

Thank you for requesting this Product Disclosure Statement from Funds Focus.

### ***Fee Reduction***

As highlighted within our offers page, whilst most agribusiness schemes typically pay an entry fee of up to 8%. Applications lodged through Wealth Focus will receive a rebate of up to 8% in the form of a cheque once your application has been processed.

### ***How to Apply***

Please have a read through the PDS and if you would like to invest the application pages can generally be found towards the back of the document. You will only need to send the application section back with a cheque payable direct to the investment company (not ourselves). You should take note of any minimum investment amounts that may apply.

Then mail the completed application directly to us.

We will then check to ensure your form is completed correctly before forwarding your document on to the investment provider on your behalf.

Wealth Focus Pty Ltd  
Reply Paid 760  
Manly  
NSW 1655

Please note that we are unable to track applications mailed directly to the product provider and therefore cannot guarantee that your discounts have been applied in these instances.

Should you wish to take advantage of our free annual valuation and tax report for all your investments you should complete our broker nomination form for The Wealth Focus Investment Service.

Regards

**Suliaman Ravell**  
Managing Director

Wealth Focus Pty Ltd  
ABN 87 123 556 730  
56 The Corso, Manly, NSW 2095  
Postal Address: Reply Paid 760, Manly, NSW 1655



## **Requirements for verifying your identity under the new Anti Money Laundering (AML)/Counter Terrorism Financing (CTF) Act**

The AML/CTF Act came into effect on the 12<sup>th</sup> December 2007. All financial planning and fund management companies are now required to collect, verify and store specific customer information before arranging investment services for a client. It is designed to prevent, detect and protect Australian business from money laundering and the financing of terrorist activities.

As such, we request that all new applications are sent with 'certified documentation'.

**We have found that the easiest way to provide the required documentation is to have a copy of your driving licence *or* passport certified by Australia Post or a Justice of the Peace (please see following page for a full list of individuals that can certify documentation).**

**Once this has been completed, under the current requirements we will not require you to send identification again.**

### **What you need to do**

You will need to enclose a certified piece of photographic evidence or one piece of primary non-photographic evidence and one piece of secondary evidence (please refer to the Identification Form for document requirements), with your application form and post to us at the following address

**Wealth Focus Pty Ltd**

Reply Paid 760

Manly

NSW 1655

Please do not send us original driving licences or passports as these can very easily get lost in the post. Copies of documents can be certified by an authorised individual, they will need to sight and verify that the copy is a 'certified true copy', sign, date, print their name and list their qualification.

**ANTI-MONEY LAUNDERING REQUIREMENT FOR NEW APPLICATIONS  
IDENTIFICATION FORM A**

**GUIDE TO COMPLETING THIS FORM**

- Please contact us on 1300 55 98 69 if you have any queries.
- If you wish to apply in the name of a trust or company, please contact us for an alternative identification form.  
**SMSF's and retail superannuation applications do not need to provide ID** (an online check will be performed for SMSFs)

**Attach** a certified copy of the ID documentation used as proof of identity. ID enclosed should verify your full name; and **EITHER** your date of birth or residential address.

- Complete Part I (or if the individual does not own a document from Part I, then complete either Part II or III.)

**PART I – ACCEPTABLE PRIMARY ID DOCUMENTS**

|                          |  |
|--------------------------|--|
|                          | Select ONE valid option from this section only   |
| <input type="checkbox"/> | Australian State / Territory driver's licence containing a photograph of the person                                    |
| <input type="checkbox"/> | Australian passport (a passport that has expired within the preceding 2 years is acceptable)                           |
| <input type="checkbox"/> | Card issued under a State or Territory for the purpose of proving a person's age containing a photograph of the person |
| <input type="checkbox"/> | Foreign passport or similar travel document containing a photograph and the signature of the person*                   |

**PART II – ACCEPTABLE SECONDARY ID DOCUMENTS – should only be completed if the individual does not own a document from Part I**

|                          |  |
|--------------------------|--|
|                          | Select ONE valid option from this section  |
| <input type="checkbox"/> | Australian birth certificate   |
| <input type="checkbox"/> | Australian citizenship certificate   |
| <input type="checkbox"/> | Pension card issued by Centrelink  |
| <input type="checkbox"/> | Health card issued by Centrelink   |
|                          | <b>AND ONE</b> valid option from this section  |
| <input type="checkbox"/> | A document issued by the Commonwealth or a State or Territory within the preceding 12 months that records the provision of financial benefits to the individual and which contains the individual's name and residential address   |
| <input type="checkbox"/> | A document issued by the Australian Taxation Office within the preceding 12 months that records a debt payable by the individual to the Commonwealth (or by the Commonwealth to the individual), which contains the individual's name and residential address. <i>Block out the TFN before scanning, copying or storing this document.</i> |
| <input type="checkbox"/> | A document issued by a local government body or utilities provider within the preceding 3 months which records the provision of services to that address or to that person (the document must contain the individual's name and residential address)   |
| <input type="checkbox"/> | If under the age of 18, a notice that: was issued to the individual by a school principal within the preceding 3 months; and contains the name and residential address; and records the period of time that the individual attended that school  |

**Who can verify customer identity documents?**

Please find below a list of all the Approved Individuals that can certify documents:

- **A Justice of the Peace**
- **An agent of the Australian Postal Corporation** who is in charge of an office supplying postal services to the public, or a permanent employee with more than two years continuous service (who is employed in an office supplying postal services to the public)
- A notary public (for the purposes of the Statutory Declaration Regulations 1993)
- A person who is enrolled on the roll of the Supreme Court of a State or Territory, or the High Court of Australia, as a legal practitioner (however described)
- A judge, magistrate, registrar or deputy registrar of a court
- A chief executive officer of a Commonwealth Court
- A police officer
- An Australian consular or diplomatic officer (within the meaning of the Consular Fees Act 1955)
- An officer or finance company officer with two or more continuous years of service with one or more financial institutions (for the purposes of the Statutory Declaration Regulations 1993)
- An officer with, or authorised representative of, a holder of an Australian Financial Services Licence, having two or more continuous years of service with one or more licensees, and
- A member of the Institute of Chartered Accountants in Australia, CPA Australia or the National Institute of Accountants with more than two years continuous membership.



REWARDS GROUP  
Premium Timber  
Project 2010

# Corporate Directory

## Responsible Entity

Rewards Projects Ltd  
ACN 089 582 427 AFSL 224000  
Ground Floor, 50 Colin Street, West Perth WA 6005  
PO Box 803, West Perth WA 6872  
Tel 08 9324 1155 - Fax 08 9324 2155  
Freecall 1800 111 781  
[www.rewardsgroup.com.au](http://www.rewardsgroup.com.au)  
[mail@rewardsgroup.com.au](mailto:mail@rewardsgroup.com.au)

## Directors of Responsible Entity

Dr Andrew Radomiljac  
Mr Craig Anderson  
Mr David Humann

## Manager

Rewards Management Pty Ltd  
ACN 089 940 376  
Ground Floor, 50 Colin Street, West Perth WA 6005

## Independent Forestry Expert

Treetec Consulting Pty Ltd  
ACN 077 935 203  
PO Box 1920, Subiaco WA 6904

## Independent Market Expert

Synovate Pty Ltd  
ACN 054 505 127  
Level 1, 1292 Hay Street, West Perth WA 6005

## Taxation Advisers

KPMG  
Central Park, 152-158 St Georges Terrace  
Perth WA 6000

## Auditors

Ernst & Young  
11 Mounts Bay Road, Perth WA 6000

## Solicitors

McMahon Clarke Legal  
62 Charlotte Street, Brisbane QLD 4000



## Disclaimer

This Product Disclosure Statement (PDS) is dated 21 April 2010. It relates to an offer by Rewards Projects Ltd for interests (Woodlots) in the Rewards Group Premium Timber Project 2010 (Project), a registered managed investment scheme. Rewards Projects Ltd is the Responsible Entity for the Project.

The offer in this PDS is for 9,000 Woodlots of 0.25 hectares each. Rewards Projects Ltd reserves the right to accept oversubscriptions or reduce the number of Woodlots offered under this PDS.

This PDS is important and should be read in its entirety. If you are uncertain or have any doubts about subscribing to the Project, then you should consult your financial adviser, solicitor or accountant.

Prospective Applicants are advised the contents of this PDS do not amount to advice relating to legal, taxation or investment matters. The Responsible Entity recommends prospective Applicants consult their own advisers before making a decision regarding an investment in the Project. This PDS does not take into account the financial circumstances or obligations of prospective Applicants.

An investment to which this PDS relates should be considered a speculative investment. No person named in this PDS or any other person guarantees the success or performance of the Project or the payment of any return from an investment or the taxation consequences of any investment in the Project.

This Project is intended to be a long term investment and will be subject to the risks generally associated with commercial plantation forestry and other risks as detailed on page 20. Recipients of this PDS are encouraged to read the risks and analysis contained on pages 20-22 before subscribing to the Project.

Capitalised terms in this PDS have the meaning given to them in the Glossary on page 70.

## Access to Updated Information

Information in this PDS is subject to change from time to time. If a change occurs that Rewards Projects Ltd reasonably considers to be materially adverse to prospective Applicants, then the information contained in this PDS will be updated by a supplementary PDS.

If Rewards Projects Ltd reasonably concludes prospective Applicants will not consider the updated information to be materially adverse, then it will publish updated information on its website [www.rewardsgroup.com.au](http://www.rewardsgroup.com.au) but will not issue a supplementary PDS. To find out if a supplementary PDS has been issued or updated information has been published, please call 1800 111 781. A paper copy of any updated information will be sent to you, without charge, on request.

As outlined on pages 5 and 29 of this PDS, on 31 March 2010 The ARK Fund Limited (ARK) announced to the ASX a proposed merger with Rewards Group Limited, the parent company of the Responsible Entity, and the capitalisation of the combined group via a convertible bond to raise \$55 million. Applicants seeking information relating to progress of the merger should refer to [www.asx.com.au](http://www.asx.com.au) using ASX Code (ARJ) for details of announcements made by ARK. Additionally, the Responsible Entity will use [www.rewardsgroup.com.au](http://www.rewardsgroup.com.au) to provide prospective Applicants with updates regarding the progress of the merger. The merger is conditional on a number of events occurring as listed on page 29. If the merger is not approved by ARK shareholders or does not proceed for any other reason, the Responsible Entity will (up to 30 June 2010) allow Applicants to withdraw their applications for interests in the Project. Other important information about the merger, including what may happen if the merger is not approved by 30 June 2010, is set out on page 29.

REWARDS GROUP

# Premium Timber Project 2010

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# The Teak Process



1

Previously cleared farmland that has been carefully selected based on soil depth, fertility and location is prepared for planting by ripping and mounding the soil.



2

Clones of superior teak trees selected from international breeding programs are propagated by tissue culture.



3

Teak plants are transplanted to nursery pots for further propagation before planting.



4

The teak plants are planted along the planting lines during the north Queensland wet season.



5

The teak plantation will be maintained in accordance with the Management Plan to ensure it performs to its potential.



6

Teak is a fast growing tropical timber that requires regular thinning harvests.



7

The teak trees will be harvested on a progressive basis between the ages of six and eighteen. The long teak logs are cut by a mechanical harvester and loaded onto trucks.



8

The teak logs are graded, sorted and identified prior to export.



9

Teak is a high value timber and is used in high grade applications such as furniture manufacturing and boat building.

# The Sandalwood Process



1

A property's suitability for growing sandalwood is determined by assessment of the soil depth, fertility and moisture retention characteristics.



2

Previously cleared farmland is prepared for planting by ripping and mounding the soil.



3

Sandalwood trees require a host tree to survive and grow. The acacia host seedlings will be planted into the planting lines during the 2011 winter.



4

Sandalwood seeds will be directly sown into the ground near the established host tree approximately six months later.



5

A survival count will be conducted the following year and any necessary resowing will be performed.



6

The sandalwood plantation will be maintained in accordance with the Management Plan to ensure it performs to its potential.



7

The sandalwood trees will be harvested on a progressive basis between the ages of five and seventeen. The tree stem, branches and roots contain saleable wood and harvesting occurs by removing the whole tree from the ground.



8

The sandalwood is processed prior to export as uncleaned logs, butts and roots, dead wood pieces, chips, powder and shavings.



9

Sandalwood is ground into powder and then processed into incense sticks. Sandalwood oil (distilled from the sandalwood heartwood) is used in the manufacture of perfumes, soaps and cosmetics.



# Key Features

The Rewards Group Premium Timber Project 2010 offers Growers the opportunity to participate in a premium Australian forestry plantation project. This Project will result in the establishment and operation of an intensively managed Australian sandalwood plantation in Western Australia and teak plantation in far north Queensland.

The offer in this PDS is for 9,000 Woodlots of 0.25 hectares each at an issue price of \$6,050 (including GST) per Woodlot. Rewards Projects Ltd reserves the right to accept oversubscriptions or reduce the number of Woodlots offered under this PDS.

The Project aims to produce teak poles and sawlogs and export quality sandalwood with each Woodlot comprising a Sandalwood Block of 0.15 hectares and a Teak Block of 0.1 hectares.

Teak is a premium tropical hardwood renowned for its strength, durability and weather resistant qualities. The market value of teak is greater than that of most other plantation timbers.

