vi) & vii)	\$715 See note v) & vii)	\$495 See note v) & vii)
Licence	8-1	\$68.75 See notes v) & viii)	\$68.75 See notes v) & viii)	\$68.75 See notes v) & viii)

2005 Growers Per Woodlot Basis

Fee Type	ITAA 1997 Section	Year Ended 30 June 2004	Year Ended 30 June 2005	Year Ended 30 June 2006
Management Fee	8-1	\$3,297.25 See notes v), vi) & vii)	\$715 See note v) & vii)	\$495 See note v) & vii)
Licence	8-1	\$68.75 See notes v) & viii)	\$68.75 See notes v) & viii)	\$68.75 See notes v) & viii)

Notes:

- v) If the Grower is registered or required to be registered for GST, amounts of outgoing would need to be adjusted as relevant for GST (e.g. input tax credits): Division 27. See Example 1 at paragraph 113
- vi) The first year Management Fee is expenditure for 'seasonally dependent agronomic activities' and is deductible in the income year in which it is paid (see paragraphs 85 to 89 in the Explanations)
- vii) Where a Grower who is an 'STS taxpayer', pays the Management Fee in the relevant income years shown in the Project Operations Agreement, those fees are deductible in full in the year that they are paid. However, if a Grower **chooses** to prepay fees for the doing of a thing (e.g. the provision of management services) that will not be wholly done in the income year the fees are incurred, the prepayment rules of the ITAA may apply to apportion those fees (see paragraphs to). In such cases, the tax deduction for the prepaid fee must be determined using the formula shown in paragraph 83, unless the expenditure is 'excluded expenditure'. For the purpose of this Ruling 'excluded expenditure' refers to an amount of expenditure of less than \$1,000, and
- viii) Where a Grower who is an 'STS taxpayer', pays the Licence Fee in the relevant income years shown in the Licence, those amounts are a prepayment. The prepayment rules of the ITAA 1936 may apply to apportion those fees. In such cases, the tax deduction for the prepaid fee must be determined using the formula shown in paragraph 83 unless the expenditure is 'excluded expenditure'. For the purpose of this Ruling the Licence Fee is excluded expenditure as it is an amount of expenditure of less than \$1,000, where the Grower purchases 14 Woodlots or less. See example 2 at paragraph 113.

TAX OUTCOMES THAT APPLY TO ALL GROWERS

Interest

- 53. The deductibility or otherwise of interest incurred by Growers who finance their participation in the Project through a loan facility with a bank or financier is outside the scope of this Ruling. However all Growers who borrow funds in order to participate in the Project, should read the discussion of the prepayment rules in paragraphs 77 to 84 as those rules may be applicable if interest is prepaid. Subject to the 'excluded expenditure' exception, the prepayment rules apply whether the prepayment is required under the relevant loan agreement or is at the Growers choice.

Division 35 - deferral of losses from non-commercial business activities

Section 35-55 - Commissioner's discretion

- 54. For a Grower who is an individual, enters the Project during the years ended 30 June 2004 or 30 June 2005 and does not elect to harvest and market their own timber, the rule in section 35-10 may apply to the business activity comprised by their involvement in this Project. Under paragraph 35-55(1)(b), the Commissioner will decide for 2004 Growers for the income years ending 30 June 2004 to 30 June 2018 that the rule in section 35-10 does not apply to this activity, provided that the Project is carried out in the manner described in this Ruling. Similarly, for 2005 Growers, the Commissioner will decide for the income years ending 30 June 2005 to 30 June 2018 that the rule in section 35-10 does not apply to this activity, provided that the Project is carried out in the manner described in this Ruling.
- 55. This exercise of the discretion in subsection 35-55(1) will not be required where, for any year in question:
 - the 'exception' in subsection 35-10(4) applies;
 - a Grower's business activity satisfies one of the tests in sections 35-30, 35-35, 35-40 or 35-45; or
 - the Grower's business activity produces assessable income for an income year greater than the deductions attributable to it for that year (apart from the operation of subsection 35-10(2)).

Section 11

ATO PRODUCT RULING 2003/67

56. Where the 'exception' in subsection 35-10(4) applies, or the Grower's business activity satisfies one of the tests, or the discretion in subsection 35-55(1) is exercised, section 35-10 will not apply. This means that a Grower will not be required to defer any excess of the deductions attributable to their business activity in excess of any assessable income from that activity, i.e. any 'loss' from that activity, to a later year. Instead, this 'loss' can be offset against other assessable income for the year in which it arises.
57. Growers are reminded of the important statement made on page 42. Therefore, Growers should not see the Commissioner's decision to exercise the discretion in paragraph 35-55(1)(b) as an indication that the Tax Office sanctions or guarantees the Project or the product to be commercially viable. An assessment of the Project or the product from this perspective has not been made.

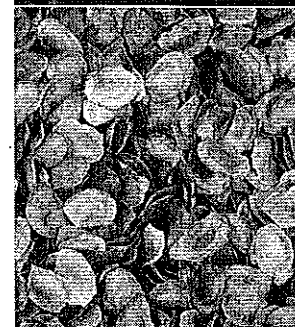
Section 82KL and Part IVA

58. For a Grower who participates in the Project and incurs expenditure as required by the Licence Agreement and the Project Operations Agreement, the following provisions of the ITAA 1936 have application as indicated:
- section 82KL does not apply to deny the deductions otherwise allowable; and
 - the relevant provisions in Part IVA will not be applied to cancel a tax benefit obtained under a tax law dealt with in this Ruling.

EXPLANATION

IS THE GROWER CARRYING ON A BUSINESS?

59. For the amounts set out in the Tables above to constitute allowable deductions, the Grower's activities as a participant in the NTT Mahogany Project must amount to the carrying on of a business of primary production.
60. Where there is a business, or a future business, the gross proceeds from the sale of timber from the scheme will constitute assessable income in their own right. The generation of 'business income' from such a business, or future business, provides the backdrop against which to judge whether the outgoings in question have the requisite connection with the operations that more directly gain or produce this income.
61. For schemes such as that of the NTT Mahogany Project, Taxation Ruling TR 2000/8 sets out in paragraph 89 the circumstances in which the Grower's activities can constitute the carrying on of a business. As Taxation Ruling TR 2000/8 sets out, these circumstances have been established in court decisions such as *Commissioner of Taxation v. Lau* (1984) 6 FCR 202; 84 ATC 4929; (1984) 16 ATR 55.
62. Generally, an investor will be carrying on a business of afforestation, and hence primary production, if:
- the Grower has an identifiable interest (by lease or licence) in the land on which the Grower's trees are established;
 - the Grower has a right to harvest and sell the timber from those trees;
 - the afforestation activities are carried out on the Grower's behalf;
 - the afforestation activities of the Grower are typical of those associated with an afforestation business; and
 - the weight and influence of general indicators point to the carrying on of a business.
63. In this Project each Grower enters into a Licence and a Project Operations Agreement.
64. Under the Licence Agreement each individual Grower will have rights in the form of a Licence over a specific and identifiable area of land. The Project Operations Agreement provides the Grower with an ongoing interest in the specific Trees on the licenced area for the term of the Project. Under the Licence, the Grower must use the land in question for the purpose of carrying out afforestation activities, and for no other purpose. The Project Operations Agreement allows the Responsible Entity to come onto the land to carry out its obligations under any of the agreements.
65. Under the Project Operations Agreement the Responsible Entity is engaged by the Grower to establish and maintain the Grower's identifiable area of land during the term of the Project. The Responsible Entity will subcontract the management services to the Plantation Manager, under the Management Agreement. The Plantation Manager has provided evidence that it holds the appropriate professional skills and credentials to provide the management services to establish and maintain the licenced area on the Grower's behalf.



66. The Responsible Entity, may also be engaged to harvest and sell, on the Grower's behalf, the timber grown on the Grower's licenced area.
67. The general indicators of a business, as used by the Courts, are described in Taxation Ruling TR 97/11. Positive findings can be made from the Project's description for all the indicators.
68. The activities that will be regularly carried out during the term of the Project demonstrate a significant commercial purpose. Based on reasonable projections, a Grower in the Project will derive assessable income from the sale of timber that will return a before-tax profit, i.e. a profit in cash terms that does not depend in its calculation on the fees in question being allowed as a deduction.
69. The pooling of timber grown on the Grower's licenced area with the timber of other Growers is consistent with general afforestation practices. Each Grower's proportionate share of the sale proceeds of the pooled timber will reflect the proportion of the Trees contributed from their licenced area.
70. The Responsible Entity's services are also consistent with general afforestation practices. They are of the type ordinarily found in afforestation ventures that would commonly be said to be businesses. While the size of a Woodlot is relatively small, it is of a size and scale to allow it to be commercially viable (see Taxation Ruling TR 2000/8).
71. The Grower's degree of control over the Responsible Entity as evidenced by the Project Operations Agreement, and supplemented by the *Corporations Act*, is sufficient. During the term of the Project, the Responsible Entity will provide the Grower with regular progress reports on the Grower's licenced area and the activities carried out on the Grower's behalf. Growers are able to terminate arrangements with the Responsible Entity in certain instances, such as cases of default or neglect.
72. The afforestation activities, and hence the fees associated with their procurement, are consistent with an intention to commence regular activities that have an 'air of permanence' about them. For the purposes of this Ruling, the Grower's afforestation activities in the NTT Mahogany Project will constitute the carrying on of a business.

THE SIMPLIFIED TAX SYSTEM

Division 328

73. Subdivision 328-F sets out the eligibility requirements that a Grower must satisfy in order to enter the STS and Subdivision 328-G sets out the rules for entering and leaving the STS.
74. The question of whether a Grower is eligible to be an 'STS taxpayer' is outside the scope of this Product Ruling. Therefore, any Grower who relies on those parts of this Ruling that refer to the STS will be assumed to have correctly determined whether or not they are eligible to be an 'STS taxpayer'.

DEDUCTIBILITY OF LICENCE AND MANAGEMENT FEES

Section 8-1

75. Consideration of whether the Licence and Management Fees are deductible under section 8-1 begins with the first limb of the section. This view proceeds on the following basis:
 - the outgoings in question must have a sufficient connection with the operations or activities that directly gain or produce the taxpayer's assessable income;
 - the outgoings are not deductible under the second limb if they are incurred before the business has commenced; and
 - where all that happens in a year of income is that a taxpayer contractually commits themselves to a venture that may not turn out to be a business, there can be doubt about whether the relevant business has commenced and, hence, whether the second limb applies. However, that does not preclude the application of the first limb in determining whether the outgoing in question has a sufficient connection with activities to produce assessable income.
76. The Management and Licence Fees associated with the afforestation activities will relate to the gaining of income from the Grower's business of afforestation (see above), and hence have a sufficient connection to the operations by which income (from the harvesting and sale of timber) is to be gained from this business. They will thus be deductible under the first limb of section 8-1. Further, no 'non-income producing' purpose in incurring the fee is identifiable from the arrangement. The fees appear to be reasonable. There is no capital component of the Management Fee. The tests of deductibility under the first limb of section 8-1 are met. The exclusions do not apply.

PREPAYMENT PROVISIONS

Sections 82KZL to 82KZMG

77. The prepayment provisions contained in Subdivision H of Division 3 of Part III of the ITAA 1936 affect the timing of deductions for certain prepaid expenditure. These provisions apply to certain expenditure incurred under

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ATO PRODUCT RULING 2003/67

an agreement in return for the doing of a thing under the agreement (e.g. the performance of management services or the leasing of land) that will not be wholly done within the same year of income as the year in which the expenditure is incurred. If expenditure is incurred to cover the provision of services to be provided within the same year, then it is not expenditure to which the prepayment rules apply.

78. For this Project only section 82KZL (an interpretative provision) and sections 82KZME, 82KZMF and 82KZMG are relevant. Subject to section 82KZMG, if the requirements of sections 82KZME and 82KZMF are met, taxpayers determine deductions for prepaid expenditure under section 82KZMF using the formula in subsection 82KZMF(1). These provisions also apply to 'STS taxpayers' because there is no specific exclusion contained in section 82KZME that excludes 'STS taxpayers' from the operation of section 82KZME.