Sandalwood is native to Western Australia and has been exported to Asian markets for over 160 years. It is an aromatic wood highly prized in Asia for its use in joss sticks (incense) and as a source of essential oil. Sandalwood oil is used as a base in many cosmetics and perfumes.

The trade in teak logs and timber and sandalwood has occurred for centuries. The majority of timber produced is either consumed internally in the country of origin or used in the manufacture of export products for the Western market.

The Project should help to ease pressure on native timber supplies in Asia, reduce soil degradation on farmland in the Western Australian Wheatbelt and north Queensland and create a sink for greenhouse gases.

Rewards Projects Ltd, in conjunction with sales agent, Jiwan International in Delhi, India, has entered into three legally binding off-take agreements in relation to sandalwood sapwood logs, that may be harvested as part of the first thinning of the Woodlots. Rewards Projects Ltd, in conjunction with sales agent, Berar Timbers in Mumbai, India has entered into three legally binding off-take agreements in relation to teak poles and sawlogs with six global teak traders. Subject to certain conditions being met, these off-take agreements secure the sale of all teak poles and sawlogs from the Project until 2020 and the sale of all 5 year old sandalwood logs (refer to page 65 for further details and pages 65 and 66 for a summary of the teak and sandalwood sapwood off-take agreements).

The term of the Project is expected to be approximately twenty years, with the first harvest occurring when the sandalwood trees are at least five years old and the teak trees are six years old.

Significant tax deductions are expected for expenditure incurred by Growers. The Australian Taxation Office has issued product ruling PR 2010/8 in respect of the Project.

## Additional information

- On 31 March 2010, The Ark Fund Limited announced to the ASX a proposed merger with Rewards Group Limited, the parent company of the Responsible Entity. Under the proposed arrangement, the combined entity will undertake a recapitalisation via a convertible bond to raise \$55 million. Full details of the proposed transactions (including arrangements for obtaining approval from ARK shareholders) are outlined on page 29.
- In April 2010, ASIC released Consultation Paper 133 (CP133) designed at improving the consistency and quality of disclosure among responsible entities of agribusiness managed investment schemes. CP133 contains a number of proposed benchmarks against which ASIC expects agribusiness scheme operators will provide disclosure on an 'if not, why not' basis. Whilst a final regulatory guide relating to the disclosure benchmarks has not yet been issued by ASIC, Rewards Projects Ltd provides the following disclosure against the benchmarks proposed by ASIC in CP133:

| Disclosure benchmark   | Benchmark answer | Further explanation (if applicable)   |
|--|------------------|---|
| <p><b>Benchmark 1: Fee Structures</b></p> <p>Do Growers pay annual fees (based on the actual costs of operating the Project) to the Responsible Entity?</p>  | No               | <p>The fees payable to the Responsible Entity for the ongoing maintenance of Grower's Woodlots are determined by reference to and payable out of the amount of harvest proceeds generated (net of harvest costs). This structure removes the need for Growers to make annual contributions to the cost of operating the Project and provides an incentive for the Responsible Entity to maximise harvest returns. This fee arrangement requires the Responsible Entity to fund the cost of performing work for an extended period prior to receiving payment.</p> <p>Refer to page 21 under the heading "Receipt of fees" for additional details.</p> |
| <p>Does the Responsible Entity use a custodian to hold assets of the Project?</p>  | No               | <p>Rewards Projects Ltd will personally hold the assets of the Project in accordance with measures documented in the compliance plan for the Project to ensure Project fees and any harvest proceeds are held separately from the responsible entity's own assets and from the assets of other schemes.</p>   |
| <p><b>Benchmark 2: Track Record of the Responsible Entity</b></p> <p>Have other similar agribusiness schemes operated by the Responsible Entity met the forecasts/projections disclosed in the scheme's PDS, periodic disclosure, advertising or promotional disclosure material, or are still expected to meet those forecasts/projections?</p>   | Yes              | N/A   |
| <p><b>Benchmark 3: Responsible Entity ownership in scheme</b></p> <p>Immediately following the allocation of interests, will the Responsible Entity, or any other group company, own less than 5% in aggregate of the interests of the Project?</p>  | Yes              | N/A   |
| <p><b>Benchmark 4: Annual reporting to Members</b></p> <p>Will the Responsible Entity (via undertakings in this PDS or some other legally enforceable form) provide Growers with relevant Project-specific information at least annually?</p>  | Yes              | N/A   |
| <p><b>Benchmark 5: Responsible Entity financial position and use of funds raised</b></p> <p>Will the Responsible Entity draw down on amounts invested or paid by Growers only to meet fees due and payable and expenses incurred in the operation of the Project during the financial period?</p> <p>Is fee income generated by the Project restricted so that it can only be used for the operation of the particular Project? This does not preclude the Responsible Entity from claiming expenses (or charging fees) for the Project.</p> | No<br><br>No     | <p>Refer to the response to Benchmark 1.</p> <p>Apart from the Planting Services Fund (described on pages 15 -16 of the PDS) there are no restrictions limiting the use of fees paid to the Responsible Entity.</p>   |

| Disclosure benchmark   | Benchmark answer        | Further explanation (if applicable)  |
|--|-------------------------|--|
| Is the Responsible Entity reliant on funding from external or related parties to perform the functions and obligations required to be provided under the terms of the Scheme Documentation?  | Yes                     | The Responsible Entity has engaged the Manager to perform various services under the terms of the Operations Agreement (including the payment of fees to the Manager). The Manager must provide its own working capital to perform its obligations under the Operations Agreement.<br><br>Also refer to the response to Benchmark 1. |
| <b>Benchmark 6: Qualifications of Experts</b><br><br>Do Experts engaged by the Responsible Entity to provide professional or expert opinion in respect of the Project, hold and maintain relevant qualifications and are independent? Have these qualifications and accreditations been disclosed to Growers?  | Yes                     | N/A  |
| <b>Benchmark 7: Related Party Issues</b><br><br>Will any service agreements entered into by the Responsible Entity in respect of the Project be disclosed to Growers, subject to a competitive process and annual review against set performance requirements and approved by the board of the Responsible Entity.   | Yes                     | N/A  |
| <b>Benchmark 8: Land, licences and water-related issues</b><br><br>Will the land on which the Project is operated form part of the property of the Project or be owned by the Growers?<br><br>Are licences required to secure access to areas to conduct the business of the Project the property of the Project?<br><br>Will land and licence assets be used as security for borrowings by the Responsible Entity?  | No<br><br>No<br><br>Yes | No land used in relation to the Project will be owned by Growers. All land used in relation to the Project will be owned by Rewards Land Pty Ltd. Land will be used to secure borrowings by Rewards Group Ltd or related entities. Refer to page 22 under the heading "Access to land" for additional details.                       |
| Is the water, and any related rights and infrastructure, to be used in relation to the Project owned by the Project or the Growers?  | No                      | The Land Selection Protocol outlined on page 17 of the PDS require all Plantation sites to achieve specific average rainfall levels. Rainfall will be the sole water source for the Plantation.  |
| Have the directors of the Responsible Entity made an express statement in this PDS and annually that they believe the Project has access to sufficient water to meet the needs of the Project?   | No                      | The Land Selection Protocol outlined on page 17 of the PDS require all Plantation sites to achieve specific average rainfall levels The Responsible Entity will monitor ongoing rainfall levels throughout the Plantation.   |
| <b>Benchmark 9: Third Party Financing Arrangements</b><br><br>If the Responsible Entity or a related party is providing finance or arranging for finance to be provided to Growers to fund an investment into the Project, then have the following details been disclosed in the PDS:<br><br><ul style="list-style-type: none"> <li><input type="checkbox"/> details of the financier;</li> <li><input type="checkbox"/> the term of the loan;</li> <li><input type="checkbox"/> the current interest rate;</li> <li><input type="checkbox"/> whether the loan is recourse;</li> <li><input type="checkbox"/> if the loan is recourse, an explanation of what this means for a Grower in the event of the Project needing to be wound up; and</li> <li><input type="checkbox"/> any other material terms of these agreements?</li> </ul> | Yes                     | N/A  |
| <b>Benchmark 10: Replacement of Responsible Entity</b><br><br>Do Project documents and contractual arrangements adequately provide for changes of the Responsible Entity of the Project?   | Yes                     | N/A  |
| Will the Responsible Entity or related parties be eligible for any payment or fee if the Responsible Entity is replaced?   | No                      | N/A  |

A photograph of a young teak and sandalwood plantation. The trees are arranged in neat rows, with their trunks wrapped in white protective material. The ground is covered with a layer of brown mulch. The background shows a clear blue sky with some clouds and distant hills.

## Why Grow Teak And Sandalwood?

For the Rewards Group Premium Timber Project 2010 the Responsible Entity has selected teak and Australian sandalwood as high value timber plantation species to be grown in two different geographic locations in Australia.

# Why Grow Teak?

## The Opportunity

An excellent opportunity exists to establish an Australian plantation industry based on teak (*Tectona grandis*). With continuing demand for high value teak furniture worldwide, government incentives for forestry projects and significant environmental benefits, the development of teak tree crops on farmland in tropical north Queensland is a sustainable investment opportunity.

## Teak: A Unique Tropical Hardwood

Teak is an impressive, tall deciduous tropical hardwood tree with large leaves which form a dense canopy on mature trees.

Teak timber is typically yellow in colour but ranges from golden to brown, with a fine grain and smooth texture.

Compared with other industrial woods, teak is a medium weight, strong wood of average hardness. Its heartwood is one of the most naturally durable woods in the world.

An outstanding feature of teak is its strength and durability in all types of climatic conditions. In India and Myanmar (formerly Burma), well preserved beams of teak wood are found in buildings several centuries old.

Teak does not easily warp or crack and does not discolour when in contact with metals. It is resistant to rot as the wood contains a natural resinous substance called tectoquinone. Tectoquinone also repels termites, marine borers and other insects.

Teak is not only durable and attractive, it is easy to work with and seasons relatively quickly. Because of these attributes it is in high demand for:

- furniture;
- shipbuilding;
- decorative building components (such as doors, window frames and flooring);
- construction materials; and
- reconstituted products.

## The International Markets

Teak is sold as logs, lumber and semi-finished or finished products (such as furniture and building components).

The majority of teak produced is either consumed internally in the country of origin or used in the manufacture of export products for the Western market.

The largest market for internationally traded teak logs and lumber is India. Even though India produces teak from its own native and plantation teak forests, this is not enough to meet the needs of the domestic market. India imports teak logs and timber to satisfy its own domestic demand.

Other Asian nations such as Thailand, China, Taiwan and Laos import teak timber and manufacture it into semi-finished and finished teak products for domestic and international markets.

The only Asian country self-sufficient in teak is Indonesia. To protect supplies, the government banned the export of teak logs in 1978 and since 1990, the export of sawn timber has also been restricted. It is only permitted to supply international markets with manufactured teak products, particularly furniture.

Europe, the United States and Japan are the major markets for semi-finished and finished teak products such as high value interior furniture and exterior garden furniture, shipbuilding components, flooring, decorative panels, solid wood doors and carvings.

In Australia, timber harvesting from the native rainforests of northern Queensland ceased in 1988 following their World Heritage listing. The result was a major decline in the availability of rainforest cabinet timber for the Australian timber market. This has mostly been replaced by increased Australian imports of rainforest timbers, predominantly from developing countries.

## Teak: The Demand Outlook

While supply is limited, the demand outlook for teak is positive for the following reasons:

- it has long been sought after in Asian, European and North American countries. These markets are well established and are likely to grow, particularly as a result of population and economic growth in China and India;
- the unique presence of tectoquinone in teak which gives rise to its durability by repelling termites, marine bores and other insects; and
- demand for commercial plantation teak is likely to increase with the availability of a sustainable supply of quality teak from well managed plantations.

## Teak: The Supply Outlook

Globally, around three million cubic metres (m<sup>3</sup>) of teak is harvested annually. It comes from two sources: native forests and plantations.

The market for teak is currently limited by the availability of teak in log and lumber form.

It is not expected that there will be any significant increase in availability in the short to medium term because of the following factors:

- apart from Myanmar (formerly Burma), no Asian countries are inclined to export teak logs or lumber. Their priority is to supply domestic demand. Even with plantation grown timber, most Asian countries cannot meet their domestic demand;
- there is concern that Myanmar's teak harvesting practices are not sustainable and trade sanctions have been imposed in response to human rights violations in Myanmar;
- plantation grown teak is becoming available, but not in large quantities relative to the demands of the international market; and
- due to competing land uses and the time it takes for teak to mature, there is little incentive for land owners to establish teak plantations in developing countries. In countries where teak can be grown, about 8% of all plantations comprise teak.

## Native Forests

Of the four countries with naturally occurring teak trees, three (Thailand, Laos and India) have banned native teak logging following over exploitation of the native resource and widespread illegal cutting and smuggling. The fourth country, Myanmar, is a major participant in the world export market for teak. Logging practices being used by the military government of Myanmar are potentially unsustainable and have attracted criticism from environmental bodies and forestry watchdogs. Both the EU and USA have trade embargos on Myanmar teak.