Sections 82KZME and 82KZMF

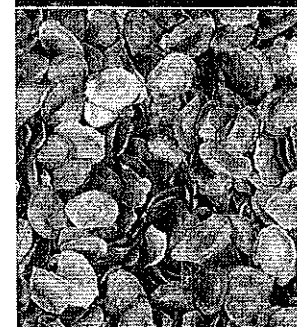
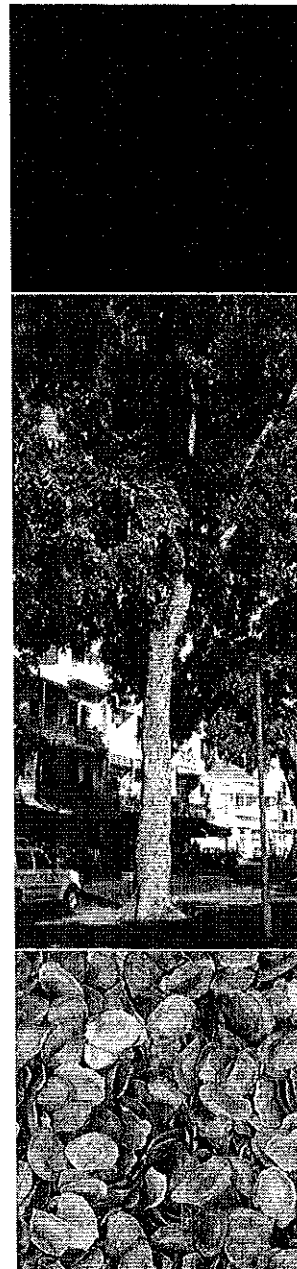
79. Other than expenditure deductible under section 82KZMG, if the requirements of subsections 82KZME(2) and (3) are met, the formula in subsection 82KZMF(1) (see below) will apply to apportion expenditure that is otherwise deductible under section 8-1 of the ITAA 1997. The requirements of subsection 82KZME(2) will be met if expenditure is incurred by a taxpayer in return for the doing of a thing that is not to be wholly done within the year the expenditure is made. The year in which such expenditure is incurred is called the 'expenditure year' (subsection 82KZME(1)).
80. The requirements of subsection 82KZME(3) will be met where the agreement (or arrangement) has the following characteristics:
- the taxpayer's allowable deductions under the agreement for the 'expenditure year' exceed any assessable income attributable to the agreement for that year;
 - the taxpayer does not have effective day to day control over the operation of the agreement. That is, the significant aspects of the arrangement are managed by someone other than the taxpayer; and
 - either:
 - a) there is more than one participant in the agreement in the same capacity as the taxpayer; or
 - b) the person who promotes, arranges or manages the agreement (or an associate of that person) promotes similar agreements for other taxpayers.
81. For the purpose of these provisions, the agreement includes all activities that relate to the agreement (subsection 82KZME(4)). This has particular relevance for a Grower in this Project who, in order to participate in the Project may borrow funds from a financier. Although undertaken with an unrelated party, that financing would be an element of the arrangement. The funds borrowed and the interest deduction is directly related to the activities under the arrangement. If a Grower prepays interest under such financing arrangements, the deductions allowable will be subject to apportionment under section 82KZMF.
82. There are a number of exceptions to these rules, but for Growers participating in this Project, only the 'excluded expenditure' exception in subsection 82KZME(7) is relevant. 'Excluded expenditure' is defined in subsection 82KZL(1). However, for the purposes of Growers in this Project, 'excluded expenditure' is prepaid expenditure incurred under the arrangement that is less than \$1,100. Such expenditure is immediately deductible.
83. Where the requirements of section 82KZME are met, section 82KZMF applies to apportion relevant prepaid expenditure. Section 82KZMF uses the formula below, to apportion prepaid expenditure and allow a deduction over the period that the benefits are provided.

$$\frac{\text{Expenditure} \times (\text{Number of days of eligible service period in the year of income})}{\text{Total number of days of eligible service period}}$$

84. In the formula 'eligible service period' (defined in subsection 82KZL(1)) means, the period during which the thing under the agreement is to be done. The eligible service period begins on the day on which the thing under the agreement commences to be done or on the day on which the expenditure is incurred, whichever is the later, and ends on the last day on which the thing under the agreement ceases to be done, up to a maximum of 10 years.

Section 82KZMG

85. Under section 82KZMG(1), expenditure is excluded from the prepayment rules that would otherwise apply, to the extent that the prepaid amount satisfies the requirements of subsections 82KZMG(2) to (4).



86. Subsection 82KZMG(2) requires that the expenditure is:
- incurred on or after 2 October 2001 and on or before 30 June 2006;
 - the eligible service period must be 12 months or shorter and must end on or before the last day of the year of income after the expenditure year; and
 - for the doing of a thing under the agreement that is not to be wholly done within the expenditure year.
87. To satisfy subsection 82KZMG(3) the agreement must satisfy the following requirements:
- it must be an agreement for planting and tending trees for felling;
 - be an agreement where the taxpayer does not have day to day control over the operations arising out of the agreement. (A right to be consulted or to give directions does not equate to day to day control for the purposes of this requirement); and
 - either:
 - i) there must be more than one participant in the agreement in the same capacity as the taxpayer who incurs the expenditure; or
 - ii) the manager manages, arranges or promotes the agreement, or an associate of the manager, manages, arranges or promotes similar agreements.
88. Under subsection 82KZMG(4) the expenditure incurred by the taxpayer must be paid for 'seasonally dependent agronomic activities' undertaken by the Manager during the 'establishment period' for the relevant planting of trees for felling.
89. Subsection 82KZMG(5) defines the 'establishment period' to commence at the time that the first 'seasonally dependent agronomic activity' is performed in relation to a specific planting of trees and to conclude with the planting of trees. Where it is necessary to apply a fertiliser or herbicide to the trees at the same time as planting then those activities fall within the establishment period. Planting of trees refers to the main planting of the particular plantation and expressly excludes specific planting to replace existing seedlings that have not survived.

Application of the prepayment provisions to this Project

90. Under the Project Operations Agreement, a Grower incurs a Management Fee of \$3,297.25 per Woodlot. This fee consists of expenditure for 'seasonally dependent agronomic activities'. As the requirements of section 82KZMG have been met, a deduction is allowable in the same income year as the expenditure is incurred under the Project Operations Agreement for 'seasonally dependent agronomic activities'.
91. A Grower who is an 'STS taxpayer' can, therefore, claim an immediate deduction for the Management fee in the income year in which the fee is paid. A Grower who is not an 'STS taxpayer' can claim an immediate deduction for each of the relevant fees in the income year in which the fee is incurred.
92. Under the Licence, a Grower incurs a Licence Fee of \$68.75. This amount is 'excluded expenditure' as it is under \$1,000. A deduction is allowable in the same income year as the expenditure is incurred, unless a Grower is allotted more than 14 Woodlots.
93. A Grower who is an 'STS taxpayer' can, therefore, claim an immediate deduction for the Licence fee in the income year in which the fee is paid. A Grower who is not an 'STS taxpayer' can claim an immediate deduction for each of the relevant fees in the income year in which the fee is incurred. This is only the case where a Grower is allotted 14 Woodlots or less.

Growers who choose to pay fees for a period in excess of that required by the Project's agreements

94. Although not required under the Project Operations Agreement, a Grower participating in the Project may choose to prepay the Management Fee or interest for a period beyond the 'expenditure year'. Similarly, Growers who use financiers may either choose, or be required to prepay interest. Where this occurs, contrary to the conclusion reached in paragraph 93 above, section 82KZMF will apply to apportion the expenditure and allow a deduction over the period in which the prepaid benefits are provided.
95. For these Growers, the amount and timing of deductions for any relevant prepaid Management Fee or prepaid interest will depend upon when the respective amounts are incurred and what the 'eligible service period' is in relation to these amounts.
96. However, as noted above, prepaid fees of less than \$1,000 incurred in an 'expenditure year' will be 'excluded expenditure' and will be not subject to apportionment under section 82KZMF.

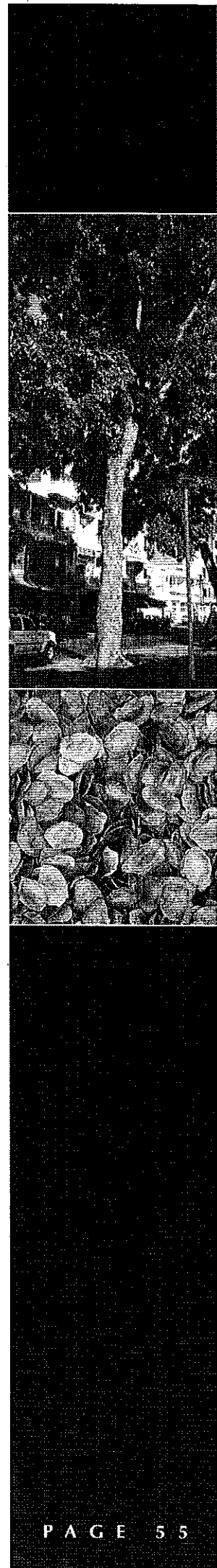
DIVISION 35 - DEFERRAL OF LOSSES FROM NON-COMMERCIAL BUSINESS ACTIVITIES

97. Division 35 applies to losses from certain business activities for the income year ended 30 June 2001 and subsequent years. Under the rule in subsection 35-10(2), a deduction for a loss made by an individual (including an individual in a general law partnership) from certain business activities will not be taken into account in an income year unless:

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- the 'exception' in subsection 35-10(4) applies;
 - one of four tests in sections 35-30, 35-35, 35-40 or 35-45 is met; or
 - if one of the tests is not satisfied, the Commissioner exercises the discretion in section 35-55.
98. Generally, a loss in this context is, for the income year in question, the excess of an individual taxpayer's allowable deductions attributable to the business activity over that taxpayer's assessable income from the business activity.
99. Losses that cannot be taken into account in a particular year of income, because of subsection 35-10(2), can be applied to the extent of future profits from the business activity, or are deferred until one of the tests is passed, the discretion is exercised, or the exception applies.
100. For the purposes of applying the tests, subsection 35-10(3) allows taxpayers to group business activities 'of a similar kind'. Under subsection 35-10(4), there is an 'exception' to the general rule in subsection 35-10(2) where the loss is from a primary production business activity and the individual taxpayer has other assessable income for the income year from sources not related to that activity, of less than \$40,000 (excluding any net capital gain). As both subsections relate to the individual circumstances of Growers who participate in the Project, they are beyond the scope of this Product Ruling and are not considered further.
101. In broad terms, the tests require:
- a) at least \$20,000 of assessable income in that year from the business activity (section 35-30);
 - b) the business activity results in a taxation profit in 3 of the past 5 income years (including the current year) (section 35-35);
 - c) at least \$500,000 of real property is used on a continuing basis in carrying on the business activity in that year (section 35-40); or
 - d) at least \$100,000 of certain other assets (excluding cars, motor cycles and similar vehicles) are used on a continuing basis in carrying on the business activity in that year (section 35-45).
102. A Grower who participates in the Project will be carrying on a business activity that is subject to these provisions. Information provided with the application for this Product Ruling indicates that a Grower who acquires the minimum allocation in the Project of two Woodlots (or has been allotted one woodlot at the discretion of the Responsible Entity) during the years ended 30 June 2004 or 30 June 2005 is unlikely to pass one of the tests until the year of the final harvest. Growers who acquire more than two Woodlots in the Project may however, find that their activity meets one of the tests in an earlier harvest year.
103. Therefore, unless the Commissioner exercises an arm of the discretion under paragraphs 35-55(1)(a) or (b), the rule in subsection 35-10(2) will apply to defer to a future income year any loss that arises from the Grower's participation in the Project.
104. The first arm of the discretion in paragraph 35-55(1)(a) relates to 'special circumstances' applicable to the business activity, and has no relevance for the purposes of this Product Ruling. However, the second arm of the discretion in paragraph 35-55(1)(b) may be exercised by the Commissioner where the business activity has started to be carried on and for that, or those income years:
- i) because of its nature, the business activity has not yet satisfied, or will not satisfy one of the tests set out in Division 35; and
 - ii) there is an expectation that the business activity of an individual taxpayer will either pass one of the tests or produce a taxation profit within a period that is commercially viable for the industry concerned.
105. Information provided with this Product Ruling application indicates that a Grower who acquires the minimum allocation of two Woodlots in the Project and does not elect to harvest and market their own timber, is expected to be carrying on a business activity that will produce a taxation profit in years 10 and 16.
106. The Commissioner will decide for such a Grower that it would be reasonable to exercise the second arm of the discretion until the year ended 30 June 2018 for 2004 and 2005 Growers. The taxation profits that are projected for the income year from the harvest in year 10 does not affect the period of the Commissioner's discretion as the income derived from the thinning harvests is considered to be a 'one-off' event that is specific to the afforestation industry.
107. This Product Ruling is issued on a prospective basis (i.e. before an individual Grower's business activity starts to be carried on). However, the Project may fail to be carried on during the income years specified above (see paragraph 106) in the manner described in the Arrangement (see paragraphs 14 to 41). If so, this Ruling, and specifically the decision in relation to paragraph 35-55(1)(b), that it would be unreasonable that the loss deferral rule in subsection 35-10(2) not apply,



may be affected, because the Ruling no longer applies (see paragraph 9) the Commissioner's discretion will not have been exercised because one of the key conditions in paragraph 35-55(1)(b) will not have been satisfied.