The native forests of Myanmar have historically been logged under a management system called the Myanmar Selection System. Properly implemented, this system has been successful in maintaining a high yield of top quality timber with minimal environmental impact. However, since the military coup of 1962,

the military has had significant control over the native teak forests in Myanmar. In order to generate royalties to finance its civil war, the government granted huge concessions to foreign companies and the annual allowable cut under the Myanmar Selection System has been exceeded in most years. This raises concerns about Myanmar's future teak production capacity.

The price for teak from native forests in Myanmar is generally higher than for plantation grown teak because the diameter of the logs and amount of heartwood is greater in the older native trees.

## Plantations

There is a long history of teak plantations worldwide. Teak was introduced to Indonesia some 400 – 600 years ago and into Sri Lankan plantations in 1680. Plantations have also been established in India, Thailand, Myanmar, Bangladesh, Sri Lanka, tropical Africa and tropical America. In 1990, over 90% of the total area of teak plantations was located in Asia.

The output of teak plantations is small compared with world demand for teak, and it appears that the rate of new plantation establishment of teak in tropical countries has slowed notably since 1990.

Not many plantation grown teak logs are traded internationally as most plantation grown teak in Asian countries is consumed domestically.





Sandalwood is native to Western Australia and has been exported to Asian markets for over 160 years. It is an aromatic wood highly prized in Asia for its use in joss sticks (incense) and as a source of essential oil. Sandalwood oil is used as a base in many cosmetics and perfumes.



# Why Grow Sandalwood?

## The Opportunity

An excellent opportunity exists to establish a tree crop industry based on Australia's most valuable native tree *Santalum spicatum*, commonly known as Australian sandalwood. With increased demand for sandalwood in Asia, declining global supplies, government incentives for forestry projects in Australia and environmental benefits, the development of sandalwood plantations in Western Australia provides a solid opportunity.

## The Markets

Sandalwood is used in Asian and Western countries.

Sandalwood is used in the following ways:

- the wood is powdered for the manufacture of joss sticks, which are burned regularly as incense, an integral part of Hindu and Buddhist religions. For this reason, sandalwood has been highly prized and intimately linked to Asian cultures for thousands of years;
- oil extracted from the wood is used for high quality perfumes because of its unique fragrance and fixative properties; and
- the extremely dense and close-grained fibre of the wood provides appeal for the creation of intricate woodcarvings and furniture.

## The Asian Market

The most significant use of sandalwood is the production of joss sticks (incense).

A small number of Asian countries have their own native supplies of sandalwood. These supplies are generally used domestically and are not traded internationally.

In fact, India and Indonesia, which were traditionally the major suppliers to the international sandalwood market, now have strict government controls over sandalwood harvesting and export. These controls are aimed at preventing over exploitation and ensuring domestic demand is met.

The many Asian countries without native stands of sandalwood are wholly dependent on international supply. Taiwan is most notable in this regard and is the largest importer of sandalwood from Western Australia.

Another significant market for sandalwood is China. China was the largest importer of sandalwood from Western Australia until the cultural revolution in 1966, when the communist government banned imports. In 1999, China announced it would re-open its domestic market to agricultural and forestry products to promote free trade. Shipments of Australian sandalwood to China have commenced. The potential size of the Chinese market is substantial.

## The Western Market

There are existing markets for sandalwood within Australia and in other Western countries. Sandalwood oil has long been used as a base for many French perfumes. It is also in demand in the Western world for use in aromatherapy and fragrant body care products.

## The Demand Outlook

For the following reasons, ongoing demand for sandalwood appears to be very strong:

- the use of sandalwood in joss sticks is intimately tied to Asian cultures and has been for centuries. It is a strong, stable market;
- the major Asian suppliers, India and Indonesia, have restricted sandalwood log exports because of dwindling stocks;
- China recently changed its policy enabling recommencement of importation of sandalwood; and
- the use of sandalwood oil in perfumes, soaps and aromatherapy is well established and growing.

## The Supply Outlook

Western Australia has now become the main source of internationally traded sandalwood. Production from the remaining native stands in Western Australia is subject to a government quota of about 2,000 tonnes per year.

Until recently, the bulk of the State's sandalwood exports were sold to Taiwan. In the mid 1990s, the State government appointed a private enterprise to market the State's sandalwood. As a result, sales to China and India have now commenced and other international markets are being pursued.

These new markets, together with local demand, are squeezing the supply of sandalwood to Taiwan. With further growth expected in the new markets, the limited native sandalwood resource needs to be supplemented by plantation grown sandalwood. Not surprisingly, the government is now actively encouraging sandalwood planting.





There are a few commercial sandalwood plantations in Western Australia and some small-scale plantings by Wheatbelt farmers. The amount of sandalwood produced from these sources is small, relative to the size of the market for sandalwood.

Growers of sandalwood will have a unique opportunity to capitalise on a global market for sandalwood in which alternative sources of supply are very limited.

### An Important Part of Western Australia's History

There are sixteen species of sandalwood of which four are native to Western Australia. Of these four, the one with the greatest commercial significance is *Santalum spicatum*, Australian sandalwood. The fragrant wood of this tree is the most valuable of all native timbers in Australia in terms of price per tonne.

Sale of Australian sandalwood was one of Western Australia's first and most important export industries.

In 1843, a report reached the young Western Australian colony of the high prices being obtained for sandalwood in Singapore. Up until that time, the settlers being ignorant of its value, had been using sandalwood for firewood and fencing material, or else simply burning it when clearing their land. This was occurring at a time when the colony was desperate for an increase in exports to help balance its trade deficit.

Sandalwood was tested by an expert in England, who pronounced it equivalent to the East Indian Sandalwood, and settlers were advised that it should be possible to sell large quantities of it at "enormous prices".

The struggling colony moved quickly to initiate the export of sandalwood to the Far East. Settlers were instructed not to burn or use sandalwood for any other purpose, but when clearing, to stack it aside and have it available for export when required.

Within a few years, sandalwood had become the colony's primary export. In 1848, sandalwood exports earned nearly as much as wool exports. Many settlers became involved in sandalwood gathering. Sandalwood gatherers

carved new routes into the Wheatbelt and Goldfields. Later, an export tax on sandalwood provided the colony with funds for public works, helping to open up roads and other transport routes.

There was a boom period for sandalwood from the 1860s to the 1920s. By 1920, 330,000 tonnes of sandalwood worth over £3 million had been exported (worth over \$2 billion at today's prices). In 1920 and 1924, exports peaked at 14,000 tonnes.

By the turn of the century, it became clear that the level of harvesting was unsustainable. The first serious attempt to control the industry was introduced in 1923 by way of regulations imposing quotas, increased royalties and export licences.

### Natural Distribution of *Santalum spicatum*

Sandalwood naturally occurs over a large area of Western Australia. Its original distribution was from the western edge of the Wheatbelt into the vast Western Australian deserts. In the high rainfall zone of the Wheatbelt (400mm or more per year) sandalwood is a forest tree, growing with native *Acacia* and eucalypt trees. Such trees are now rarely found. Sandalwood has virtually disappeared from the Wheatbelt due to over cutting and land clearing.

# Project Details

## What is Rewards Projects Ltd offering in this PDS?

Rewards Projects Ltd is offering recipients the opportunity to participate in the Rewards Group Premium Timber Project 2010.

Under the Project, each Grower will establish and maintain their own Woodlot(s) by:

- licensing from Rewards Projects Ltd identifiable Woodlots;
- engaging Rewards Projects Ltd to establish and manage the Plantation on the Woodlots; and
- engaging Rewards Projects Ltd to arrange harvest and then sale of the timber from the Woodlots for the best price it can obtain.

The terms of these arrangements are contained in the constitution, management agreement and licence agreement summarised in the Summary of Material Agreements section (pages 56 to 66) of this PDS.

## Planting

Teak is a plantation species that is planted in a number of countries. Tissue cultured teak plants will be planted in rows (1,250 per hectare) on the site in the normal planting months of the tropical wet season. The teak is grown from tissue culture plantlets from select trees bred in teak breeding programs in South East Asia.

In the year following planting, a survival count will be conducted and any necessary replanting will be done. The overall number of surviving teak will be about 1,125 trees per hectare.

Sandalwood requires a host tree to help it grow. The sandalwood tree's roots penetrate the roots of the host to draw water and nutrients. Wattles (Acacia) are considered the best hosts, due to their nitrogen fixing abilities. This species is native to the region, nitrogen-fixing, hardy and relatively easy to grow. It is a natural host species.

Australian sandalwood will be established by initially planting Acacia seedlings in rows (1,100 per hectare). Planting will commence approximately twelve months after the end of the Financial Year in which a Grower's application is accepted.

Sandalwood seeds will be directly sown into the ground near the established host trees. The seeds for planting will be selected from trees growing in other sandalwood plantations operated by Rewards Projects Ltd, and remnant natural stands in the Wheatbelt or adjacent pastoral areas.

In the year following seed sowing, a survival count will be conducted and any resowing or thinning will be carried out to leave about 1,050 sandalwood seedlings per hectare. Any resowing or thinning will be undertaken at the cost of Rewards Projects Ltd.

## How will the Plantations be Maintained?

The Plantations will be maintained in accordance with the Management Plan to ensure it performs to its potential. Maintenance will include weed and pest control, form pruning, culling, nutrient analysis, fertilising, fire control, site maintenance and annual reporting.

After each harvest on the Teak block, additional pruning is required to maximise timber price potential from the remaining teak trees.

## How is the Timber Harvested?

The trees will be harvested on a progressive basis between the ages of five and eighteen. The precise timing, number of trees per harvest and number of harvests will be determined by Rewards Projects Ltd at the relevant time with the aim of achieving the best overall result for Growers.

A teak tree is cut at the base, near ground level and the log is trimmed to remove branches. The whole log has use and value. The teak logs will be loaded onto trucks and transported to timber mills or ports for export.

The whole of the sandalwood tree including roots, branches and bole, are valuable. The logs, roots and bole of the tree contain saleable wood and are harvested by removing the whole tree from the ground.

The wood from the sandalwood harvests will be differentiated depending on quality and size, and sold for the highest possible price. Presently, sandalwood processed prior to export is sold as uncleaned logs, cleaned logs, butts and roots, dead wood pieces, chips, powder and shavings.

## How will the Timber be Sold?

Rewards Projects Ltd has entered into a sales agent agreement with one of India's largest sandalwood traders, Jiwan International. This agreement currently relates to the marketing of sandalwood sapwood. Subject to negotiation of suitable terms, Rewards Projects Ltd anticipates engaging the sales agent to market all sandalwood to be produced from the Project.

Rewards Projects Ltd has entered into a sales agent agreement with a significant teak timber trader, Berar Timbers in Mumbai, India. This agreement currently relates to the marketing of teak. Subject to negotiation of suitable terms, Rewards Projects Ltd



anticipates engaging the sales agent to market all teak logs to be produced from the Project.

An experienced sales agent is crucial to properly accessing the sandalwood and teak markets. Part of the role of the sales agent is to provide regular reports to the Responsible Entity about the status of the international market.

In addition, Rewards Projects Ltd has entered into off-take agreements with:

- Six global teak traders: Royal Global Exports Pte Ltd in Singapore and Huseinee Anik and Co Pvt Ltd, Regency Wood Products, Associate Lumbers Pvt Ltd, Jawahar Saw Mills and Farouk Sodagar Darvesh & Co in Mumbai.
- Three sandalwood buyers located in India: G.J. Fragrance & Aromatics Limited, K.V. Fragrances and Flower Perfumes Manufacturing Company.

Subject to agreeing a price and meeting other conditions precedent detailed in the Summary of Material Agreements section, these agreements secure the sale of up to 7,450 tonnes of sapwood from sandalwood plantations operated by Rewards Projects Ltd and all teak poles and sawlogs produced from the Project between 2010 and 2020.

In conjunction with the sales agent, Rewards Projects Ltd intends to identify the most profitable and appropriate markets for more mature sandalwood, and as recommended by the sales agent, negotiate off-take agreements with selected purchasers. The sales agent will monitor and report to Rewards Projects Ltd on the capacity of nominated purchasers to complete obligations under their respective off-take agreements.

Prior to expiry of the off-take agreements, Rewards Projects Ltd will seek to negotiate to extend the term of the current agreements or negotiate new off-take agreements with existing or new parties.

If for any reason, existing or future off-take agreements do not result in anticipated sales, it will be necessary to secure alternative purchasers and negotiate new sale contract terms.

The proceeds from all Woodlots participating in a harvest will be pooled, and each Grower will receive their proportionate share after deducting the applicable expenses. Pooling proceeds means a Grower's exposure to loss from fire, drought, disease and other risks reflects factors affecting the Plantation as a whole rather than individual Woodlots.

## Harvest and Sale Costs

Each Grower is responsible for their share of harvest, transport, storage, processing (if any) and sale costs. A Grower's share is the proportion which the number of Woodlots held by the Grower bears to the total number of Woodlots. These costs will be deducted from the sale proceeds.

## How much will it Cost?

An Initial Fee of \$6,050 (including GST) per Woodlot is payable on application. This covers the cost of site preparation and purchasing and planting of tissue culture teak plants, host plants for sandalwood and the sandalwood seeds.

An amount equal to 13.42% (including GST) of each Grower's share of net teak sale proceeds of each harvest and 13.53% (including GST) of each Grower's share of net sandalwood proceeds of each harvest is payable to cover ongoing Plantation maintenance, management and administration.