108. In deciding that the second arm of the discretion in paragraph 35-55(1)(b) will be exercised on this conditional basis, the Commissioner has relied upon:
- the report of the Independent Forester, and additional evidence provided with the application by the Responsible Entity; and
 - independent, objective and generally available information relating to the Mahogany industry which substantially supports cash flow projections and other claims, including prices and costs, in the Product Ruling application submitted by the Responsible Entity.

SECTION 82KL

109. The operation of section 82KL depends, among other things, on the identification of a certain quantum of 'additional benefit(s)'. Insufficient 'additional benefits' will be provided to trigger the application of section 82KL. It will not apply to deny the deduction otherwise allowable under section 8-1.

PART IVA - GENERAL TAX AVOIDANCE PROVISIONS

110. For Part IVA to apply there must be a 'scheme' (section 177A); a 'tax benefit' (section 177C); and a dominant purpose of entering into the scheme to obtain a tax benefit (section 177D).
111. The NTT Mahogany Project will be a 'scheme' commencing with the issue of the Product Disclosure Statement. A Grower will obtain a 'tax benefit' from entering into the scheme, in the form of tax deductions for the amounts detailed at paragraphs 48 and 52 that would not have been obtained but for the scheme. However, it is not possible to conclude that the scheme will be entered into or carried out with the dominant purpose of obtaining this tax benefit.
112. Growers to whom this Ruling applies intend to stay in the scheme for its full term and derive assessable income from the eventual harvesting of the trees. There are no facts that would suggest that Growers have the opportunity of obtaining a tax advantage other than the tax advantages identified in this Ruling. There are no non-recourse financing or round robin characteristics, and no indication that the parties are not dealing with each other at arm's length, or, if any parties are not at arm's length, that any adverse tax consequences result. Further, having regard to the factors to be considered under paragraph 177D(b) it cannot be concluded, on the information available, that participants will enter into the scheme for the dominant purpose of obtaining a tax benefit.

EXAMPLES

EXAMPLE 1 - ENTITLEMENT TO GST INPUT TAX CREDITS

113. Susan, who is a sole trader and registered for GST, contracts with a manager to manage her viticulture business. Her manager is registered for GST and charges her a management fee payable every six months in advance. On 1 December 2001 Susan receives a valid tax invoice from her manager requesting payment of a management fee in advance, and also requesting payment for an improvement in the connection of electricity for her vineyard that she contracted him to carry out. The tax invoice includes the following details:

Management fee for period 1/1/2002 to 30/6/2002	\$4,400*
Carrying out of upgrade of power for your vineyard as quoted	\$2,200*
Total due and payable by 1 January 2002 (includes GST of \$600)	\$6,600

*Taxable supply

Susan pays the invoice by the due date and calculates her input tax credit on the management fee (to be claimed through her Business Activity Statement) as:

$$(1 / 11) \times \$4,400 = \$400$$

Hence her outgoing for the management fee is effectively \$4,400 less \$400, or \$4,000.

Similarly, Susan calculates her input tax credit on the connection of electricity as:

$$(1 / 11) \times \$2,200 = \$200$$

Hence her outgoing for the power upgrade is effectively \$2,200 less \$200, or \$2,000.

In preparing her income tax return for the year ended 30 June 2002, Susan is aware that the management fee is deductible in the year incurred. She calculates her management fee deduction as \$4,000 (not \$4,400).

Susan is aware that the electricity upgrade is deductible 10% per year over a 10 year period. She calculates her deduction for the power upgrade as \$200 (one tenth of \$2,000 only, not one tenth of \$2,200).

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EXAMPLE 2 – APPORTIONMENT OF FEES WHERE THERE IS A CONTRACTUAL 'ELIGIBLE SERVICE PERIOD' AND THE FEES INCLUDE EXPENDITURE THAT IS 'EXCLUDED EXPENDITURE'

On 1 June 2002 Kevin applies for an interest into the Western Bluegum Project, a prospectus based afforestation project of 12 years. Kevin is accepted into the project and executes a lease and management agreement with the Responsible Entity for the provision of management services and the lease of his Woodlot. The terms of the lease and management agreement require Kevin to prepay the management fees and the lease fee on or before the 30 June each year for the lease of his 1 hectare Woodlot and the provision of management services between the 1 July and 30 June in the following income year. On 15 June 2002 Kevin pays the Year 1 lease fee of \$400 and the Year 1 management fee of \$8,600. The Year 1 management fee is made up of \$7,500 for 'seasonally dependent agronomic activities' undertaken by the manager during the 'establishment period' and \$1,100 for other management services.

Kevin, who is not an 'STS taxpayer' is not registered, nor required to be registered for GST.

He calculates his tax deduction for management fees and the lease fee for the **2002 income year** as follows:

Management fee

Even though he paid the \$8,600 in the 2002 income year, Kevin is only able to claim a deduction of \$7,500 for the 'seasonally dependent agronomic expenditure' in that income year. Because there are no 'days of eligible service period' in the 2002 income year, Kevin is unable to claim any part of the management fees paid to the manager for other management services, as a tax deduction in his tax return for the year ended 30 June 2002.

Lease fee

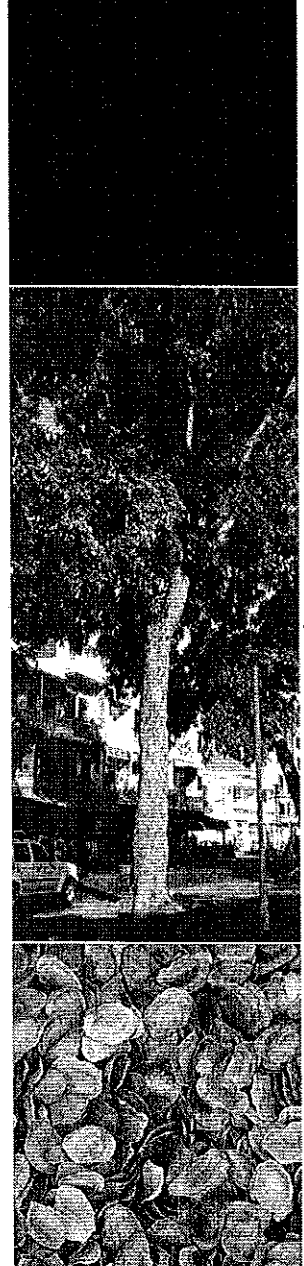
Because the \$400 lease fee is less than \$1,000 it is 'excluded expenditure' and can be claimed in full as a tax deduction in Kevin's tax return for the year ended 30 June 2002.

In the **2003 income year** Kevin can claim a tax deduction for that part of his first year's management fees that was not deductible in the 2002 income year. The tax deduction is calculated as follows:

$$\$1,100 \times (365 / 365)$$

= **\$1,100** (this represents the whole of that part of the first year's management fee prepaid in the 2002 income year for management services that are not 'seasonally dependent agronomic activities' undertaken by the manager in the 'establishment period'. Although this amount was incurred in the 2002 income year it is not deductible until the 2003 income year).

For the term of the Project Kevin continues to calculate his tax deduction for prepaid fees using this method.



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COMMISSIONER OF TAXATION

12 November 2003

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ATO REFERENCES:

No. 2003/01555

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RELATED RULINGS/DETERMINATIONS:

- TR 92/1
- TR 92/20
- TR 97/11
- TR 97/16
- TD 93/34
- TR 98/22
- PR 1999/95
- TR 2000/8

SUBJECT REFERENCES:

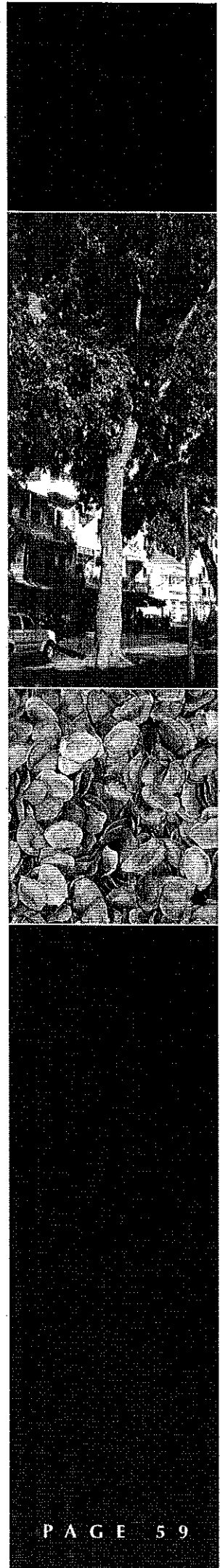
- advance expenses & payments for certain forestry expenditure
- carrying on a business
- commencement of business
- fee expenses
- forestry agreement
- interest expenses
- management fees
- non-commercial losses
- producing assessable income
- product rulings
- public rulings
- seasonally dependent agronomic activity
- tax benefits under tax avoidance schemes
- tax shelters
- tax shelters project

LEGISLATIVE REFERENCES:

- ITAA 1936 Div 3H of Part III
- ITAA 1936 82KZL
- ITAA 1936 82KZME
- ITAA 1936 82KZME(2)
- ITAA 1936 82KZME(4)
- ITAA 1936 82KZMF
- ITAA 1936 82KZMG
- ITAA 1936 82KZMG(2)
- ITAA 1936 82KZMG(4)
- ITAA 1936 Part IVA
- ITAA 1936 177C
- ITAA 1936 177D(b)
- ITAA 1997 8-1
- ITAA 1997 Div 27
- ITAA 1997 35-10
- ITAA 1997 35-10(3)
- ITAA 1997 35-30
- ITAA 1997 35-40
- ITAA 1997 35-55
- ITAA 1997 35-55(1)(a)
- ITAA 1997 Div 328
- ITAA 1997 Subdiv 328-G
- ITAA 1997 328-105(1)(a)
- Copyright Act 1968
- ITAA 1936 82KL
- ITAA 1936 82KZL(1)
- ITAA 1936 82KZME(1)
- ITAA 1936 82KZME(3)
- ITAA 1936 82KZME(7)
- ITAA 1936 82KZMF(1)
- ITAA 1936 82KZMG(1)
- ITAA 1936 82KZMG(3)
- ITAA 1936 82KZMG(5)
- ITAA 1936 177A
- ITAA 1936 177D
- ITAA 1997 6-5
- ITAA 1997 17-5
- ITAA 1997 Div 35
- ITAA 1997 35-10(2)
- ITAA 1997 35-10(4)
- ITAA 1997 35-35
- ITAA 1997 35-45
- ITAA 1997 35-55(1)
- ITAA 1997 35-55(1)(b)
- ITAA 1997 Subdiv 328-F
- ITAA 1997 328-105
- TAA 1953 Pt IVA

CASE REFERENCES:

Commissioner of Taxation v. Lau
(1984) 6 FCR 202
84 ATC 4929
(1984) 16 ATR 55



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ADDITIONAL INFORMATION

12.1 COMPLIANCE PROCEDURES

COMPLIANCE PLAN

The Responsible Entity has prepared a Compliance Plan for the scheme as required by the *Corporations Act* to ensure that it meets its obligations as a Responsible Entity and that the rights of Growers are protected. The plan identifies the various obligations under the *Corporations Act*, the Constitution, the Licence and the Project Operations Agreement that effect the Responsible Entity, identifies risks of non-compliance and establishes measures designed to address these risks.

In particular, the Compliance Plan:

- includes measures to ensure the Responsible Entity and its officers and employees comply with their respective obligations under sections 601FC to 601FE of the *Corporations Act*;
- appoints the Compliance Officer, establishes the Compliance Committee, and regulates the Committee's duties and functions, its members and its meetings and activities;
- ensures the Responsible Entity keeps adequate records and complies with the financial reporting requirements of the *Corporations Act*, and appoints the Auditors of the Project;
- identifies the Project Property, ensures it is held separately from the property of the Responsible Entity and any other scheme and appoints the Custodian; and
- establishes procedures in relation to this PDS, moneys received under the Constitution, the conduct of business issues, external service providers, the appointment of agents to market Woodlots, insurance and the relationship between the Plantation Manager and the Land Owner.

COMPLIANCE COMMITTEE

The Responsible Entity has a Compliance Committee. The responsibilities of the Compliance Committee are to monitor to what extent the Responsible Entity complies with the Compliance Plan and to report any breaches to the directors of the Responsible Entity or in certain cases to ASIC. The Compliance Committee consists of Brian Millmore (whose details are set out below) and Anne Yvonne Thoume.

BRIAN MILLMORE – B EC ASIA PNA

Brian Millmore is a compliance professional specialising in the banking, funds management and financial planning industries. He has substantial experience in dealing with regulatory compliance issues, implementing and managing compliance plans and systems and the development and management of managed funds in both superannuation and unit trusts.

Brian is a graduate in Economics and holds a Graduate Diploma in Applied Finance and Investment and diplomas in accounting and company secretarial practice

COMPLIANCE OFFICER – ROBERT GARTON SMITH

Robert Garton Smith is the Compliance Officer for Primary Securities Ltd and is responsible for the day-to-day maintenance of the compliance requirements of each managed investment scheme operated by Primary Securities Ltd in accordance with the Compliance Plan of the scheme, the Policy and Procedures Manual of Primary Securities Ltd, and the *Corporations Act*.

DISPUTES RESOLUTION AND COMPLAINTS HANDLING PROCEDURES

The Responsible Entity has appointed Mr Robert Garton Smith as its Complaints Officer. The Complaints Officer will be instructed to deal with any expression of dissatisfaction with the service offered or provided by the Responsible Entity as follows:

- a) the Complaints Officer or other person who received the Complaint acknowledges the Complaint promptly within 7 days of its receipt;
- b) the Complaints Officer notes the Complainant's details, including contact details, and the specifics of the Complaint and files that information in a Complaints File;
- c) the Complaints Officer explains the Complaint handling procedures to the Complainant;
- d) in the case of Complaints that do not require investigation, the Complaints Officer deals with or otherwise resolves the Complaint immediately or expeditiously, and enters details of the resolution into the Complaints file;
- e) and where appropriate, the Complaints Officer communicates with the Complainant to ensure that the Complainant remains satisfied.
- f) If the Complaint requires investigation or for some other reason is unable to be so resolved by the Complaints Officer immediately or expeditiously;

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ADDITIONAL INFORMATION

- g) within 7 days of receipt of any Complaint, the Complaints Officer is to:
 - i) provide written confirmation to the Complainant that the Complaint is being investigated in detail;
 - ii) invite the Complainant to provide any further documentation, information or other materials or details the Complainant may have regarding the Complaint;
 - iii) inform the Complainant that the Complainant will receive a response to its Complaint within 28 days of the date of the Complaint.
- h) within 21 days of receipt of any Complaint, the Complaints Officer is to conduct a thorough investigation of the Complaint, to properly consider the Complaint and to prepare a report detailing:
 - i) the nature of the Complaint;
 - ii) the services or business practices about which the Complaint is made;
 - iii) the basis for the Complaint;
 - iv) the results of the investigation; and
 - v) a recommendation for action,and deliver that report to the Managing Director of the Responsible Entity.

Within 28 days of the Complaint being made, the Managing Director of the Responsible Entity is to review the report provided by the Complaints Officer and decide as to an appropriate course of action.

Once the Managing Director has reached a decision in relation to the Complaint that decision is to be provided to the Grower together with the reasons for the decision within 28 days of the Complaint initially being lodged and a copy thereof is to be added to information regarding the Complaint on the Complaints file. At the same time of advising the Complainant of the outcome of the Complaint the Responsible Entity will also advise the Complainant that they may complain to Financial Industry Complaints Service Limited should the Complainant be unhappy with the outcome of the Responsible Entity's Complaint handling procedure.

In the event that the Complainant continues to be unsatisfied, the Complaints Officer is:

- a) within 14 days, to prepare a report for the Board of the Responsible Entity and make arrangements for a meeting of the Board of the Responsible Entity to be called within a further 21 days to consider the Complaint;
- b) to regularly keep the Complainant informed of all developments in relation to the resolution of the Complaint.

In the event that the Complainant continues to be unsatisfied 7 days after a meeting of the Board of the Responsible Entity to consider the Complaint, the Complaints Officer shall provide the Complainant with information as to appropriate avenues by which the Complainant can pursue the Complaint including:

- a) to invite the Complainant to arbitrate; or
- b) to have the Complaint resolved under the Financial Planning Association Complaints Resolution Scheme.

If the Complainant still does not get a satisfactory outcome the Complainant has the right to complain to the Financial Planning Association Complaints Resolution Scheme which is overseen by an Independent Council. Each Complaint is handled in confidence and without affecting any legal rights of the Complainant should they remain dissatisfied. ASIC has a Freecall Infoline 1300 300 630 which the Complainant may use to make a complaint and obtain information.

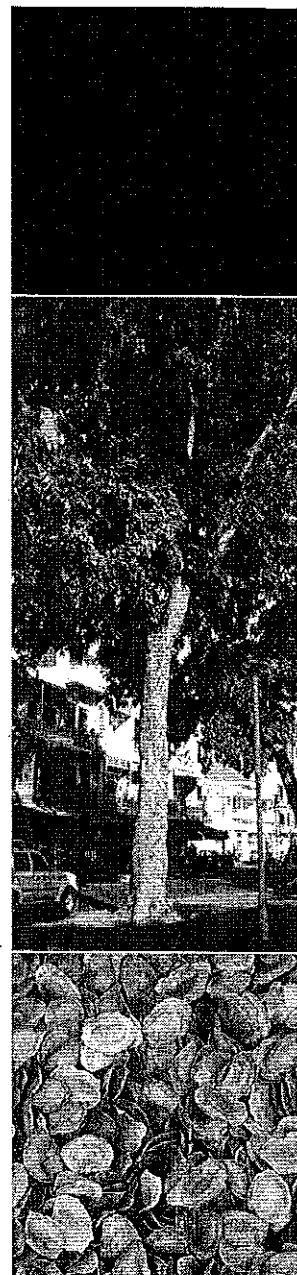
Any issues arising from complaints that have material ramifications for other Growers shall be reported by the Complaints Officer to the Responsible Entity and the Compliance Committee.

12.2 FEES

THE RESPONSIBLE ENTITY

The Responsible Entity is entitled to any interest earned on Application Money.

The Responsible Entity is paid all the Application Money and Project Fees and other moneys payable under the Project Operations Agreement (see next page).



Section 12

ADDITIONAL INFORMATION

The Responsible Entity will be indemnified from the Grower's Receipts, from and against the Prescribed Proportion of any expense or liability that may be incurred by the Responsible Entity in legal proceedings in respect of the Project, except to the extent that any such expense or liability is attributable to any breach by the Responsible Entity of its duties under Section 601FC or elsewhere in the *Corporations Act*.

If the Project or the Trust Account is taxed pursuant to the Tax Act, the Responsible Entity will be indemnified from the Prescribed Proportion of that liability out of the Grower's Receipts.

PROJECT FEES

Each year, each Grower must pay Project Fees to the Responsible Entity. Project Fees comprise the annual Management Fee, as payable under the Project Operations Agreement, and the annual Licence Fee, as payable under the Licence. For details of the amounts, refer to the summary of the Project Operations Agreement and the summary of the Licence in Section 13. These annual Project Fees are to be paid on or before 1 June each year.

On behalf of the Responsible Entity, the Plantation Manager will send to the Grower an invoice requesting payment from the Grower of Project Fees at least one month prior to the date for payment. If the Grower fails to pay any Project Fees by the date for payment, the Grower will pay interest at the Interest Rate which shall be applied under the Agreements in the same proportion as money is owed under them by the Grower.

A failure to pay the annual Project Fees may also result in termination of the Project Operations Agreement or the Licence.

OTHER FEES

Each Grower must pay the Prescribed Proportion of the costs of any meeting that may be called.

Each Grower who wishes to copy any document of the Responsible Entity must pay the fee as prescribed under Schedule 4 of the *Corporations Act*.

Each Grower must pay a handling fee of \$110 for any deed of assignment of their interest. The Responsible Entity reserves the right to alter this fee in line with inflation.

12.3 OTHER INFORMATION

I. THIS PDS

This PDS was issued on 9 January 2004 and that is the date of this PDS. ASIC takes no responsibility for the contents of this PDS.

II. THE ISSUER

The issuer of Woodlots is the Responsible Entity. The Plantation Manager is not the issuer of this PDS but is a sub-contractor to the Responsible Entity under the Management Agreement described in Section 13.

III. CONSENTS

The following have each given (and have not prior to the issue of this PDS withdrawn) their written consent to the inclusion of the reports, sections, express and implied references and statements detailed below in the PDS in the form and context in which each is included, and for the purpose of Sections 1013K of the *Corporations Act* were each involved only in the preparation of those reports, sections, express and implied references and statements:

Garton Smith & Co for inclusion of the sections headed Project Structure, The Offer (except for the sub-sections headed Proposed Harvest Plan, Finance, Guaranteed Survival Rate, What You Need to Know About the Offer, Selling the Timber, Visits by Growers, Planting Stock, and Public Liability), Questions and Answers, Taxation, The Responsible Entity, Directors of the Responsible Entity, Additional Information, Key Agreements, Glossary of Terms, Instructions for Lodgment, Application Form.

Yulebar Enterprises for inclusion of the Consultant Forester's Report and express and implied references to that report in the sections headed NTT Mahogany Project, The Timber Industry, Plantation Site and Development, Questions and Answers, Project Management and Key Risk Factors and Safeguards as well as implied references to the Consultant Forester's Report in the Marketing Report.

Section 12

ADDITIONAL INFORMATION

Unisearch Limited for inclusion of the Marketing Report and express and implied references to that report in the sections headed NTT Mahogany Project, The Timber Industry, Plantation Site and Development, and Key Risk Factors and Safeguards.

The Plantation Manager for inclusion of the whole of this PDS except for the reports.

IV. DISCLOSURES

Robert Garton Smith is a director of and indirect owner of the Responsible Entity and is the principal of the law practice Garton Smith & Co which expects to receive legal and custodial fees in relation to the Project. The professional remuneration paid or to be paid to Garton Smith & Co by the Responsible Entity and the Plantation Manager for legal services is approximately \$65,000. The remuneration to be paid to Garton Smith & Co by the Responsible Entity and the Plantation Manager for custodian work in relation to the Project in the next two years will be approximately \$17,000. The fees of the Responsible Entity are set out on pages 61 and 62.

Yulebar Enterprises is to receive fees of \$3,349.

Unisearch Limited is to receive fees of \$12,770.

The Land Owner is to receive that part of the Subscription Money comprising Licence Fees and further Licence Fees payable by Growers.

The Plantation Manager is to receive all of the Subscription Money and Management Fees (less fees payable by the Plantation Manager to the Responsible Entity under the Responsible Entity Services Agreement). The wife of one of the directors of the Plantation Manager, Dayle Hooker, is the sole shareholder in Drevney Pty Ltd which will sell the plant-stock to the Plantation Manager at an agreed rate of \$2.50 each.

V. ENHANCED DISCLOSURE SECURITIES

The Woodlots may become enhanced disclosure securities within Section 111AD of the *Corporations Act* if there are more than 100 Growers, and if so, the Responsible Entity will be subject to regular reporting and disclosure obligations. In that event, documents lodged pursuant to these requirements may be obtained from, or inspected at, any office of ASIC. Further, the Responsible Entity will provide a copy of the most recent annual financial report of the Project lodged with ASIC by the Responsible Entity, any half-year financial report of the Project lodged with ASIC after the lodgment of that annual financial report and before the date of this PDS, and any continuous disclosure notices given in relation to the Project after lodgment of that annual financial report and before the date of lodgment of the PDS free of charge as soon as practicable, and in any event within 5 days, after receiving the person's request, to any person who asks for it during the currency of the PDS.

VI. APPLICATION OF THIS PDS OUTSIDE AUSTRALIA

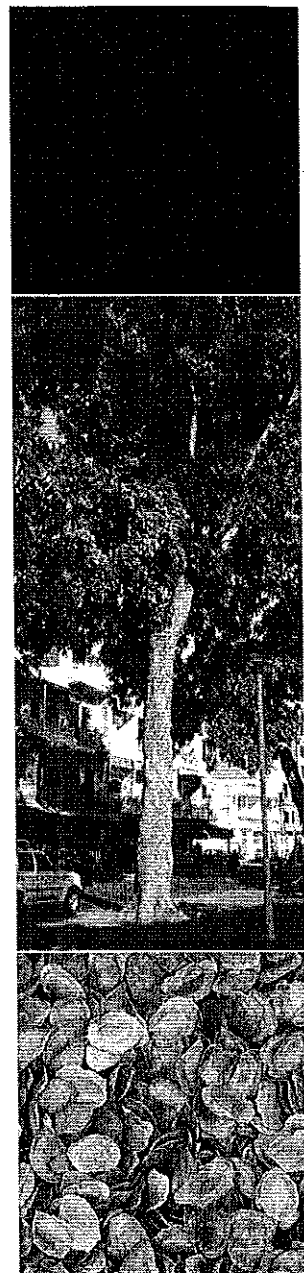
This PDS has been prepared to comply with the securities laws of Australia. This PDS does not constitute an offer in any place in which, or to any person to whom it would not be lawful to make such an offer.

VII. COMMISSIONS

Commission of up to 10% will be paid to licensed dealers or holders of proper authorities issued by licensed dealers based on the total amount payable by a Grower pursuant to the Licence and Project Operations Agreement for the first 12 months.

VIII. METHOD OF UPDATING INFORMATION IN THIS PDS

In the event that there is information in this PDS which is subject to a change that is materially adverse to Applicants, Applicants will be informed by a Supplementary PDS. However, there may be other information which is not materially adverse to Applicants and is subject to change from time to time. In that event, the updated information will be made available on the website of the Responsible Entity www.primarysecurities.com.au. Further, the Responsible Entity will provide a paper copy of that information to any person on request without charge.