An amount equal to 22.33% (including GST) of each Grower's share of net teak sale proceeds of each harvest and 17.05% (including GST) of each Grower's share of net sandalwood proceeds of each harvest is payable to cover licence fees.

A pruning fee of \$66 (including GST) per Woodlot (to be increased annually from 1 July 2011 by CPI) which is payable out of the Grower's share of the sale proceeds each time a harvest is conducted on the Teak Block. No pruning fee is payable in respect of sandalwood.

The Initial Fee may be paid in full by cheque or credit card upon application or by using the twelve month interest free loan option in the Application Form of this PDS.

To apply for the twelve month interest free loan option offered by the Provider, complete pages 77 to 85 of this PDS and submit them to Rewards Projects Ltd with your Application Form.

The finance option is full recourse to the Applicant. Consequently, the obligations to pay any money, interest, costs fees and charges due under or in relation to the loan agreement with the Provider out of the Applicant's personal assets will not be affected by the success or failure of the Project, the level of return from or loss of money invested in the Project or the winding up or early termination of the Project.

The finance provider will obtain security for the finance facility by a mortgage over the Grower's Woodlot(s), the management agreement and any other contractual or other rights of the Grower in respect of the Project. If the Grower is a corporate entity (including trustees), the directors of this entity will be required to guarantee the finance facility.

## Payment Methods

| PAYMENT METHOD                       | INITIAL FEES | INSURANCE | APPLICABLE FEES AND CHARGES                                      |
|--------------------------------------|--------------|-----------|--|
| Visa/MasterCard/<br>American Express | Yes          | Yes       | 1.65%  |
| Diners Club                          | Yes          | No        | 2.73%  |
| BPay™                                | No           | Yes       | Not applicable   |
| Cheque                               | Yes          | Yes       | Dishonour fees apply if cheques are not accepted on presentation |

*The fees and charges shown above are correct as at the date of this PDS. If fees change, Rewards Projects Ltd will publish updated amounts on its website [www.rewardsgroup.com.au](http://www.rewardsgroup.com.au) You may also call 1800 111 781 to confirm the current merchant fees.*

## What is the Planting Services Fund?

In recognition of the potential implications for Growers of a failure to perform planting services in accordance with the terms of the ATO product ruling, the Responsible Entity will establish a Planting Services Fund to secure works required to be performed by the Responsible Entity under the management agreement for the period from 1 July 2010 to 30 June 2013.

To establish the Planting Services Fund, the Responsible Entity will deposit or cause the Manager to deposit \$500.00 per Woodlot. The Planting Services Fund must be established by 30 September 2010 for Woodlots issued on or before 30 June 2010 and within ninety days of issuing any other Woodlots.

The Responsible Entity may determine the manner in which the Planting Services Fund is invested (including bank deposits, cash management trusts and other similar investments). The Responsible Entity or the Manager is entitled to any income or capital appreciation arising in respect of the Planting Services Fund.

The Planting Services Fund may be used by the Responsible Entity to complete the planting services described in the management agreement in the event that the Manager defaults. The Planting Services Fund (excluding any applicable income or capital appreciation which the Responsible Entity or Manager is entitled to receive) is held by the Responsible Entity for the benefit of the Growers in the Project. This arrangement prevents the deposited funds from being used for any purpose other than completion of the planting services.

The Responsible Entity may deduct funds from the Planting Services Fund as follows:

1. 40% (\$200) per Woodlot upon conferring on each Grower a right to use land meeting the criteria disclosed in this PDS;
2. 50% (\$250) per Woodlot when the Independent Forester confirms in writing that the Initial Services specified in the management agreement have been completed in a proper and timely manner;
3. 5% (\$25) per Woodlot when the Independent Forester confirms in writing that the Ongoing Services specified in the management agreement for the period 1

July 2011 to 30 June 2012 have been completed in a proper and timely manner;

4. the balance of the Planting Services Fund (excluding any income or capital appreciation which the Responsible Entity or Manager is entitled to receive) when the Independent Forester confirms in writing that the Ongoing Services specified in the management agreement for the period 1 July 2012 to 30 June 2013 have been completed in a proper and timely manner.

Upon conclusion of the planting services neither the Responsible Entity nor the Manager will be subject to any specific requirement to allocate funds towards performance of its obligations to Growers in the Project.

## Project Risk Factors

As detailed in the Project Risks and Safeguard Section, the Project is subject to a range of risk factors. The following information is included to highlight the risks which prospective Applicants should consider when determining whether to invest in the Project:

- The financial performance from the Project will depend upon a range of factors including tree growth rates, prevailing timber prices at the time of the relevant harvest (which may be affected by applicable exchange rates) and harvest and transport costs. Apart from estimating yields (subject to silvicultural risk factors) based in part on historical growth rates, the Responsible Entity is unable to provide forecasts regarding these factors nor the resultant financial performance of an investment in the Project.
- Movements in exchange rates may positively or negatively affect financial returns for the Project. Factors that influence international Teak and Sandalwood prices are not expected to have any particular correlation to factors that may influence exchange rates. Consequently, any increases in timber prices may be offset by adverse movements in exchange rates.
- Financial failure of the Responsible Entity or associated entities would cause significant disruption to the operation of the Project and would increase the risk of Growers suffering loss (and possibly to such an extent that the Project would be terminated without any trees being harvested).
- Although the Responsible Entity has entered into off-take agreements for the sale of teak and sandalwood, the agreements do not nominate any prices payable for teak or sandalwood. Sales will be negotiated by the Responsible Entity based on prevailing market prices at the relevant time.
- A risk factor for returns from the Project is that plantation grown teak and sandalwood may not achieve the same price levels as timber harvested from natural forests.
- Large scale commercial plantations of teak have only existed in Australia for the past ten years. Whilst teak has been propagated and grown extensively around the world for over 200 years, its application to Australia is relatively new. Like all pioneering projects there will be risks associated with this new crop and the associated transfer of international knowledge to local application.
- Australian Sandalwood is a native species to south west Western Australia. Whilst sandalwood has been exported for over 160 years from Australia, large scale commercial plantations have only been developed in the past decade. Like all pioneering projects there will be risks associated with this new crop.
- Drought conditions have recently been experienced in parts of Australia (including parts of Western Australia where existing sandalwood plantations operated by Rewards Projects Ltd are located). Conversely high rainfall levels in Queensland (where existing teak plantations are located)

have resulted in some minor instances of water logging. These events serve as useful reminders that the Project involves exposure to a range of agricultural risk factors.

## Insurance

Upon request, Rewards Projects Ltd will use all reasonable endeavours to arrange insurance for a Grower's Woodlot(s). The insurance will cover the risk of damage or destruction of the Grower's Woodlot(s) by fire and other insurable risks, for an amount equal to the replacement value of the trees as assessed by the Responsible Entity. The Responsible Entity will pay insurance for all Woodlot(s) in the first year of the Project from its own funds. Thereafter, the cost of insurance will be at the Grower's expense and is tax deductible.

Although taking out insurance is optional, Growers will be required to maintain insurance to meet obligations imposed as part of arrangements for the Provider to finance their Woodlot(s).

The cost of insurance and the terms of the cover available will be determined by the state of the insurance market at the time the cover is sought.

Insurance will cover damage or destruction of the Woodlot(s) in certain circumstances. However, it will not provide blanket protection against all damage or destruction of the Woodlot(s) and will not protect Growers against loss of income resulting from damage or destruction. Where the damage or destruction prevents a Woodlot from producing any saleable timber for a harvest period, the Woodlot will be excluded from sharing in the sale proceeds for that period and the Responsible Entity is entitled to charge Growers that do not have insurance a fee of \$110 per Woodlot.

## How do I Subscribe?

To become a Grower, you must complete and deliver to Rewards Projects Ltd the Application Form and payment for the subscription monies (see the Application Form at the rear of the PDS). Examples of how to complete the Application Form are available on our website [www.rewardsgroup.com.au](http://www.rewardsgroup.com.au)

Applications must be received on or before 30 June 2010.

Rewards Projects Ltd reserves the right to accept or reject applications in whole or in part at its discretion.

# The Plantations

## The Land

The Responsible Entity has established a detailed land selection protocol and only land satisfying the protocol will be selected for the Project.

### Land Selection Protocol

The land selection protocol has been prepared with the aim of optimising plantation yield and minimising plantation costs. The protocol requires the Responsible Entity to assess the following factors when determining whether the land is suitable:

- key site determinants, such as annual rainfall in excess of 1,500mm for Teak Blocks and 350mm for Sandalwood Blocks, adequate soil depth, nutrient levels, drainage and site microclimate conditions;
- distance to processing centres and ports;
- risk minimisation; and
- land availability within fifteen months of the end of the Financial Year in which interests are allotted to Growers.

## Rainfall

Teak grows in areas that receive between 1,000 to 3,500mm of annual rainfall. The rainfall at the teak Plantation site should average more than 1,500mm a year.

Sandalwood grows in areas that receive between 200mm to 600mm of annual rainfall. The rainfall at the Plantation site should average more than 350mm a year.

## Soil

The suitability of the site will be determined by the Responsible Entity after evaluation of soil depth, fertility and moisture retention characteristics.

## Infrastructure

The Teak Blocks will be located close to the timber processing centre of Ravenshoe and the ports of Cairns, Mourilyan and Townsville, Queensland.

The Sandalwood Blocks will be located within proximity to the port of Fremantle, Western Australia. Well established road and rail infrastructure exists from the Plantation site to Fremantle.

## Farmland

The Plantation will be established on previously cleared farmland, which ensures high fertility and minimises the development of competing woody weeds.

## Licence

The land will be leased to Rewards Projects Ltd. In turn, Rewards Projects Ltd grants a licence to each Grower in relation to their individual Woodlot(s).

In general, the terms of the lease are that the lessor grants to Rewards Projects Ltd full access to the land to carry out the Plantation activities.

Upon final harvest, the Grower and the Responsible Entity are obliged to deliver the Woodlots in good repair, order and condition (including removing plant and equipment and any debris, branches, treetops, wire, ropes or other rubbish from the Woodlots). After remediation and any other obligations have been performed, the licence is terminated.



# Project Returns

The calculation of investment returns involves the consideration of a number of variables, many of which are outside the control of Rewards Projects Ltd. Accordingly, it is not possible to determine financial returns over the life of a 20 year project with any certainty.

This section contains information which will assist Growers to make their own calculations of the returns which an investment in the Project may generate over its twenty year term.

## Factors Affecting Returns

The potential returns Growers may achieve from the Project may be affected by the matters listed below. These matters are not exhaustive.

In the opinion of Rewards Projects Ltd, the matters listed are reasonable. Where possible, they have been verified by independent experts. Applicants are encouraged to read the Experts' Reports which appear on pages 33 to 55.

Returns are also subject to a Grower's individual taxation position, and the risk factors and safeguards that are set out in more detail on pages 20 to 22.

In providing this information, no member of Rewards Group or its directors guarantee returns to Growers.

### Yield

Each Woodlot is estimated to yield a merchantable volume of:

- 2.3m<sup>3</sup> of teak poles and logs at age six years (project year eight), 8.5m<sup>3</sup> at ten years (project year twelve), 8.3m<sup>3</sup> at age fourteen years (project year sixteen) and 10.7m<sup>3</sup> at age eighteen years (project year twenty); and
- 316kg of saleable sandalwood timber at age five years (project year seven), 480kg at age nine years (project year eleven), 245kg at age thirteen years (project year fifteen), and 627kg at age seventeen years (project year nineteen).

These estimates are based on a mean annual increment of 16.55m<sup>3</sup> per hectare per year for teak and 654kg per hectare per year for sandalwood, which Dr Nicholas Malajczuk of Tretec Consulting Pty Ltd, has reviewed and concluded are reasonable for well managed plantations achieving returns in line with government yield models and growth data from government plantings (refer to the Independent Forester's Report on pages 33 to 37).

The trees will be harvested on a progressive basis between the ages of five and eighteen years. The precise timing, number of trees per harvest and number of harvests will be determined by Rewards Projects Ltd at the relevant time with the aim of achieving the best overall result for Growers.

### Price

There are a range of factors that affect the price received for teak and sandalwood, including exchange rates.

Teak poles and saw logs are classified into grades (based on dimension, length, straightness and soundness). Significant price variations occur across approximately fourteen different classifications. Some classifications require characteristics which will usually only be present in older naturally grown teak.

An important factor in Australian sandalwood pricing is the presence and level of oil in the sandalwood. Consequently, prices for sandalwood heartwood (which has oil present) is higher than sandalwood sapwood that has no oil content. Similarly, the prices of sandalwood from different sandalwood species varies because of the different level of oil content.

For further information on timber prices refer to the Independent Market Report prepared by Synovate Pty Ltd (pages 38 to 55). However, current and historical prices are no guarantee of future prices.