Section 13

KEY AGREEMENTS

DETAILS OF THE PRINCIPAL CONTRACTS

THE PRINCIPAL CONTRACTS

Upon an Application to become a Grower being accepted by the Responsible Entity and the Allotment of a Woodlot, the Grower will become a party to the following contracts:

1. The Constitution;
2. The Rules;
3. The Licence under which the Grower takes a licence in relation to one or more Woodlots; and
4. The Project Operations Agreement under which the Grower engages the Responsible Entity to supervise and manage the carrying out of Tree Farming on the Grower's Woodlots.

Definitions and details of these contracts now follow. All relevant definitions appear in the Glossary of Terms on pages 72 to 77.

A. THE CONSTITUTION

The Constitution in relation to the Woodlots offered by this PDS is the Constitution for the NTT Mahogany Project between the Responsible Entity and each Grower.

Under the Constitution, each Grower irrevocably appoints the Responsible Entity as the sole and exclusive agent in relation to the Project, with the powers, duties and functions vested under the Constitution and the *Corporations Act*. The Responsible Entity agrees to act as Responsible Entity for the Grower in relation to the Project, subject to the Constitution and the *Corporations Act*. The Responsible Entity may delegate its functions to any person, including the Custodian. The Responsible Entity remains liable for its obligations under the Constitution and is responsible for all acts of their delegates that constitute a breach of duty.

POWER OF ATTORNEY

The Responsible Entity has your power of attorney. On your behalf, the Responsible Entity may:

- receive and hold the Application Money, Project Fees and Receipts in the Trust Account, invest that money (and any interest on the Receipts or other accretions) in any Authorised Investment pooled with Authorised Investments made on behalf of other Growers, use the Application Money and Project Fees in discharging the Grower's obligations under the Agreements and Constitution, and deal with the Receipts and other money in the Trust Account in accordance with the Constitution;
- in relation to the Licence and Project Operations Agreement, confirm the Grower as a party on the Grower's behalf, enter into contracts varying or replacing the contracts to better achieve the purposes of the Project (subject to any amendment of the Project Fees that the Responsible Entity considers adversely affects Growers' rights being treated as an amendment to the Constitution), monitor the performance of the Plantation Manager's obligations and exercise all rights and powers of the Grower;
- register the Licence on the certificate of title of the Land;
- buy, sell or deal in any sequestration rights, carbon credits or other environmental credits arising from or in connection with the Woodlots or Trees to which the Grower is entitled;
- enter into any agreement relating to Harvest or sale on behalf of the Grower, enter into contracts varying or replacing the contracts to better achieve the purposes of this PDS, monitor the performance of the party contracted to complete the Harvest, appoint the Plantation Manager to negotiate the sale of the Timber and exercise all rights and powers of the Grower under either the agreement relating to Harvest or sale;
- appoint the Auditors to audit and monitor the records of the Plantation Manager and pay for any audit from the Trust Account, with each Grower to pay the Prescribed Proportion;
- upon termination of the Project, or the passing of a resolution of Growers supporting the proposed sale or assignment, sell or assign all right, title and interest of the Grower in the Project and all remaining interest of the Grower under the Agreements, whether for money, shares or other consideration and pay for any such sale and receive sale proceeds;
- indemnify the Responsible Entity in regard to legal proceedings and tax liability (as set out below under the heading "Responsible Entity's Fees"), commence legal or arbitration proceedings, receive, collect, pay,

Section 13

KEY AGREEMENTS

settle and compromise any payments, debts, obligations, judgments or settlements in relation to the Project, lodge and withdraw a "subject to claim" caveat against the certificate of title to the Land the subject of the Woodlots; and execute any deed, agreement, certificate or other document and do all other things necessary or desirable in furtherance of these powers granted to the Responsible Entity.

TRUST ACCOUNT

The Responsible Entity shall keep the Trust Account (which may be interest bearing) in the name of the Custodian, solely for the purposes of depositing and pooling the Application Money, the Project Fees and Receipts of all Growers.

OTHER OBLIGATIONS OF THE RESPONSIBLE ENTITY

The Responsible Entity is also required to comply with obligations imposed by the *Corporations Act*. These include the duty to keep Accounts and have those Accounts audited, procedures for meetings of Growers, the keeping of the Register of Growers, provisions regarding the transmission/assignment of Woodlots, and the statutory duties of the Responsible Entity.

DURATION OF PROJECT

Except as set out below, the Growers do not have the right to withdraw from, or realise the assets of, the Project. The Grower does not have the right to require payment of any money held in the Trust Account other than as provided for in the Constitution.

The Project shall commence on the date upon which Woodlots are first allotted. The Project shall terminate on the latter of the termination of the Licence or the final distribution of Receipts following the sale of all Timber, subject to any earlier termination by the Growers.

At any time, a meeting of Growers may by special resolution resolve to terminate the Project. However, the Project may be continued if the Responsible Entity believes that it appears to be in the interests of the Growers to continue to do so.

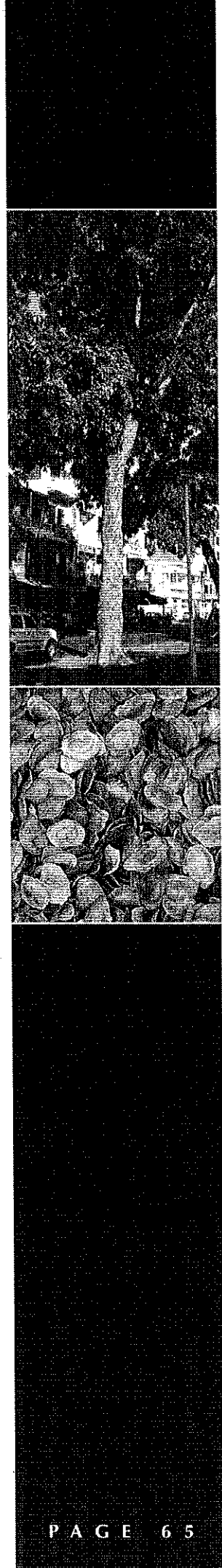
Upon termination, the Responsible Entity shall immediately sell, call in, convert and realise all remaining Timber and Project Property after paying all costs and fees of termination. The Responsible Entity may postpone the sale but will not be responsible for any loss attributable to doing so. The balance obtained after this sale shall be distributed to Growers as if it represented Receipts, but if the aggregate sum for distribution is less than \$1,000, the Responsible Entity may, in its discretion, retain that sum. Upon distribution, the Responsible Entity shall provide the Growers with a final audited statement setting out all details of the sale and distribution, at which time the Responsible Entity shall be released from all further duties and obligations under the Constitution and the Agreements in relation to the Project.

GROWER'S RELATIONSHIPS

The Grower does not have any relationship or contract with any other Growers in the Project and all Growers are several and independent. The Grower cannot enforce any rights or claims of or against any other Grower. The Grower's relationship with the Responsible Entity and any other Growers is not a partnership, joint venture, company or association and the Grower is not an agent or legal representative of, and does not have authority or power to act for, or incur any liability of, the Responsible Entity or any other Grower.

PROTECTIONS AND INDEMNITIES

The Responsible Entity shall not incur any liability to Growers for doing or failing to do any act or thing it is required to do or is frustrated or prevented from doing by any Law. The Responsible Entity may act and rely upon advice obtained from any Expert but shall not be liable for anything done in good faith in reliance upon that advice, it shall not be liable for any misconduct, mistake, error of judgment or want of prudence by any Expert, for anything done or suffered by other parties. To the extent permitted by law, where the Responsible Entity acts pursuant to a resolution passed at a duly convened meeting of Growers, it shall not incur any liability for any action taken in reliance upon any document reasonably believed by



Section 13

KEY AGREEMENTS

it to be genuine, authorised and (if applicable) signed by the persons properly responsible. The Responsible Entity will not be liable for the failure of any Grower to obtain a tax deduction in respect of the Project and the Responsible Entity shall be indemnified from the Receipts and the Trust Account to the extent of any such liability, except to the extent attributable to the Responsible Entity's own neglect or default.

Provided the Responsible Entity has not breached its duties under Section 601FC or elsewhere in the *Corporations Act*, it shall not be responsible for any loss, costs, damages or inconvenience resulting from the exercise or non-exercise of powers, authorities and discretions under the Constitution, and except by a special resolution of Growers, or as permitted under the Complaints handling procedures of the Compliance Plan, no Grower shall interfere with or question the exercise or non-exercise of the Responsible Entity's powers, authorities or discretions.

B. THE RULES

ACCEPTANCE OF APPLICATIONS

Within 2 months after the acceptance of any Application under any PDS, and, when next accounting to a Grower after any change in the holding of the Grower in the Register, the Responsible Entity shall issue to the relevant Grower a Woodlot statement.

ASSIGNMENT OR TRANSMISSIONS OF WOODLOTS

No assignment or transmission of any Woodlots may be registered unless an instrument of transmission or a deed of assignment in the form set out in the Rules, duly stamped, has been delivered to the Responsible Entity.

QUORUM

No business shall be transacted at any meeting unless a quorum is present at all times during the meeting. The quorum necessary for a meeting at which a resolution only is to be proposed shall be two Growers. For a meeting at which a special resolution is to be proposed a quorum shall exist shall be 4 Growers.

C. LICENCE

Upon Allotment, the Licence is entered into between the Land Owner, the Responsible Entity and each Grower (as Sub-Lessee) in relation to the Grower's Woodlot or Woodlots.

LICENCE TERM

The Licence is for a Term of approximately 15 to 16 years commencing on the date of the Allotment of the Woodlot to the Grower under this PDS and expiring on 30 June 2020.

LICENCE FEE PAYABLE

The Licence Fees are set out in Section 4.

VARIOUS ENTITLEMENTS

The Grower has the non-exclusive right to use any of the Land Owner's rights to draw water from the Land or dam or otherwise and to use the Irrigation System and any plant or equipment available to or owned by the Land Owner and used in relation to those rights. All improvements made by the Grower belong to the Land Owner. The Grower is entitled to the Trees until whichever of Harvest or termination of the Licence first occurs.

GROWER'S COVENANTS

The Grower covenants that throughout the Term, the Grower shall:

- Pay the Licence Fee to the Land Owner (as Project Fees under the Constitution).
- Keep accurate records of Licence Fee payments and provide them to the Land Owner on request.
- Keep the Irrigation System, roads, fences, gates and other improvements on the Woodlots in good and substantial repair and condition and if necessary, or if required by the Land Owner, repair or replace those improvements.

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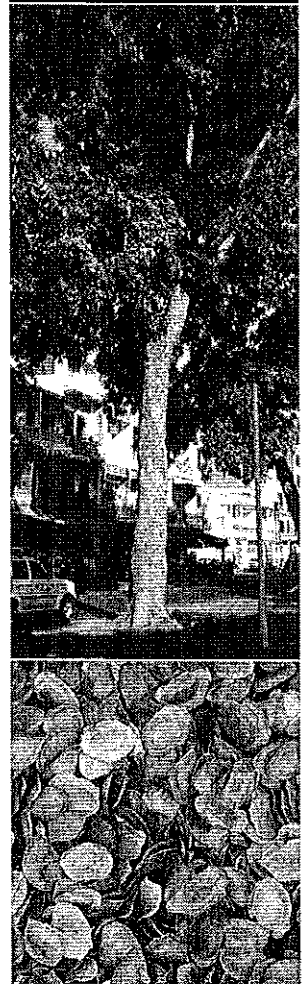
- Do things reasonably required to eradicate, exterminate and keep the Woodlots and Land free from disease, rodents, vermin, noxious weeds, rabbits, kangaroos, insects and all other pests and procure pest exterminators for that purpose.
- Keep the Woodlots and immediate surroundings in a thorough state of cleanliness.
- Comply with the *Fires and Rescue Act (Qld) 1990*, attend to any notice from the Plantation Manager or the Land Owner or the owner of any adjoining land pursuant to the *Fires and Rescue Act (Qld) 1990*, attend local government meetings in relation to fire prevention and protection and other matters relating to the Woodlots and take all proper measures to ensure that any fires which may occur on the Woodlots or the Land which may threaten the trees are properly controlled and supervised.
- Secure the entry ways to the Land against trespass, permit the Land Owner to enter upon the Woodlots to carry out duties and obligations under the Licence and at all times give the Land Owners or occupiers of any Woodlot adjoining the Grower's Woodlots unimpeded use of any existing access roads, pathways or fire-breaks on the Grower's Woodlot.
- At all times, keep current with a reputable insurer a public risk insurance policy to cover the liability of the Grower and Owner in which the limit of public risk shall be not less than \$10,000,000, and not allow any act, omission or event on the Woodlots which would render any insurance policy void or voidable or result in an increase of the premium payable.
- Comply with all Laws applying to the Woodlots.
- Keep in force all licences, permits or permissions required to carry on Tree Farming.
- Not lodge or register any absolute caveat against the certificate of title to the land the subject of the Woodlots to protect its interests under the Licence and irrevocably appoints the Land Owner as the agent and attorney of the Grower to execute and register a withdrawal of any absolute caveat registered by, or on behalf of, the Grower against any portion of the Land and a withdrawal of a "subject to claim" caveat that may be registered by or on behalf of the Grower at any time beyond 2 weeks after the expiry or earlier determination of the Licence, or if the Land Owner is required to do so, for whatever valid reason, under the terms of the Licence.
- Within 60 days of the expiration of the Term, at the Grower's cost, remove from the Woodlots all Harvested Timber, plant, equipment and other items brought onto the Woodlots by or on behalf of the Grower, and if the Grower fails to do so then the Land Owner may do so at the Grower's cost, and shall leave all fixtures, including the Irrigation System, Trees, stumps and Debris, and all Timber or other vegetation not Harvested. The Land Owner is legally entitled to any such things, including any produce which may grow therefrom, not removed by the Grower after the determination of the Licence.

LAND OWNER'S COVENANTS

The Land Owner shall let the Grower hold and enjoy the Woodlots without interruption, shall duly pay (or ensure the payment of) all taxes, rates and other charges in respect of the Land and all costs of preparation of the Licence, shall not create any encumbrances over the Land or Woodlots ranking in priority to or which would otherwise prejudice the Grower's interests under the Licence, shall provide the Grower or the Responsible Entity, at its own expense, plans and details necessary to identify the Woodlots and shall, at its own expense, install an operating Irrigation System no later than either the date of Allotment or the date by which the Grower plants the Trees under the Licence, whichever is the later. In addition, the Land Owner will carry out and fulfil all promises made to Growers in the PDS in relation to the Land.

REDUCTION IN VIABILITY OF WOODLOTS

If there is damage to the Woodlots, and the Responsible Entity determines that it is no longer commercially viable to carry out Tree Farming on any of the Woodlots, the Responsible Entity may assess and determine the extent of the damage or reduction and may terminate the obligations created by the Licence in relation to those Woodlots.



TERMINATION

The Land Owner shall be entitled to terminate the Licence if the Grower is declared bankrupt, goes into liquidation or has a receiver appointed, or fails to perform any covenants or conditions in the Licence, the Constitution or the Project Operations Agreement and the default continues, in the case of an obligation to pay money, for 14 days, or in any other case, for three months after receipt by the Grower of written notice from the Land Owner specifying the default and requiring it to be rectified. The Grower shall be entitled to terminate its obligations if the Land Owner is declared bankrupt, goes into liquidation or has a receiver appointed or is in default of any obligation and the default continues for 3 calendar months after receipt of written notice from the Grower specifying the default and requesting that it be remedied.

If the rights of the Grower are terminated as a result of default by the Grower, the Grower shall not be entitled to any compensation in respect of money contributed or Receipts in respect of the Trees or Timber grown on the Woodlots pursuant to the Licence.

PROHIBITED ACTIVITIES

The Grower shall not use or permit the use of the Woodlots for any purpose other than the carrying out of Tree Farming, the Harvesting of Trees and (if applicable) Milling of Timber. The Grower shall not use or permit the use of the Irrigation System for any purpose other than that for which it was constructed, nor do anything that might affect or damage the Irrigation System and comply with all reasonable requirements of the Land Owner relating to the Irrigation System. Further the Grower shall not cut down or harvest or permit the cutting down or harvesting of any Tree beyond the first cutting down of that Tree following that Tree being planted and shall not do or permit any nuisance or cause any damage to other Growers, the Land Owner or owners of adjoining land or the public.

The Grower shall not erect any buildings or structures on the Woodlots, or use the Woodlots for residential, recreational, tourist or illegal purposes. The Grower shall not light fires except in accordance with the *Fires and Rescue Act (Qld) 1990* and shall not store any inflammable, noxious or dangerous substances on the Woodlots or Land in a way which may result in damage to the Woodlots, the Land, the Trees, any livestock, other trees, plants and crops or any water reserves and shall not allow, and do all things to prevent, any contamination or pollution of the Woodlots.

ASSIGNMENT

The Grower may only assign the Licence in accordance with the Constitution and the Rules.

D. THE PROJECT OPERATIONS AGREEMENT

Upon Allotment, the Project Operations Agreement is entered into between the Grower and the Responsible Entity.

APPOINTMENT OF RESPONSIBLE ENTITY

The Grower engages the Responsible Entity, as an independent contractor, and not as agent, to carry out Tree Farming in accordance with the duties and obligations detailed in the Forestry Management Plan during the Term.

TERM

The Term of the Project Operations Agreement is from the date of Allotment until the completion of Harvest, the sale of all Timber and the receipt and dealing with all proceeds therefrom and the provision of all accounts and reports, or the termination of the Licence, whichever is the latest.

MANAGEMENT FEES

The Management Fees payable to the Responsible Entity per Woodlot are set out in Section 4.

If the Grower fails to pay any Management Fee by the date for payment under the Project Operations Agreement, the Responsible Entity may terminate the Agreement and the Grower must pay interest on the outstanding amount at the rate of 10% per annum simple interest until payment is made.

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CARBON CREDITS

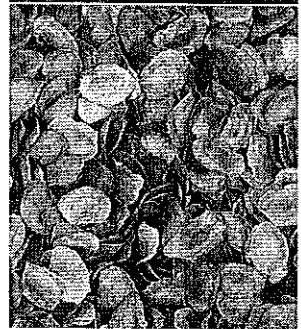
In accordance with the Licence, any sequestration rights, carbon credits or other environmental credits arising from or in connection with the Woodlots or Trees will be the property of the Grower and the Land Owner as tenants in common in the proportions 50%, 50% respectively and the Responsible Entity will do all things and sign all documents to effect this requirement.

TREE FARMING

The Responsible Entity agrees to carry out or cause to be carried out the services and duties set out in the Forestry Management Plan which are usual or necessary for carrying on the business of forestry, including the following, in accordance with sound forestry and environmental practices:

- Tend to the Trees according to the principles of good forestry.
- Keep the Irrigation System, roads, fences, gates and other improvements on the Woodlots in good and substantial repair and condition, and if necessary or if required by the Land Owner, replace and repair each of them.
- Do things reasonably required to eradicate, exterminate and keep the Woodlots and the Land free from disease, rodents, vermin, noxious weeds, rabbits, kangaroos, insects and all other pests and procure pest exterminators for that purpose.
- Keep the Woodlots and immediate surroundings in a thorough state of cleanliness.
- Comply with the *Bush Fires Act 1954*, attend to any notice under that Act received from the Grower, the Responsible Entity, or the Land Owner of any adjoining land, attend local government meetings in relation to fire prevention and protection or other matters relating to the Woodlots and take all proper measures to ensure that any fires on the Woodlots or Plantation which threaten the trees are properly controlled and supervised.
- Secure the entry ways to the Land against trespass.
- Ensure the Trees receive adequate water.
- At all time, keep current with a reputable insurer a public risk insurance policy to cover the liability of the Grower, the Responsible Entity and such other persons nominated by the Responsible Entity, in which the limit of public risk shall be not less than \$10,000,000, or such other amount as the Responsible Entity directs, and fire insurance in respect of the Trees and Timber and not allow any act, omission or event on the Woodlots which would render any insurance policy void or voidable or result in an increase of the premium payable.
- Deliver to the Responsible Entity copies of all notices, orders, requisitions, directions and summons which affect the Land and come to the Responsible Entity's notice.
- Carry out any other obligation on the Grower under the Licence.

The Responsible Entity shall be allowed full and free access to the Woodlots to fulfil its obligations in relation to Tree Farming and to allow other parties to measure, monitor or inspect the Woodlots or Trees under the Responsible Entity's strict supervision. The Responsible Entity may engage a forester or other third parties to assist with any aspect of Tree Farming, provided that it shall strictly supervise that performance. The Responsible Entity shall not use the Woodlots for any activities prohibited under the Licence (as set out above) and shall comply with and obey all Laws applying to the Woodlots. The Responsible Entity must also keep in force all licences, permits and permissions required to carry on Tree Farming and shall at all times give the Land Owners or occupiers of any Woodlot adjoining the Woodlots unimpeded use of any existing access roads, pathways or fire-breaks on the Woodlots. On the Grower's behalf, the Responsible Entity shall, within 60 days of the expiration of the Term, remove all Harvested Timber, plant, equipment and other items brought onto the Woodlots by or on behalf of the Grower, but shall leave the Irrigation System, all Trees, stumps, debris and all Timber or vegetation not Harvested. The Land Owner will be legally entitled to all things left on the Woodlots after 60 days.



HARVEST AND MILLING

The Responsible Entity shall conduct one Harvest of each Tree on the Woodlots during the Term, as and when deemed appropriate by the Responsible Entity in keeping with sound forestry practice. In particular, the timing of the collections may be altered or deferred by the Responsible Entity notwithstanding that it may differ from the timing proposed in this PDS.

No later than 3 months prior to Harvest, the Responsible Entity shall provide the Grower, a Harvest Plan setting out the Harvesting dates and the Harvesting Quote. Unless by its agent the Responsible Entity objects to the Harvesting Quote within 60 days and submits in its place a written better quote from a genuine contractor to Harvest and Mill the Timber in accordance with the Harvest Plan, the Harvesting Quote shall be deemed accepted by the Grower, and the Responsible Entity shall Harvest and Mill the Timber for the amount set out in the Harvesting Quote.

GROWER'S ELECTION TO SELL TIMBER

The Grower may elect by notice in writing to the Responsible Entity, by 30 June 2005 that the Grower wishes to personally sell the Timber Harvested (and, if applicable, Milled) from the Woodlots.

The Responsible Entity will Harvest the Timber and advise the Grower of the date and time the Timber can be removed, where on the Plantation the Timber is located and provide the Grower with a statement setting out the Timber Production Costs which the Grower must pay prior to removal of the Timber. The Responsible Entity must also provide the Grower with the Responsible Entity's estimate of the Harvest and Marketing Fee and the Incentive Share.

The Grower must collect and remove the Timber except for the Incentive Share within 14 days, and before doing so must pay the Timber Production Costs applicable to the Grower's Trees, the amount of the estimated Harvest and Marketing Fee, and any outstanding Project Fees payable under the Constitution. If the Grower fails to collect the Timber within the 14 days, the Grower shall be deemed to have appointed the Responsible Entity to sell the Timber except for the Incentive Share and shall not be entitled to take possession of or sell that Timber. In that event, the Responsible Entity is entitled to receive the sale proceeds of the Grower's Timber on the Grower's behalf.

SALE

Unless an election is made by the Grower to sell their own Timber, the Grower appoints the Responsible Entity to sell the Timber Harvested from the Grower's Woodlots. The Responsible Entity may pool and sell all Timber from the Plantation but need not identify Timber from the Grower's Woodlots and, following any principles the Responsible Entity may direct in the interests of fairness between Growers, shall make a fair and reasonable division of the total proceeds in calculating the Grower's share.

GROWER'S RIGHTS

The Grower and the Responsible Entity have the right to object to and disallow changes to the Forestry Management Plan, to inspect and copy any document or information relevant to the Tree Farming (subject to applicable confidentiality requirements). The Grower may express opinions to the Responsible Entity relevant to the activities of the Responsible Entity and to enter onto the Woodlots to inspect the carrying out of Tree Farming at times as may be arranged by the Responsible Entity, provided that the Grower shall pay all travelling costs incurred in doing so. The Responsible Entity will give due consideration to any opinions received in writing from the Grower and the Responsible Entity, but is not obliged to follow such opinions.

REPORTS

The Responsible Entity shall provide annual reports prepared by it relating to the Tree Farming to the Grower and the Responsible Entity by 30 September of each year of the Term, and, within 60 days of the sale of the Grower's Timber, a report setting out details and costs of the sale.

Reduction in Viability of Woodlots

If there is damage to the Woodlots, and the Responsible Entity determines that it is no longer commercially viable to carry out Tree Farming on any of the Woodlots, the Responsible Entity may assess and determine the extent of the damage or reduction and may terminate the obligations created by the Project Operations Agreement in relation to those Woodlots.