### Costs

- The Initial Fee is \$6,050 (including GST) per Woodlot and is payable upon application.
- In relation to the Teak Block:
  - the maintenance fee is 13.42% (including GST) of the net teak sale proceeds of each harvest;
  - the licence fee is 22.33% (including GST) of the net teak sale proceeds of each harvest; and
  - the pruning fee which applies to each harvest on the Teak Block is \$66 (including GST) per Woodlot (to be increased annually from 1 July 2011 by CPI) and is payable out of harvest proceeds.
- In relation to the Sandalwood Block:
  - the maintenance fee is 13.53% (including GST) of the net sandalwood sale proceeds of each harvest; and
  - the licence fee is 17.05% (including GST) of the net sandalwood sale proceeds of each harvest.
- For teak, the current harvest and loading costs for are between A\$20 and A\$30 per m<sup>3</sup>. The current transport and loading costs are between A\$25 and A\$30 per m<sup>3</sup>.
- For sandalwood, current harvest costs (including transport and storage) are between A\$3 and A\$4 per tree. These costs have been independently verified

by Dr Nicholas Malajczuk of Treetec Consulting Pty Ltd (refer to the Independent Forester's Report on pages 33 to 37).

- The Responsible Entity will meet the costs of any further remedial work necessary to deliver the Woodlots in good repair, order and condition (including removing plant and equipment and any debris, branches, treetops, wire, ropes or other rubbish from the Woodlots remaining following the final harvest).

## General

- All Woodlots are anticipated to be allotted by 30 June 2010.
- On average, a total of around two hundred and seventy trees are established on each Woodlot consisting of about one hundred and sixty sandalwood trees and one hundred and ten teak trees.
- In calculating the possible tax implications, each Grower needs to take into consideration the Grower's marginal tax rate and whether the Grower is registered for GST and is able to claim input tax credits in respect of any GST paid.
- The majority of payments made under the licence agreement and the management agreement will be tax deductible.
- Inflation will have an impact on Project returns.
- Exchange rates will have an impact on Project returns if the timber is exported.

## Results from Other Similar Projects Operated by the Responsible Entity

Although the Responsible Entity has established and operated teak plantation schemes since 2001 and sandalwood plantation schemes since 2000 these schemes are intended to operate for approximately twenty years and as such their plantations have not yet been fully harvested. It is not possible to determine with any reliability the final growth rates these existing plantations may achieve.

The first forecast harvest for the Sandalwood 2000 Project was in 2012. Harvesting of produce in this project commenced in 2008, some four years ahead of original expectations. The sandalwood produced from the 2000 project was successfully exported to Taiwan and achieved a sale price of A\$2.26 per

kg. After deducting delivery costs, this price is 35% above the current assumptions for the Project. Rewards Projects Ltd successfully harvested and sold teak from a company owned plantation in 2008, four years ahead of its original harvesting schedule. The sale price achieved for this timber was A\$333.00 per cubic metre and delivery costs of A\$85.00 per cubic metre.

The physical yields achieved by the Responsible Entity in respect of thinning harvests are 0.11m<sup>3</sup> per tree for the company owned teak plantation and 3.0kg – 4.6kg per tree for the Sandalwood 2000 Project.

These growth rates are consistent with the estimates used in the PDS, although future returns may differ from historical returns.

Pioneering projects, like teak in Australia, is expected to contain higher silvicultural risks than for the indigenous Australian sandalwood. Levels of plantation variation are evident in the early teak project plantations established by Rewards Projects Ltd in Australia, however, later released projects have benefited from the improved silvicultural knowledge. The Responsible Entity has selected improved genetic material for both the teak and sandalwood plants used in the Project based on the performance to date of seed and clonal material used in previous plantings. The results achieved from the Sandalwood 2000 Project and its own plantation were achieved from unproven genetic sources. Since 2000, Rewards Projects Ltd has undertaken a significant genetic improvement program that is expected to provide significant gains to participants in the Project.





# Project Risks and Safeguards

As with any investment in forestry, there are inherent risks. Some of these risks can be mitigated by the use of safeguards and appropriate systems and actions (see the Independent Forester's Report for further discussion), but many are outside the control of Rewards Projects Ltd or the Manager. There are a number of risk factors which Applicants should consider before they make a decision to apply for Woodlots. The principal factors include but are not limited to, the following.

## General Agricultural Risks

There is a short history of plantation grown teak and sandalwood in Australia. Several research experiments have been planted over the past thirty years. Large scale commercial sandalwood and teak plantations were first undertaken by Rewards Projects Ltd in 2000 and 2001 respectively. These and each subsequent project undertaken by the Responsible Entity is performing well, with good survival and growth rates. Rewards Projects Ltd has successfully grown teak and sandalwood for the past nine years.

Teak is a well known plantation species in other countries from which establishment and management techniques have been adopted for teak plantations in Australia. The Project must be considered in light of the risks and difficulties frequently encountered by pioneering projects. Although the Project is based on published research following trial plantings, some aspects of the Project may not have been exposed to all variables in the environment.

There are other agricultural risks such as nutrition levels, pests and diseases. Good forestry management practices are necessary to ensure weed control, land preparation, tube stock, planting technique, fertiliser application, pest control and general management are of a high standard. These practices are described in a Management Plan prepared by the Manager at the direction of Rewards Projects Ltd. The aim of the Management Plan is to achieve high standards and outcomes in this respect. Rewards Projects Ltd is satisfied with the management practices undertaken to date with respect to the existing plantations.

### Establishment Risks

The Teak Block will be established by planting tissue cultured plants on cleared farmland during the normal planting months of the tropical wet season. The Sandalwood Block will be established by directly sowing sandalwood seeds near the base of established Acacia host trees. To achieve the projected sandalwood stocking rate, a seed germination and survival rate of at least 35% is required. Additionally, a reasonable host tree survival rate is necessary to support the sandalwood.

To mitigate establishment risks, Rewards Projects Ltd, via the Manager, will infill plant any areas necessary to achieve the desired stocking rate. Establishment risks also apply to such infill planting. In the existing projects, performance has occurred in line with project management plans. However, historical performance is not indicative of the likely outcome of this Project.

### Fire

There is a fire risk in the Western Australian Wheatbelt and Queensland tropics over their respective dry season months. Wildfire frequency is moderate and fire protection is an important element of plantation management. Rewards

Projects Ltd will adopt a fire management plan for the Plantation, including well maintained firebreaks. Rewards Projects Ltd recommends that Growers insure their Woodlots. The Responsible Entity will meet the cost of insuring Woodlots for the first year. Thereafter, the cost of insurance is payable by the Grower if the Grower wishes to insure their Woodlots. There has been no damaging wildfire in the plantations for the existing projects.

### Physical Risks

There are inherent physical agricultural risks such as drought, frost, hail, windstorms and other acts of god, disease, insects, grazing animals and other pests that can affect the Plantation. Teak is a hardy species that is grown in plantations in a number of countries, including Myanmar, India, Laos and Thailand. Rewards Projects Ltd, via the Manager, will monitor the Plantation and where possible take remedial action to minimise these risks. Sandalwood and its Acacia host are hardy species that grow naturally in the Wheatbelt and more arid regions.

## Financial Risks

The financial success of the Project depends primarily on the growth rate of the trees, the costs of production, harvesting and marketing, and the sale price following the harvests. Ultimate outcomes are dependent upon future silvicultural and market factors that cannot be accurately predicted.

### Market Risk

There may be changes in supply and demand for teak and sandalwood during the term of the Project affecting prices. Demand can be affected by many factors including domestic and overseas economic conditions, availability of substitutes, consumer taste and the success of opening new markets. Some of the factors that affect supply include the export policy of nations trading the timber, competitive plantation projects and private plantings. There is no guaranteed minimum price received for teak or sandalwood.

Although off-take agreements have been executed, they do not guarantee any timber will ultimately be sold.

Any sale depends upon reaching agreement on the sale price. If an off-take agreement is breached, or agreement cannot be reached on a sale price for a shipment, it may be necessary to secure an alternative buyer and negotiate new sale terms, which may adversely affect or delay returns. The new sale terms may vary from the original off-take agreements. There is also likely to be legal and commercial implications which make it difficult to take court action in Australia to successfully enforce the terms of an off-take agreement against an overseas buyer.

New off-take agreements will need to be negotiated at the end of the original agreements which are due to expire in either 2017 or 2020. Rewards Projects Ltd will periodically review the capacity of the buyers to complete their obligations under the off-take agreements and their willingness to enter into new agreements.

By combining two premium timbers in the Project, there is diversification against adverse movement in either segment of the market.

#### **Plantation Timber Price Discount**

Variation in timber prices is a major factor which will influence financial returns from the Project. Details in the Project Returns section (pages 18-19) of this PDS and the Independent Market Report (pages 38 to 55 of this PDS) are based on current international price information.

Generally speaking, teak quality improves with age and as the tree height and diameter increases. Sandalwood quality also improves with age as the heartwood content increases. On this basis, the heartwood content of plantation grown sandalwood is expected to be lower than sandalwood harvested from natural forests.

To allow for these factors, any consideration of prices for timber produced by this Project should take into account a discount to the current market prices being paid for native teak and sandalwood, and to the prices verified by Synovate Pty Ltd in the Independent Market Report on pages 38 to 55.

#### **Receipt of fees**

Rewards Projects Ltd operates a number of managed investment schemes. Some of these schemes are operated, in part, utilising a deferred fee model under which fees, such as maintenance and licence fees, are determined by reference to and payable out of the sale proceeds of each harvest. Given Rewards Projects Ltd's revenue fee base is reliant on a deferred fee structure, income is not immediate and Rewards Projects Ltd and other Rewards Group entities must fund the costs incurred in performing the relevant obligations. To some extent, profits generated from new managed investment sales have historically provided significant positive cashflows. There is a risk Rewards Projects Ltd will be adversely affected if in future demand for schemes is reduced, land meeting the relevant selection criteria cannot be obtained or future harvest returns are negatively impacted by general economic conditions.

Conversely, the remainder of Rewards Projects Ltd's revenue base is determined by annuity-style recurring fee income. There remains a risk that investors in other schemes operated by Rewards Projects Ltd may default in meeting their obligations to pay annual management fees.

#### **Yield Best Estimates**

Variation in yields is a major factor which will influence the financial returns from the Project. The yields in the Project Returns section (pages 18-19) of this PDS are estimates made on the basis of published yield data, research on trial plantings and the quality of the selected site (and site selection criteria). The trial plantings are located in various parts of Australia and are still in early

stages of development. No commercial scale plantations exist in Australia from which accurate yield data can be drawn.

#### **Harvest Schedule Changes**

The final harvest schedule as determined by the Responsible Entity will affect the timing, yield and sale price ultimately achieved.

#### **No Buy Back Right**

Investors in the Project have no right to require Rewards Projects Ltd to purchase their interests and there is no secondary market for interests. A person wishing to sell an interest must locate a willing buyer and negotiate a sale of the interest to the buyer. Any such sale must be done in accordance with the Scheme Documentation.

#### **General**

The value of the Project can be affected by various general financial factors such as economic conditions, inflation, exchange rates, regulatory changes and taxation changes.

#### **Changes in Taxation Legislation**

The taxation implications of the Project are based on current taxation legislation and taxation rulings and the ATO product ruling (PR2010/8) issued in respect of the Project. The legislation and interpretation of the taxation rulings could change. Product ruling PR2010/8 issued in respect of the Project is binding on the Commissioner of Taxation. The taxation benefits outlined in the ATO product ruling are available to Growers provided the Project is carried out in accordance with the description in the ATO product ruling.

#### **Force Majeure**

Rewards Projects Ltd and the Manager can be excused from performing its obligations if it is prevented from doing so, due to circumstances beyond its reasonable control (other than financial circumstances or circumstances arising from a breach of its obligations). Rewards Projects Ltd and the Manager must try to remedy and avoid any such circumstances.

#### **Financing Risk**

Applicants that enter into any finance agreement with the Provider will charge their interest in the Project to secure all monies due to be repaid. Other financiers are also most likely to require a charge over a borrowing Applicant's interest in the Project. Failure to comply with the terms of any finance agreement may result in forfeiture of the borrower's interest in the Project.

## **Operational Risks**

The Initial Fee relates to the performance of the Initial Services to be completed during the period from 1 July 2010 to 31 December 2011.

Reward Projects Ltd in conjunction with the Manager must meet the cost of performing the on-going maintenance work from its own resources. Information regarding the financial position of Rewards Projects Limited is set out in The Rewards Group Section. There is also information regarding the terms of the proposed merger between Rewards Group Limited and The ARK Fund which was announced on 31 March 2010.

If the merger is not approved by ARK shareholders or does not proceed for any other reason, the Responsible Entity will (up to 30 June 2010) allow Applicants to withdraw their applications for interests in the Project. Other important information about the merger, including what may happen if the merger is not approved by 30 June 2010, is set out on page 29.

If Rewards Projects Ltd were to become insolvent or default under the management agreement or the leases giving it the power to grant licences to Growers, then the viability of the Project may be affected (and possibly to such an extent that the Project would be terminated without any trees being harvested).

In accordance with the Corporations Act, a majority of Growers can compel Rewards Projects Ltd to retire and appoint an alternative responsible entity in its place. In this case, some disruption and cost to the Project may occur.

Similarly, if the Manager were to default under its operations agreement with Rewards Projects Ltd, then a replacement manager may need to be found. This may cause disruption to the Project.

A Plantation Services Fund will be established to hold funds pending completion of works during the initial three years of the Project. Funds will be released on completion of the relevant milestones.

The Project is a managed investment scheme established under the Corporations Act and in accordance with ASIC policy. Therefore, there are a number of compliance measures and procedures Rewards Projects Ltd has put in place and must maintain. Failure to do so may jeopardise its ability to operate the Project. If that occurred a temporary responsible entity may need to be appointed to operate the Project, which may be disruptive.