Section 13

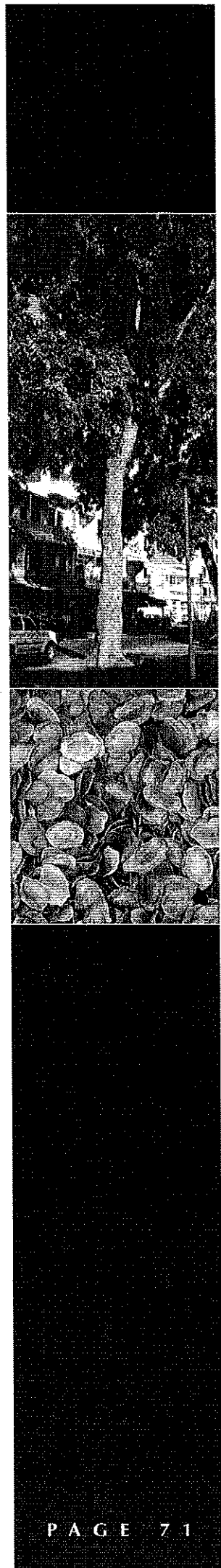
KEY AGREEMENTS

TERMINATION

The Responsible Entity shall be entitled to terminate the Project Operations Agreement if the Grower is declared bankrupt, goes into liquidation or has a receiver appointed, or fails to perform any covenants or conditions in the Agreement or the Constitution or Licence and the default continues, in the case of an obligation to pay money, for 14 days, or in any other case, for three months, after receipt by the Grower of written notice from the Responsible Entity specifying the default and requiring it be rectified. The Grower shall be entitled to terminate its obligations if the Responsible Entity is declared bankrupt, goes into liquidation or has a receiver appointed or is in default of any obligation and the default continues for 3 calendar months after receipt of written notice from the Grower specifying the default and requesting it be remedied.

E. OTHER MATERIAL CONTRACTS

1. A Standing Offer has been made by the Land Owner and Responsible Entity to enter into the Licence with every person who becomes a Grower under this PDS.
2. Management Agreement between the Responsible Entity and the Plantation Manager pursuant to which the Plantation Manager agrees to act as sub-contractor in relation to the carrying out of Tree Farming for the amount of Management Fees as are paid to the Responsible Entity by Growers under the Project Operations Agreement. This agreement effectively casts on the Plantation Manager the same obligations as are cast on the Responsible Entity under the Project Operations Agreement. In addition, the Plantation Manager agrees to carry out and fulfil all promises made to Growers, or recommendations of the Consultant Forester, in this PDS.
3. Responsible Entity Service Agreement dated 12 December 2002 between the Responsible Entity and the Plantation Manager pursuant to which the Responsible Entity agrees to act as responsible entity in relation to the Project and carry out all the usual work and fulfil all statutory obligations of a responsible entity of a managed investments scheme. Under this agreement, the Plantation Manager has paid or will pay the Responsible Entity a Licence Variation Fee of \$15,000, an Establishment Fee of \$20,000 on first Allotment, and Annual Fee of \$50,000 Indexed, plus additional fees for unusual or unexpected work, and out-of-pockets such as audit fees, P I Insurance and consultant forester's fees.



Section 14

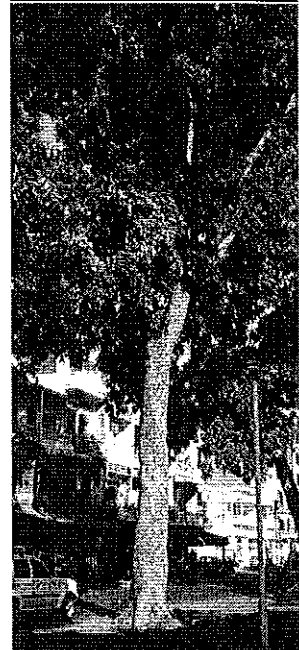
GLOSSARY OF DEFINED & TECHNICAL TERMS

Accounts	means the profit and loss statement, balance sheet and statement of cash flows for the Project for the relevant Financial Year and includes disclosures, statements, reports and notes required by the <i>Corporations Act</i> .
Agreements	means the Licence and the Project Operations Agreement;
Allotment	means the allocation of the Woodlots to the Growers under this PDS
Anniversary Date	means yearly anniversary following the date of Allotment;
Applicant	means any person who has submitted an Application;
Application	means, as the context requires, either an application to become a Grower and an offer to enter into the Licence and the Project Operations Agreement on the Application for Woodlots attached to this PDS and as specified in the Instructions for Lodgement;
Application Form	means an Application Form under this PDS;
Application Money	means the \$3,366.00 per Woodlot (including \$306.00 GST) payable by a Grower upon Application;
ASIC	means the Australian Securities and Investments Commission;
ATO	means the Australian Taxation Office;
Auditors	means the auditor of the Project and includes any additional or substituted auditor or firm;
Authorised Investments	means: <ul style="list-style-type: none">a) money;b) interest bearing deposits at call or for a term not exceeding 3 months with or without security with any bank or cash management fund;c) bank accepted and/or bank endorsed bills of exchange and promissory notes; andd) negotiable certificates of deposit issued by or bills of exchange drawn, accepted or endorsed by any bank;
chain of custody	means certification that wood has been tracked from plantation to the finished product;
CITES	means the Convention on International Trade in Endangered Species of Wild Fauna and Flora;
code of practice	means the relevant state or territory code or draft code of practice for forestry plantations;
Consultant Forester	means Mr Robin Yule;
Complainant	means a person making a Complaint under the Constitution;
Complaint	means any expression of dissatisfaction with the service offered or provided whether internal or external, and if external, whether by a Grower or otherwise;
Compliance Committee	means the Compliance Committee as required under Section 601JA of the <i>Corporations Act</i> , as appointed by the Responsible Entity and as established by Clause 5 of the Compliance Plan;
Compliance Officer	means the officer of that name appointed under the Compliance Plan;
Compliance Plan	means the Compliance Plan for the time being adopted by the board of directors of the Responsible Entity and lodged with the ASIC;
Constitution	means the Constitution so described commencing on page 64;
Corporations Act	means the <i>Corporations Act, 2001</i> ;

Section 14

GLOSSARY OF DEFINED & TECHNICAL TERMS

Custodian	means Garton Smith & Co or such other person who for the time being has been delegated by the Responsible Entity to hold the Project Property as agent for the Responsible Entity;
Dbhob	means diameter over bark at breast height – 130cms from ground level;
Debris	means all those parts of the Trees which are not Timber (including roots, branches and treetops);
Delivery	means delivery to a place for sale or Milling;
Elderslie	means Lot 176 on Crown Plan No BS24, County of Banks, Parish of McIvor
Fertigation	means the injection of liquid fertiliser into an irrigation system mainline at the point of connection, which involves frequent and controlled applications of light amounts of nutrients, such as nitrogen, potassium and sulphur, into the soil.
Forestry Expert	means any person independent of the Responsible Entity and the Plantation Manager and believed by the Responsible Entity, in good faith, to be expert in relation to forestry matters;
Forestry Management Plan	means that management plan for the Land as a forestry plantation as provided for in the Management Agreement (as varied by the Plantation Manager with the approval of the Responsible Entity);
FSC	means Forest Stewardship Council. FSC is an international, non-governmental organisation dedicated to promoting responsible management of the world's forests. It was founded in 1993 in response to public concern about deforestation and demand for a trustworthy wood-labelling scheme. There are national working groups in 28 countries;
genera	is the plural of 'genus' which is the next obligate taxonomic category above species and is essentially a group of closely related animals or plants;
Gross Harvest Proceeds	means the gross proceeds received from the sale of the Grower's Timber;
Grower	means each several person (or in the case of joint applicants or successors or permitted assigns, each of those persons) who becomes a party to the Constitution (as a Grower) as a result of either: <ul style="list-style-type: none"> a) acceptance of an Application by the Responsible Entity and an Allotment of Woodlots pursuant to the Application in this PDS; or b) a transmission, transfer, mortgage, assignment or other disposal pursuant to the Constitution; and who remains registered under the Constitution as the holder for the time being of any Woodlots;
GST	means goods and services tax imposed under the <i>Goods And Services Tax Act 1999</i> and all other acts, statutes or other laws implementing the GST including all amendments;

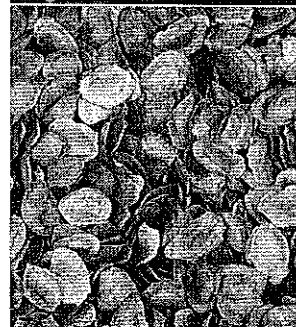
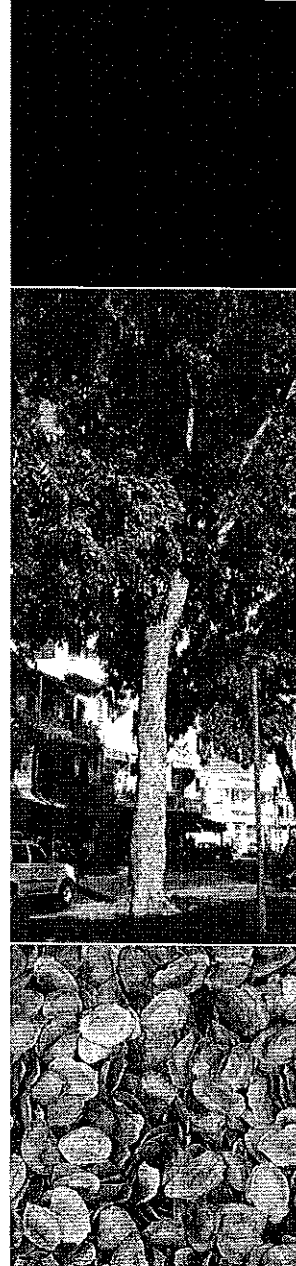


Harvest	means the cutting of the Timber from the Trees on the Woodlots, whether conducted as one operation or more than one operation;
Harvest Fee	means the fee payable by the Grower to the Plantation Manager for Harvesting the Trees and Milling for Timber in accordance with the Harvest Plan;
Harvest Plan	means the plan for Harvesting and Milling for the Plantation as prepared pursuant to the Project Operations Agreement;
Harvesting Quote	means the quote by the Responsible Entity for Harvest, Delivery and (if Applicable) Milling of the Timber;
Incentive Share	means 25% of the average amount of sawn Timber per Woodlot that exceeds 18.5 m ³ of sawn Timber per Woodlot times the number of Woodlots held by the Grower;
Indexed	means adjusted according to the aggregate percentage change in the most recently published consumer price index for the four quarters prior to the relevant date for payment or by the rate of 3% per annum whichever is greater;
Interest Rate	means 2% per annum higher than the maximum rate of interest charged from time to time by the Commonwealth Trading Bank, Perth on overdrawn accounts of less than \$100,000;
Irrigation System	means an irrigation system capable of supplying a sufficient quantity of water to all Woodlots, and in the requisite manner, as prescribed by the Project Operations Agreement, or as would be the case in any professional plantation;
IUCN	means International Union for Conservation of Nature and Natural Resources (The World Conservation Union);
IUCN Red List	means the IUCN list of globally threatened fauna and flora;
Janka hardness	is a measure of the hardness of wood, produced by a variation on a hardness test called the Brinell test. The test measures the force required to push a steel ball with a diameter of 11.28 millimetres (0.444 inches) into the wood to a depth of half the ball's diameter. In Australia, Janka hardness ratings are either in "newtons" (N) or kilonewtons (kN);
Khaya senegalensis	is the specie of African mahogany proposed to be planted by the Plantation Manager;
kN	means kilonewtons. See Janka hardness;
Land	means "Elderslie", being Lot 176 on Crown Plan No BS24, County of Banks, Parish of McIvor;
Land Owner	means NTT Land Holdings Pty Ltd, ABN 48 100 784 209;
Licence	means the Licence entered into pursuant to which the Grower is granted a Licence in relation to the Woodlots by the Land Owner;
Licence Fee	means the Licence Fee payable to the Land Owner under the Licence.
Management Agreement	means the agreement in relation to the Project entered into by the Responsible Entity or to be entered into by the Responsible Entity and the Plantation Manager, pursuant to which the Responsible Entity commissions the Plantation Manager as a sub-contractor to supervise, carry out, manage and administer the performance of the Tree Farming on behalf of the Responsible Entity;
Management Fee	means the annual fee payable by the Grower to the Plantation Manager;
Marketing Fee	means 5% of the Net Proceeds;

Section 14

GLOSSARY OF DEFINED & TECHNICAL TERMS

Milling	means milling or other processing of the Trees to produce Timber for sale, whether conducted as one or more operations;
Net Harvest Return	means the Net Proceeds less the Harvest and Marketing Fee;
Net Proceeds	means the Gross Harvest Proceeds less the Timber Production Costs;
Offer	means the offer of Woodlots (and the opportunity to be a Grower) under this PDS;
PEFC	means Pan European Forest Certification. The PEFC Council is an independent, non-profit, non-governmental organisation, founded in 1999 which promotes sustainably managed forests through independent third party certification. The PEFC provides an assurance mechanism to purchasers of wood and paper products that they are promoting the sustainable management of forests;
pH	in the context of soil is a measure of soil acidity and soil alkalinity on a logarithmic scale of 0 (extremely acidic) to 14 (extremely alkaline), with a pH of 7 being neutral. It gives an indication of the availability of plant nutrients and relates to the growth requirements of particular crops. Acid soils are usually deficient in necessary nutrients eg. calcium and magnesium. (Victorian Resources Online Soil Glossary);
Plantation	means the Woodlots of Growers on which Trees are farmed and Timber is Harvested;
Plantation Establishment Services	means the following services to be performed relevant to the main planting and establishment of the Trees on the Woodlots, namely tending to seedlings prior to planting, ripping, mounding, applying fertiliser or herbicide to the seedlings prior to and during planting and planting the seedlings (but not including specific planting to replace Trees that have not survived);
Plantation Manager	means Northern Tropical Timbers Pty Ltd ABN 43 100 784 192, being the entity which acts as the sub-contractor of the Responsible Entity to supervise, carry out, manage and administer the performance of the Tree Farming;
Prescribed Proportion	means the following fraction: $\frac{P}{T}$ where: P is the number of Woodlots registered in the name of the Grower; and T is the total number of Woodlots registered,
Product Ruling	means an opinion provided by the ATO (to provide certainty for potential investors) confirming tax benefits are available for the scheme the subject of the product ruling, provided the arrangements have been provided in accordance with the product ruling.