## **Access to Land**

No land used in relation to the Project will be owned by Growers. All land used in relation to the Project will be owned by Rewards Land Pty Ltd. Additionally, it is expected that if the merger with The ARK Fund Limited proceeds Rewards Lands Pty Ltd will encumber all of its land holdings to secure various liabilities including working capital facilities for Rewards Group Limited and its associated entities.

All land owned by Rewards Lands Pty Ltd is currently leased to Growers in projects operated by Rewards Projects Limited.

The existence of a registered head lease will usually require any land used in relation to the Project to be offered for sale subject to the head lease and in turn the interests of the Growers under the Licence Agreement.

Although the relevant legal principles are yet to be fully developed there are instances in which where the liquidator of a land owner has been successful in obtaining court orders allowing land to be marketed free of the encumbrance of a lease to an insolvent responsible entity. There are also instances in which registered schemes have been terminated on the basis that the relevant responsible entity is insolvent and it is not financially viable to operate the scheme.

If Rewards Lands Pty Ltd were to default in the performance of any of its secured obligations there is a risk that it may be placed into receivership, administration or liquidation. Depending upon the cause of the default, those events may also trigger Rewards Projects Limited going into receivership, administration or liquidation. If this were to occur there is a significant risk that land may be sold without Growers receiving any compensation for the loss of the right to harvest their trees.

Subject to completion of the proposed merger and recapitalisation described on page 29 it is anticipated all entities in the Rewards Group will have adequate working capital to perform their respective obligations in relation to the Project and all other projects operated by Rewards Projects Limited. The continued successful operation of the schemes will depend upon the risk factors outlined above under the headings Receipt of Fees and Operational Risks.

## **Breach of Licence by Licensor**

Rewards Projects Ltd has entered into or will enter into leases for the purpose of the Project. As lessee under the leases, it is entitled to grant Growers a licence with respect to their Woodlot(s). There is a risk of Rewards Projects Ltd in its capacity as lessee, defaulting under the leases placing the Growers' right to occupy their Woodlot(s) in jeopardy.

The licences contain, or will contain, provisions enabling Growers to enforce the licence in the case of a breach on the part of Rewards Projects Ltd. The ability to exercise these rights will depend on whether or not a suitable replacement responsible entity can be appointed or arrangements can be made for Growers to fund the costs associated with paying rent due to the land owner.

The leases will be registered in the name of Rewards Projects Ltd.

# Fees and Other Costs

## DID YOU KNOW?

Small differences in both investment performance and fees and costs can have a substantial impact on your long term returns.

For example, total annual fees and costs of 2% of your fund balance rather than 1% could reduce your final return by up to 20% over a 30 year period (for example, reduce it from \$100 000 to \$80 000).

You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs. You may be able to negotiate to pay lower contribution fees and management costs where applicable. Ask the fund or your financial adviser.

## TO FIND OUT MORE

If you would like to find out more, or see the impact of the fees based on your own circumstances, the **Australian Securities and Investments Commission (ASIC)** website ([www.fido.asic.gov.au](http://www.fido.asic.gov.au)) has a managed investment fee calculator to help you check out different fee options.

*This information is required by Australian legislation.*

This document shows fees and other costs that you may be charged. These fees and costs may be deducted from your money, from the returns on your investment or from the fund assets as a whole.

You should read all the information about fees and costs because it is important to understand their impact on your investment.

| TYPE OF FEE OR COST   | AMOUNT  | HOW AND WHEN PAID  |
|---|---|--|
| <b>FEES WHEN YOUR MONEY MOVES IN OR OUT OF THE PROJECT</b>                      |   |  |
| <b>Initial Fee:</b> The fee to open your investment.                            | \$6,050 (including GST) per Woodlot.  | Payable in full on application.  |
| <b>Contribution Fee:</b> The fee on each amount contributed to your investment. | Nil.  | Not applicable.  |
| <b>Withdrawal Fee:</b> The fee on each amount you take out of your investment.  | Nil.  | Not applicable.  |
| <b>Termination Fee:</b> The fee to close your investment.                       | Nil.  | Not applicable.  |
| <b>MANAGEMENT COSTS</b>   |   |  |
| The fees and costs for managing your investment.                                | 35.75% (including GST) of the Grower's share of net teak sale proceeds (after harvesting, transport, loading and sale costs), comprising the 13.42% (including GST) Maintenance Fee and 22.33% (including GST) Licence Fee.<br><br>A pruning fee of \$66 (including GST) per Woodlot per harvest on the Teak Block (to be increased annually from 1 July 2011 by CPI).<br><br>30.58% (including GST) of the Grower's share of net sandalwood sale proceeds (after harvesting, transport, loading and sale costs), comprising the 13.53% (including GST) Maintenance Fee and 17.05% (including GST) Licence Fee. | Responsible Entity deducts the fees from net harvest proceeds from the sale of timber from each harvest. |
| <b>ADDITIONAL SERVICE FEES</b>  |   |  |
| <b>Investment Switching Fee:</b> The fee for changing investment options.       | Nil.  | Not applicable.  |

## Example of annual fees and costs for the Project

| EXAMPLE          | BALANCE OF \$50,000 (9 WOODLOTS)  |   |
|------------------|---|---|
| Management Costs | Between 30.58% and 35.75% (including GST) of net harvest proceeds + in certain years a \$66 (including GST) per Woodlot pruning fee (indexed) | For every \$50,000 you have in the Project fund you will be charged between 30.58% and 35.75% (including GST) of net harvest proceeds realised during the year and in certain years a fixed pruning fee of \$594 (indexed to CPI) regardless of the amount of harvest proceeds.   |
| Cost of fund     |   | If you had an investment of \$50,000 during the year you would be charged fees based on the net harvest proceeds for your Woodlots and in certain years a fixed pruning fee (indexed to CPI).<br><br><b>What it costs you will depend on the investment option you choose and the fees you negotiate with your fund or financial adviser.</b> |

This table gives an example of how the fees and costs for the Project can affect your investment over a one-year period. You should use this table to compare this product with other similar managed agribusiness investment products. By law, it must be based on a \$50,000 investment, however, because the Project does not offer fractions of Woodlots, it is not possible to have an investment of exactly \$50,000. Instead, this example assumes the Grower has nine Woodlots with a total initial cost of \$54,450 (including GST). The Responsible Entity will annually determine the number and timing of all harvests (see page 13 for further details). Management costs include the maintenance fee and licence fee applicable to each Teak Block and Sandalwood Block. Assuming a Grower with an investment in Woodlots costing \$50,000 receives net sandalwood sale proceeds of \$20,000 and net teak proceeds of \$30,000, the management costs would equal \$17,435, including a maintenance fee of \$6,732, a licence fee of \$10,109 and a pruning fee of \$594 (indexed to CPI).

## Additional Explanation of Fees and Costs

### Commissions

Rewards Projects Ltd may pay commissions or brokerage in relation to applications for Woodlots in the Project to those persons authorised by the Corporations Act to receive such commissions or brokerage. The commission is up to \$440 per Woodlot which is 8% of the Initial Fee for Woodlots (excluding GST). In addition, Rewards Projects Ltd may pay up to \$110 per Woodlot in additional fees to those persons if they have provided particular marketing or administrative assistance in connection with the Project. Alternatively, Rewards Projects Ltd may offer up front commission of up to \$275 per Woodlot and trailing commission of \$55 per Woodlot per annum for the first five years of the Project.

### Worked Dollar Example for Pruning, Maintenance and Licence Fees

For the purposes of the worked dollar example below, assume the Responsible Entity completes a thinning harvest of 10 year old teak trees yielding 5m<sup>3</sup> per Woodlot; gross harvest proceeds are \$500 per m<sup>3</sup>, harvest costs are \$25 per m<sup>3</sup> and transport and loading costs total \$30 per m<sup>3</sup>; no sandalwood is harvested and no allowance is made for CPI increases. Based on those assumptions, the amount of the pruning fee, maintenance fee and licence fee would be determined as follows:

| Item                        | Method                  | Total    |
|-----------------------------|-------------------------|----------|
| Gross harvest value         | 5m <sup>3</sup> x \$500 | \$2,500  |
| Harvest costs               | 5m <sup>3</sup> x \$25  | -\$125   |
| Transport and loading costs | 5m <sup>3</sup> x \$30  | -\$150   |
| Pruning fee                 |                         | -\$66    |
| Net harvest value           |                         | \$2,159  |
| Licence fee                 | 22.33% x \$2,159        | \$482.10 |
| Maintenance fee             | 13.42% x \$2,159        | \$289.74 |

This example is intended to illustrate the calculation of dollar amounts and is not intended to be relied upon as a forecast of future returns for the Project.

### Insurance

After the first year of the Project, Growers must meet the cost of any insurance arranged by the Responsible Entity at the request of the Grower (refer to page 16). The cost of insurance and the terms of the cover available will be determined by the state of the insurance market at the time the cover is sought.

The Responsible Entity will accept insurance payments by cheque (preferably), BPay™ or credit card with Visa, MasterCard or American Express. Diners is not currently accepted for these fees. Where the Responsible Entity accepts insurance payments by credit card, the Grower must also meet the cost of any payment processing fees incurred by the Responsible Entity in receiving the payment.

At the date of this PDS, the applicable merchant fee (inclusive of GST) for Visa, MasterCard and American Express is 1.65%.

Growers may call 1800 111 781 to confirm the available payment options and applicable fees for a particular payment.

### Additional Fees

The following fees may also be charged by the Responsible Entity:

- a fee of \$110 for handling any deed of assignment relating to the transfer of Woodlots;
- a fee of \$110 per Woodlot for any Woodlots that fail to produce any saleable timber as a result of some damage or destruction to the Woodlot and such damage or destruction is not covered by an insurance policy; and
- the charges for allowing a person to inspect the register of Growers or to provide a copy of a document up to the maximum amount allowed under the Corporations Act (if any).

### Fees and Charges under the Provider Loan Option

If you apply for the twelve month interest free loan option offered by the Provider, the following fees and charges will apply:

- a loan application fee of 0.25% of the loan application amount subject to a minimum of \$250 payable to the Provider, an associate of the Responsible Entity;
- stamp duty (if applicable); and
- ASIC lodgement fees for corporate Growers.

# Taxation

## Product Ruling

The ATO has issued product ruling PR2010/8 in respect of the Project, which is applicable to Growers who enter the Project on or before 30 June 2010. The effect of the product ruling is to confirm the deductibility of the Project fees payable by Growers.

Applicants should note that if they fail to pay the Initial Fee by 30 June 2010 then they are not covered by the ATO's product ruling and their tax deduction will be deferred to the income year in which payment occurs.

The product ruling is a ruling on the application of taxation law only and is in no way expressly or impliedly a guarantee or endorsement of the commercial viability of the Project, the soundness of the Project as an investment or the reasonableness or commerciality of any of the fees charged.

The product ruling issued in respect of the Project is binding on the ATO, provided the Project is carried out in accordance with the details provided to the ATO by Rewards Projects Ltd and described in product ruling PR2010/8.

## Goods and Services Tax

If you are registered for GST, then any GST paid in relation to the fees you pay will represent a GST input tax credit. If you are not registered for GST, then any GST paid in relation to the fees you pay will be a cost and will be deductible (but will not be recoverable as an input tax credit).

## Independent Taxation Advice

Prospective Growers should seek advice from their professional taxation advisers to confirm their own position in respect of taxation in general and the impact of GST.

## Disposal of Woodlots

A new taxation regime for "forestry managed investment schemes" such as the Project commenced on 1 July 2007.

In order to maintain deductions in relation to the Project, a Grower must hold their Woodlot for at least four years from 30 June 2010. If a disposal occurs during this initial four year period (or an agreement for disposal is entered into during this period) a Grower automatically loses their right to claim the deductions outlined above. Additionally the market value of the Woodlot at the time of disposal will be treated as ordinary assessable income.

After the four year period, disposing of a Woodlot will not result in the loss of the initial deductions. However, on any disposal, the market value of the Woodlot will be treated as ordinary assessable income.

The Federal Government has announced and introduced legislation (which if enacted in its current form) may allow a person to dispose of Woodlots within the first 4 years without losing their initial deductions. To qualify for this concession the Grower must dispose their Woodlots as a result of circumstances outside of their control and those circumstances must not reasonably have been foreseen by the Grower at the time the Woodlots were acquired.



# Environmental Considerations

The Plantations will have a number of environmental benefits, the details of which are outlined below.

## Reduction of Pressure on Native Teak Forests

Along with other valuable tropical hardwoods, teak old growth forests have endured a long history of exploitation to meet worldwide demand. Teak only occurs naturally in Myanmar, India, Laos and Thailand.

In India, almost 50% of the country's recorded forest area is degraded and much of its natural teak forest is now sterile bush. As a result, India remains a substantial importer of teak logs and timber.

In Laos, the native teak forest has been degraded as a result of population pressures and over-harvesting. Only about 50% of the remaining teak forest is considered commercial.

By 1988, Thailand had lost 82% of its forests and was forced to ban logging. At about the same time, the military regime in neighbouring Myanmar needed funds for its battle against the country's democracy movement. Thailand was able to negotiate concessions to harvest Myanmar's forests.