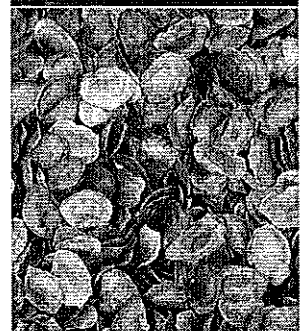
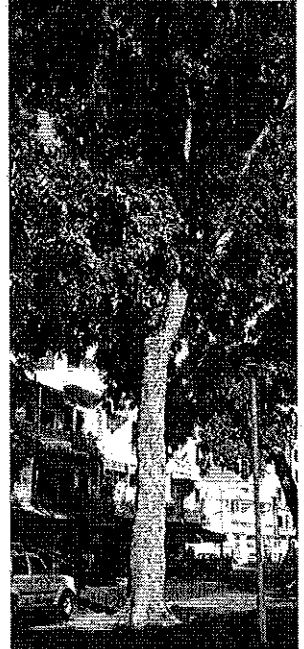


Project	means the NTT Mahogany Project managed investment scheme and the performance of Tree Farming on the Woodlots by the Growers, the receipt of the proceeds from the Harvest and sale of Timber and all of the arrangements in relation to those matters for the NTT Mahogany Project;
Project Fees	means all fees, costs, interest or expenses payable by the Grower to the Plantation Manager under the Project Operations Agreement and all Licence Fee or other fees, costs, interest or expenses payable by the Grower to the Land Owner under the Licence;
Project Operations Agreement	means the Project Operations Agreement for the performance of the Tree Farming between the Responsible Entity and each Grower;
Project Property	means the interest of each Grower in: <ul style="list-style-type: none"> a) the Application Money; b) Project Fees; c) Receipts; d) any other entitlement to money; e) any other property which the Grower acquires directly or indirectly with, or with the proceeds of, the money described in a) or b); and f) income or property derived, directly or indirectly, from the money or property described in a), b), c), d) or e)
PDS	means this product disclosure statement and includes any replacement or supplementary PDS;
Receipts	means: <ul style="list-style-type: none"> a) any interest and income earned from moneys in the Trust Account and from Authorised Investments; b) any refunds of Project Fees or other payments made by the Grower; c) proceeds from sale of the Grower's Timber; d) proceeds from any insurance claims to which the Grower is entitled; e) proceeds of any action, suit or proceeding or settlement thereof relating to the Project to which the Grower is entitled; f) payments made by a Grower to the Responsible Entity who elects to sell his or her own Timber in payment of outstanding costs and fees prior to the Grower collecting the Grower's Timber; and g) receipts from the sale of the Project or all rights of the Grower in relation to the Project and any other receipts in relation to the Project to which the Grower is entitled.
Register	means the register of Growers kept pursuant to the <i>Corporations Act</i> ;
Responsible Entity	means Primary Securities Ltd ABN 96 089 812 635 or other Responsible Entity for the time being under the Constitution, in its capacity as agent for the Growers whether original, additional or substituted;
Rules	means the Rules laid down by the Responsible Entity under the Constitution;
Sawn Recovery	means rough sawn volume based on 50% recovery from each log;
soloth	is one of the Great Soil Group classifications, a soil classification system which is based on the description of soil properties such as colour, texture, structure, drainage, lime, iron, organic matter and salt accumulation, as well as on theories of soil formation. A soloth soil is a typical soil of humid regions.

Section 14

KEY RISK FACTORS AND SAFEGUARDS

Standing Offer	means the standing offer referred to on page 71;
Tax Act	means the <i>Income Tax Assessment Act, 1936</i> (Cth) and <i>Income Tax Assessment Act, 1997</i> (Cth);
Term	means the term of the Project Operations Agreement (being the date on which the Project Operations Agreement comes into effect until the completion of Harvest and payment of proceeds from Harvest as required by the Project Operations Agreement) or the Licence (as set out on page 66) as the case may be;
Timber	means that saleable timber or wood derived from the Trees to be grown on the Grower's Woodlots;
Timber Production Costs	means the Harvest Fee and all transportation costs, drying costs and any other associated costs necessary to prepare the Grower's Timber for sale and the delivery of that Timber to markets (and where those costs are aggregated, means the Prescribed Proportion thereof);
Trees	means the crop of trees to be farmed on the Woodlots for Harvest and sale;
Tree Farming	means the forestry activities to be carried out by the Grower on the Woodlots pursuant to the Project Operations Agreement;
Trust Account	means the trust account kept by the Custodian on behalf of the Responsible Entity for the purpose of depositing the Subscription Money for Woodlots, the Project Fees, the Receipts, which may be pooled with any other moneys which the Responsible Entity may hold for the Growers;
VU A1cd	is one of the IUCN Red List categories of risk. VU signifies the category "vulnerable" being not yet "critically endangered", and "endangered". A1 means that there is a suspected 30% or more population reduction occurring over any 10 year period. The letters "cd" indicate the position in the hierarchy of vulnerability;
Wallum	is an aboriginal word for the Wallum Banksia (<i>Banksia aemula</i>), found growing on the coastal lowlands between northern New South Wales and southern Queensland. The term 'Wallum' is commonly used to describe coastal vegetation types growing on sand dunes or flat, undulating country with acid soils and a high water table. (Tin Can Bay Coastcare Wallum Information Sheet No. 1)
windthrow	means trees uprooted by excessive wind;
Woodlot	means that specified area of land, identified individually by a number, to be licensed to the Grower under the Licence.



Section 15

INSTRUCTIONS FOR LODGEMENT

1. If an Application Form is lodged by an individual or individuals it must be signed personally.
2. In the case of joint Applicants, all must sign and full names, addresses and phone numbers must be shown in the place provided. Full names, addresses and phone numbers of partners and the relevant partnership name should be provided.
3. If this Application Form is lodged by a company it must be executed under its common seal (if applicable) with its ABN thereon and in accordance with its Memorandum and Articles or Constitution.
4. Application Forms may be executed under Power of Attorney. If so signed, the attorney warrants that the attorney has no knowledge of any revocation of that power.
5. All cheques for Woodlots should be made payable to "NTT Trust Account" and crossed "Not Negotiable".
6. Mail (or deliver) cheque and Application Form to:

Primary Securities Ltd,
13 Nairn Street, Fremantle 6160

or PO Box 732, Fremantle 6959

or to the authorised representative or AFS licensee for forwarding to the Responsible Entity.

7. This PDS for the NTT Mahogany Project contains information about investing in a tree cultivation project. This PDS should be read in its entirety before any Application is made. Any person who provides any other person with access to this Application Form must at the same time and by the same means give that other person access to the PDS. At any time prior to the expiry of the PDS, the Plantation Manager, and any securities dealer acting on the Plantation Manager's behalf, will send a paper copy of the PDS, including this Application Form, to any person on request, without charge. If you wish to receive a hard copy of the current PDS please call us on Toll Freecall 1300 138 827 or go to front page of our website at www.primarysecurities.com.au and double click on Contact Us.

8. PRIVACY DISCLOSURE

The Responsible Entity collects information about you in your Application Form for the purposes of processing your Application and, if Allotment is made, to administer your investment and to report to you. You agree, by submitting your Application Form, that the Responsible Entity may disclose the information to any independent share registry, to the Plantation Manager and to any other agents, contractors or service providers including banks and professional advisers. The *Corporations Act* requires the Responsible Entity to include information about you (including name, address and details of the Woodlots you hold) in the Register. The information contained in the Register must remain there even if you cease to be a Grower. This information may also be disclosed by the Responsible Entity to any independent share registry, the Plantation Manager, agents, contractors or service providers including banks and professional advisers. We may use your contact details to let you know of future offers involving the Plantation Manager, but if you do not want to receive these, please contact the Plantation Manager on 1300 138 827. If you do not provide the Responsible Entity with the information requested in the Application Form, your Application may not be processed. You have a right to seek access to the information the Responsible Entity holds about you, and (in writing) to ask the Responsible Entity to correct any information which is held about you and which you believe is inaccurate, incorrect or out of date.

9. TAX FILE NUMBER

It is not compulsory to give us your TFN. However, if you do not provide the TFN, then to the extent that any taxable distribution is payable to you, we may be required to withhold tax at the rate of 48.5% or the maximum marginal rate prevailing at the time plus the Medicare Levy. Instead of giving us your TFN, you may give us your ABN.

Application Form

NTT MAHOGANY PROJECT

ARSN 103 557 517

BROKER'S STAMP

ADVISER'S NAME

Please complete both sides of this form

A. DETAILS OF THE APPLICANT (PLEASE USE BLOCK LETTERS):

Individual/Trustee

FULL NAME: SURNAME

"THE APPLICANT"

GIVEN NAMES

TITLE (MR, MRS, MS)

ABN (IF APPLICABLE)

ADDRESS

SUBURB

STATE

POSTCODE

TELEPHONE (OFFICE)

TELEPHONE (PRIVATE)

EMAIL (OFFICE)

EMAIL (PRIVATE)

Company/Trust

NAME OF COMPANY/TRUST

"THE APPLICANT"

ABN

REGISTERED OFFICE

SUBURB

STATE

POSTCODE

CONTACT PERSON

TITLE (MR, MRS, MS)

POSITION OF CONTACT PERSON

TELEPHONE (OFFICE)

TELEPHONE (PRIVATE)

EMAIL

B. TAX FILE NUMBER OR EXEMPTION (OPTIONAL)

C. NUMBER OF WOODLOTS APPLIED FOR:

I/We wish to apply for Woodlots. Each Woodlot costs \$3,366.00 (inclusive of \$299.75 GST)

TOTAL AMOUNT PAYABLE FOR ALL WOODLOTS APPLIED FOR:

x = Woodlots @ \$3,366.00 = \$

Is the Application subject to Finance? (please tick) ☐ Yes ☐ No

Note: If the Application is subject to finance, it will not be accepted and Allotment will not occur until finance is approved and payment is received and cleared by the Custodian.

PLEASE READ THIS ENTIRE DOCUMENT

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Application Form

Please complete both sides of this form

1. The Applicant applies to Primary Securities Ltd ABN 96 089 812 635 (the Responsible Entity) for the number of Woodlots shown above in relation to the above Project (or such lesser number of Woodlots as may be allotted by the Responsible Entity).
2. The Applicant agrees to be bound to the Constitution and the Rules as a Grower.
3. The Applicant also offers to enter into the Licence and the Project Operations Agreement as a Grower and acknowledges that upon this Application being accepted in whole or part, the Applicant will be bound to the Licence and to the Project Operations Agreement as a Grower.
4. The Applicant now pays the Application Money per Woodlot of \$3,366.00 (inclusive of \$299.75 GST).
5. The Applicant also agrees to pay all Project Fees when due under the Constitution.
6. The Applicant declares an intention to continue in the Project until receipt of proceeds of Harvest.

EXECUTION OF APPLICATION FORM

Dated this _____ day of _____ 2003

i) INDIVIDUAL(S)

Signed by the Applicant in the Presence of:

("the Applicant")

Date

(Witness)

Date

Signed by the Applicant in the Presence of:

("the Applicant")

Date

(Witness)

Date

i) COMPANY

For companies with a common seal

THE COMMON SEAL of the Applicant was affixed in accordance with the Constitution of the Applicant in the presence of:

(Director)

Date

(Director/Secretary)

Date

For companies without a common seal

SIGNED in accordance with the Constitution of the Applicant in the presence of:

(Director)

Date

(Director/Secretary)

Date

SEND THIS COMPLETED APPLICATION FORM TO:
PRIMARY SECURITIES LTD 13 NAIRN STREET FREMANTLE WA 6160
OR PO BOX 732 FREMANTLE WA 6959

For updates, go to www.primarysecurities.com.au
For further copies of this PDS call the Plantation Manager on Toll Freecall 1300 138 827

PRIMARY SECURITIES LTD
RESPONSIBLE ENTITY • ABN 96 089 812 635