Myanmar has subsequently become the focus of campaigns by environmental groups against native forest destruction and unsustainable logging practices.

Together with illegal felling of teak forests and the limited availability of suitable sites on which to establish teak plantations, exploitation pressures are continually placed on the remaining native teak forests.

This Project will provide an alternative source of teak which is expected to reduce the pressure on depleting native forests.

## Reduction of Pressure on Native Sandalwood and Rectification of Land Degradation

Before the commencement of sandalwood harvesting in Western Australia, sandalwood trees were naturally abundant throughout the Wheatbelt. Today, this tree has virtually disappeared from the Wheatbelt due to clearing for agriculture and past over-harvesting.

Sandalwood now mainly occurs in the arid interior. These stands are subject to low growth rates due to low rainfall, and poor regeneration due to grazing by domestic and feral animals.

The development of plantation resources in the Wheatbelt will have the potential to reduce the pressure on native stands and re-establish sandalwood in its natural habitat. It will also help address the pressures on sandalwood resources elsewhere in the world, where some sandalwood species have been harvested to the edge of extinction.

Large amounts of salt is stored in the groundwater and soil beneath farmland in the Wheatbelt of Western Australia. The salt originated from the ocean and

was carried in rainfall over millions of years. Before large scale clearing for agriculture, this large store of salt was kept more or less in balance by the consumption of water by native vegetation.

When the land was cleared and replaced with shallow rooted annual pastures and crops, which have a much lower water demand, the groundwater rose and mobilised the salts. In many areas, the groundwater has risen to a point where it now intersects the surface, resulting in salinisation of soil and surface water. Research has shown that this process can be stopped, and over time reversed, by tree planting.

## Forest Stewardship Council

The Forest Stewardship Council (FSC) is an independent, not for profit, non-government organisation that provides standard setting, trademark assurance and accreditation services for companies and organisations interested in responsible forestry.

Rewards Management Pty Ltd (the Manager) has accreditation with the FSC for its existing sandalwood plantations. Accreditation involves an annual review of forestry management practices against international standards for responsible forestry.

## Greenhouse Gases and Carbon Credits

Tree crops contribute to the absorption of carbon dioxide from the atmosphere. As a result, they help reduce the net emission of greenhouse gases.

Australia, along with other industrialised nations, has pledged to reduce greenhouse gas emissions under the Kyoto Protocol to the United Nations Framework Convention on Climate Change held in late 1997. Australia ratified the Kyoto Protocol in December 2007.



The Kyoto Protocol permits countries with high carbon emissions to off-set their emissions by taking carbon out of the atmosphere via large-scale tree planting. Australia is considering the implementation of a Carbon Pollution Reduction Scheme (also referred to as the Emissions Trading Scheme) which will permit the production and trading of “carbon credits” generated by planting trees. Carbon polluters may remunerate tree plantation owners to accommodate their carbon emission problems via trees that have the capacity to store carbon.

Any carbon credits will accrue to the benefit of the Grower (60%) and the Responsible Entity (40%). Rewards Projects Ltd will consult Growers regarding opportunities to take advantage of carbon credits if and when such opportunities arise.

### Labour Standards and Environmental, Social or Ethical Considerations

In establishing and operating the Project, Rewards Projects Ltd will comply with all occupational health and safety and environmental statutory requirements, FSC standards and both the Queensland and Western Australian Codes of Practice for Timber Plantations. Except as outlined above, it does not take into account any labour standards or environmental, social or ethical considerations in selecting, retaining or realising any investment in the Project.



# The Rewards Group

The Rewards Group was founded with the vision of developing new, niche agribusiness projects using first class technical expertise. There is a need for new investment alternatives in the agricultural and forestry industries.

The agribusiness industry represents a legitimate and appropriate vehicle to generate investment in commercial scale primary production projects. Rewards Projects Ltd aims to meet the need within this industry for investment alternatives, backed by quality management.

## The Rewards Group observes important core values:

- best practice management;
- ongoing research and development of quality, alternative forestry and agribusiness products;
- reasonably priced investment products, i.e. a fair deal between management and Growers;
- a dynamic and innovative approach to all aspects of its business; and
- awareness of project risks and processes to minimise such risks.

Although pioneering new projects inevitably involves additional risks, Rewards Group seeks to minimise these risks by use of first class technical expertise and best practice, combined with a flexible and innovative approach.

The Responsible Entity acts as responsible entity for various schemes and in turn has appointed Rewards Management Pty Ltd to perform obligations in respect of these schemes. The ongoing performance of the Responsible Entity of its obligations to growers in these various schemes depends in part on the ability of Rewards Management Pty Ltd completing corresponding obligations. Rewards Group Ltd is the ultimate holding company of the Responsible Entity, the Manager and Rewards Land Pty Ltd (which will own the land upon which the Project will be operated).

Since incorporation in 2000, the Rewards Group has issued thirty-one managed investment schemes to the Australian investment market with a significant proportion of operating revenue sourced from new project sales. Many of these projects are now producing or close to producing revenue for the investors and the company. The Rewards Group receives ongoing income

from the operation of twelve horticultural schemes where growers pay the ongoing costs of running the relevant project. It also receives a share of net sales from the annual fruit crop. Forestry operations (such as the Project) require funding of ongoing expenses until it receives a share of harvest proceeds when thinning harvests occur and at final harvest. Substantial revenues from thinning harvests from projects are expected to be received from 2011 onwards.

However, a risk factor applicants should consider is whether or not the Responsible Entity is able to perform its obligations under the Project and other projects it operates. As recent events in the agribusiness investment industry demonstrate, a financial failure of a responsible entity or associated entities may cause significant disruption to the operation of a scheme and increase the risk of scheme members suffering loss.

Detailed information regarding the financial position of Rewards Projects Ltd is set out in its financial statements for the year ended 30 June 2009, which have been lodged with ASIC. Detailed information regarding the financial position of Rewards Management Pty Ltd is set out in the consolidated financial statements for Rewards Group Ltd for the year ended 30 June 2009, which have also been lodged with ASIC.

## Rewards Group Ltd - Summary Balance Sheet as at 30 June 2009

| Major Items                   | June 2009      | June 2008      |
|-------------------------------|----------------|----------------|
| Cash & Current Assets         | \$40 m         | \$48 m         |
| Plant Equipment & Buildings   | \$23 m         | \$19 m         |
| <b>TOTAL ASSETS</b>           | <b>\$147 m</b> | <b>\$141 m</b> |
| Net Debt                      | \$25 m         | \$11 m         |
| Unearned Establishment Income | \$15 m         | \$13 m         |
| <b>NET ASSETS</b>             | <b>\$69 m</b>  | <b>\$73 m</b>  |



In considering the above financial information it is relevant to note that various risk factors relating to the ongoing operation of Rewards Group Ltd and its controlled entities were identified in the relevant financial statements (including undertaking a significant capital raising to allow Rewards Group Ltd to repay its existing bank facilities). Rewards Group Ltd holds a 13% shareholding in The ARK Fund Limited (**ARK**) (a public company listed on the ASX (ASX Code: **ARJ**)). ARK owns a number of horticultural and forestry properties in Australia.

On 31 March 2010, ARK announced a proposed merger with Rewards Group Ltd. A key component of the proposed arrangement, is completion of a recapitalisation of the relevant entities through a convertible bond to raise \$55 million. The convertible bond issue will comprise an institutional placement of convertible bonds of \$44 million and an entitlement issue to ARK shareholders of \$11 million.

Subject to firm commitments to the convertible bond issue being received from institutional investors, due diligence, completion of an independent expert's report, completion of formal documentation, receipt of all necessary regulatory approvals, ARK shareholder approval at a general meeting, lodgement of a prospectus for the convertible bond rights issue and acceptance of the convertible bonds for public listing, ARK will acquire all of the shares in Rewards Group Ltd in consideration of ARK issuing shares and options to Rewards Group Ltd shareholders.

The proceeds of the recapitalisation will be used to retire bank debt (approximately \$28 million) with the balance applied towards enhancing the working capital position of the merged group.

Upon the successful completion of these transactions, ARK (to be renamed Rewards Group) will:

- own land leased to growers in Rewards Group projects with an approximate value of \$100 million
- have a bank debt facility with a LVR of approximately 30%
- have a strong balance sheet to enable it to conduct the Rewards Group projects

- benefit from an increased profile and greater access to capital markets as a result of being listed on the ASX

Applicants seeking information relating to progress of the ARK-Rewards Group Ltd merger should refer to [www.asx.com.au](http://www.asx.com.au) for details of future announcements made by ARK using ASX Code (ARJ).

Additionally, the Responsible Entity will use [www.rewardsgroup.com.au](http://www.rewardsgroup.com.au) to provide prospective Applicants with updates regarding the progress of the merger.

There is a risk that the transactions may not be completed before the 30 June 2010 cut-off for applications in the Project.

If the merger is not approved by ARK shareholders or does not proceed for any other reason, the Responsible Entity will (up to 30 June 2010) allow Growers to withdraw their applications.

If the merger meeting has not been held by 30 June 2010, it will accept applications on 30 June 2010 and other than to establish the Planting Services Fund will hold moneys in the Project Fund (as described in the Project constitution) until the outcome of the merger is known. Additionally, if the merger does not proceed for any reason it will hold a meeting of Growers to consider a resolution to terminate the Project and return Project fees to the Growers.

# Management

## Directors of Rewards Projects Ltd

The directors of Rewards Projects Ltd as at the date of this PDS are:

### Dr Andrew Radomiljac - Managing Director

Dr Radomiljac is a professionally qualified forester with a Bachelor of Science (Forestry) degree from Australian National University, a PhD from Murdoch University and a MBA from the University of Western Australia.

He co-founded Rewards Group in 2000 and has been Managing Director since incorporation.

### Mr Craig Anderson - Managing Director

Mr Anderson is a professionally qualified forester with a Bachelor of Science (Forestry) degree from Australian National University and postgraduate business qualifications from the University of New England and University of Western Australia.

Mr Anderson has extensive experience in the agribusiness sector, having worked for Timbercorp Ltd and Wesfarmers Bunnings Ltd for over ten years. His role prior to joining Rewards Group was the General Manager (Forestry) for the ASX listed agribusiness company, Timbercorp Ltd.

### Mr David Humann - Non-executive Director

Mr Humann is a Fellow of CPA Australia, the Institute of Chartered Accountants and the Australian Institute of Company Directors. Mr Humann has extensive experience in the role of a Non-executive Director, having been appointed to the boards of a number of mining, plantation, exploration and civil engineering companies.

Mr Humann is currently Chairman of Mincor Resources NL, Logicamms Limited, Exxaro Australian Sands Pty Ltd, Atomaer Holdings Pty Ltd and Advanced Braking Technology Limited.

Mr Humann is a former partner of PriceWaterhouseCoopers and was a member of their World Management Committee, its World Board of Directors based in London and New York and Managing Partner Asia Pacific Region and a member of the policy committee of the Australasian firm.

## Other Directorships of Rewards Group Companies

Mr David Humann is also a director of Rewards Group Ltd. Dr Andrew Radomiljac and Mr Craig Anderson are also directors of all other companies in the Rewards Group.

### General Manager – Forestry

#### Mr David Groom

Mr Groom is a professionally qualified forester with a Bachelor of Science (Forestry) degree from Australian National University and a MBA from Mt Eliza Business School.

Mr Groom joined Rewards Group in July 2006, bringing to the company over fourteen years experience in the forestry industry. Prior to joining Rewards Group, he was employed by Timbercorp Ltd in positions including National Senior Manager – Projects and National Operations Manager. Mr Groom has

forestry experience as Operations Manager at ITC Limited and Senior Technical Officer at Bunnings Wesfarmers.

### Project Managers

#### Mr Tony Sturre

Mr Sturre was appointed Rewards Group's Teak Project Manager in 2002, having formerly worked for the Queensland Department of Primary Industries, Forestry. He has worked extensively in Hoop Pine plantations and establishing Eucalypt and other tropical hardwood plantations in the Queensland wet tropics.

He has an Associate Diploma of Applied Science (Forestry) and an Advanced Diploma in Conservation and Land Management.

He is responsible for all aspects of teak land selection, plantation establishment and plantation maintenance activities.

#### Mr Adrian Vis

Mr Vis is professionally qualified, graduating from the University of Western Australia with a Bachelor of Science in Agriculture (Hons.) and a Bachelor of Commerce.

Mr Vis joined Rewards Group as a Projects Officer of Forestry in February 2008 as a graduate and works closely with the General Manager of Forestry and the Teak and Sandalwood Project Managers. His role includes both office based project management and analysis and on ground forestry operational support.

### Management Plan

The Project will be conducted in accordance with a detailed Management Plan. The Management Plan outlines the procedures to be followed to ensure that the Project is carried out in accordance with the Queensland Code of Practice for Timber Plantations and the Western Australian Code of Practice for Timber Plantations and in a manner designed to both mitigate the Project risks and optimise the growth and yield of the Plantation. It deals with the design of the Plantation, land preparation, weed control, planting, fertilising, pest control and fire control.



## Compliance

### Compliance Committee

Rewards Projects Ltd has established a Compliance Committee, which consists of two independent members and one representative of Rewards Projects Ltd. Information about the external members is set out below.

#### Mr Ross Kestel

Mr Kestel is both a Chartered Accountant and Certified Practising Accountant and has been a director of the accounting practice Nissen Kestel Harford since July 1980. During that time, he has acted as a director and company secretary of a number of ASX listed public companies. Mr Kestel is a member of the compliance committees for a number of managed investment schemes. Mr Kestel is also a member of the Institute of Company Directors.

#### Ms Anne Thoume

Ms Thoume is a business consultant and promoter with a strong background in funds management. She has experience as a member of a number of compliance committees, and has extensive knowledge of trustee administration and compliance issues. Ms Thoume is also currently a director and chair of a number of responsible entities and a director of a publicly listed property trust.

### Compliance Plan

Rewards Projects Ltd has prepared a compliance plan, as required by law. This will assist in the protection of the rights of Growers. The plan identifies the various obligations under the constitution, licence agreement and management agreement that affect Rewards Projects Ltd, identifies the risks of non-compliance and establishes measures designed to address these risks.

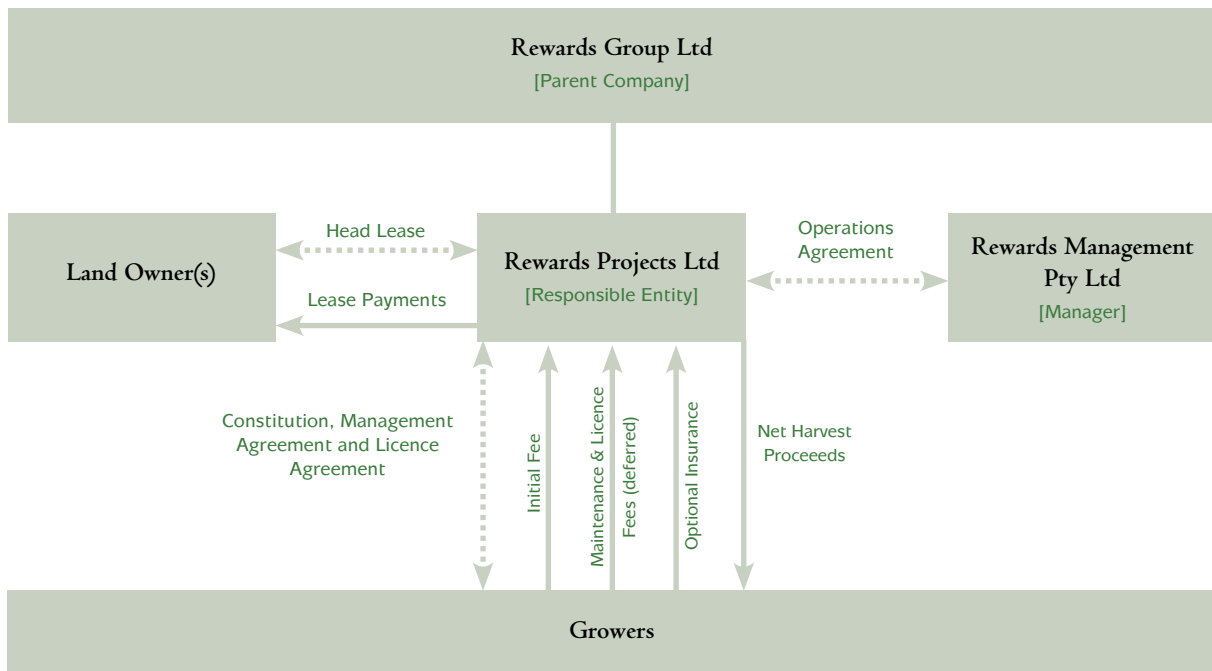
In particular, the compliance plan addresses the following matters:

- compliance with the provisions of the Corporations Act by Rewards Projects Ltd and its officers and employees;
- appointment of the compliance officer, establishment of the compliance committee and regulation of the compliance committee's duties and functions, members meetings and activities;
- record keeping, financial reporting requirements and appointment of auditors of the Project;
- conflicts of interests and complaints handling procedures;
- valuation of assets and compliance with the terms of contracts entered into on behalf of the Project;
- holding of Project property; and
- disclosure, conduct of business issues, external service providers and insurance.

The compliance plan will be audited annually by an independent auditor, as required by law.

# Corporate Structure

## LEGEND



## Rewards Group Ltd - Parent Company

Rewards Group Ltd ACN 087 702 547 is the ultimate holding company of Rewards Projects Ltd, Rewards Management Pty Ltd and Rewards Land Pty Ltd.

## Rewards Projects Ltd – The Responsible Entity

Under the Corporations Act, the Project requires a “responsible entity” to protect the interests of the Growers. Rewards Projects Ltd is the Responsible Entity and holds an Australian Financial Services Licence authorising it to operate the Project.

The rights and responsibilities of Rewards Projects Ltd are set out in the constitution (see the Summary of Material Agreements section of this PDS on pages 56 to 66). Amongst other things, it must receive and disburse money on behalf of Growers and hold the Project assets on behalf of Growers. Rewards Projects Ltd must comply with financial and other obligations imposed pursuant to its Australian Financial Services Licence.

## Rewards Management Pty Ltd – The Manager

Growers will contract Rewards Projects Ltd to establish, maintain and manage the Plantation, arrange harvest and then sale of the timber. Rewards Projects Ltd in turn will contract these services to be performed by Rewards Management Pty Ltd, which will use the services of a skilled management team and will

undertake its duties in accordance with the Management Plan for the Project. Rewards Management Pty Ltd will further subcontract some of the services to third parties.

## Rewards Projects Ltd - The Licensor

Rewards Projects Ltd has entered or will enter into an agreement to lease the land from the land owners on which the Plantation will be established. It will then licence Woodlots to Growers, under the terms of the licence agreement.

## Land Owner(s)

Rewards Land Pty Ltd ACN 089 949 824 or The ARK Fund Ltd ACN 009 204 175 owns or is negotiating to purchase the land on which the Plantation will be established. For information regarding ARK and the announced merger between ARK and Rewards Group refer to page 29.

# Independent Forester's Report

15 March 2010



*The Directors  
Rewards Projects Ltd  
50 Colin Street  
West Perth 6005  
Western Australia*

## Introduction

This report has been prepared for inclusion in a Product Disclosure Statement (PDS) to be issued by Rewards Projects Ltd, which offers investors the opportunity to subscribe to the Rewards Group Premium Timber Project 2010 to establish plantations of Teak (*Tectona grandis*) in tropical north Queensland and to establish plantations of Sandalwood (*Santalum spicatum*) in the Western Australian Wheatbelt.

Treetec Consulting Pty Ltd has been commissioned by Rewards Projects Ltd to provide an independent technical assessment of the Project and Rewards Projects Ltd's methodology concerning site selection, establishment, management, and plantation yields.

The Director of Treetec Consulting Pty Ltd, Dr. Nicholas Malajczuk is forestry educated and has over 25 years research experience as a scientist with CSIRO, Division of Forestry. Dr. Malajczuk's professional expertise includes Australian and international research on plantation establishment and nutrition in both temperate and tropical/sub-tropical environments. He has worked with major forestry companies in Australia including Bunnings Treefarms, Associated Pulp & Paper Mills and Australian Newsprint Mills on the inoculation of eucalypts with mycorrhizal fungi and nutrient application to maximise tree growth.

Dr. Malajczuk also has extensive forestry experience in China, the Philippines and Japan. More recently he has been a consultant to forestry projects in the agricultural areas of Western Australia. In 1994 he was appointed an Adjunct Associate Professor at Murdoch University in Western Australia and supervises Honours and PhD students in various aspects of forestry. More recently he has been appointed as Fellow and Adjunct Professor in the Institute of Natural Resources Management, The University of Notre Dame, Australia and Adjunct Professor at Edith Cowan University in Western Australia. He has published over 160 research papers in international journals and books.

Dr. Malajczuk has inspected the areas to be planted with Teak and Sandalwood and known past trial plantings of these species. Rewards Projects Ltd's technical staff were present to discuss aspects of the technical operations.

## The Proposal

Investors are invited to enter into a Licence and Management Agreement for 0.25 hectare Woodlots comprising of Teak in far north Queensland and Western Australian Sandalwood in the Western Australian Wheatbelt. Woodlots are to be 0.25 hectares in size within a proposed plantation estate of 2,250 hectares. Each Woodlot will consist of 0.1 hectares of Teak and 0.15 hectares of Sandalwood plantation. The Project proposes to grow Teak and Sandalwood trees on an 18 year rotation for production of plantation Teak saw logs and export quality Sandalwood.

## The Species

### Teak

Teak is a native tree species of dry monsoon forests in southern and South East Asia. This species is commercially harvested from native stands in India, Thailand, Laos and Myanmar and grown as a plantation species in tropical and sub-tropical countries in Asia, Africa, Central and South America. Teak is a tall, hardy, deciduous tree that grows across a range of sites and environments.

Teak is tolerant of a wide range of climates but grows best in warm, moderately moist tropical conditions. Much of its natural range is characterised by monsoon climates and a 3 to 5 month dry season. Optimum rainfall is between 1,500 and 4,000 mm per year, but it endures rainfall as low as 510mm and as high as 5,080mm per year. The most important Teak areas of Myanmar are situated in regions where the normal rainfall is between 1,270mm and 3,050mm.

Teak tolerates a wide variation in temperature, which ranges from 0°C to 48°C, but the optimum range is between 16°C and 40°C.

Teak grows between sea level and up to 1,200m elevation. It establishes well on a variety of geological formations and soils but it is recorded as growing best on deep, porous, fertile well-drained alluvial soils. The species will tolerate wide extremes of soils so long as they are adequately drained.

Teak was first used as a plantation species in the mid 1800s. Since then extensive research has been conducted on Teak silviculture throughout the world. In the late 1980s, the Queensland Department of Primary Industries, Forestry carried out research and field trials on the propagation and establishment of Teak on farmland. More recently, Rewards Projects Ltd has undertaken the establishment of Teak on properties near Tully and Innisfail using the current best practices for growing Teak.

The heartwood of Teak is golden brown, often with dark streaks, and has a unique figure and grain. Teak enjoys a worldwide reputation as a quality timber on account of its durability and appearance qualities and thus is subject to strong demand in world trade. It is prized for the manufacture of high-quality furniture and cabinet making. Wood from young Teak trees thinned from plantations is valued for door and window frames, house construction, poles, posts, fencing, tool handles, pallets, wooden casks and barrels, and packaging cases. Teak is particularly valued for its resistance to decay and insect attack. A thinning harvest carried out in September 2007 at a trial plantation has confirmed the value of growing Teak in this region and provided invaluable information on the harvesting, processing, containerisation, transport, marketing and shipping processes.

The demand for Teak in Europe, North America and Japan is very high and has continued to increase over recent decades. However, supply from countries with natural Teak forests, such as Thailand and Myanmar, is decreasing due to over cutting.

Teak is a tall forest tree and in its native habitat grows in impressive single or multi-species open forests. Teak is grown as a plantation species in tropical regions in several countries. However, there are no large-scale mature commercial plantations in Australia.

#### **Location of the Plantation**

The plantation will be located on farmland in tropical north Queensland, between about 100 and 250km south of Cairns. The farmland selected will be gently undulating and cleared and been regularly cropped or grazed by cattle. The land will receive between approximately 1,500 and 4,000mm of rainfall per annum. The soils will be deep, free draining loams with residual fertilisers relatively high in phosphorus and nitrogen. There are a number of large Teak trees growing in the region suggesting to Treetec that the area should grow good Teak trees.

#### **Selection of Planting Materials**

Rewards Projects Ltd has entered into a supply contract with a reputable tissue culture laboratory for the supply of Teak plantlets. The germ plasm for these plantlets has been sourced from Teak breeding programs in South East Asia.

#### **Plantation Configuration**

Tissue culture tube stock planting will commence in December, being the tropical wet season, following site preparation. Rows will be mounded and the width will vary slightly on different sites, but will usually be 4m apart. Plant spacing along the row will vary slightly, but will be 2m apart giving an approximate stocking of about 1,250 stems per hectare. Tube stock will be planted by a combination of mechanical means and hand after delivery from the nursery.

Checks of plantation survival will be undertaken in the autumn following planting. If necessary, tube stock will be infilled during the following wet season.

#### **Establishment and Management**

The plantation will require extensive weed control, consisting of cultivation, broad-spraying and post planting weed control.

Fertiliser requirements of Teak are not well known, however, foliar analysis does provide a guide to whole tree requirements if measurements are taken on a regular basis following planting, even as early as 3 months following planting. Based on this analysis, fertiliser will need to be applied if element levels are lower than published figures for fast growing tropical hardwood trees. Fertiliser can readily be applied as hard compound fertiliser near the trees soon after Teak tube stock becomes established or during the growing season throughout the rotation.

Firebreaks will need to be ploughed, graded or broad sprayed prior to summer. Access until harvesting will be by firebreaks. Roads will need to be formed as required to enable harvesting equipment access at the time of harvesting.

Treetec has reviewed Rewards Projects Ltd's methodologies for plantation establishment and maintenance and concludes that the silvicultural system used to establish Teak in this Project is appropriate for the achievement of high establishment and Teak growth rates.

#### **Monitoring**

The Project provides for regular inspections by an expert forester who reports to the Manager. Inspections will occur in the first 13 months, and thereafter at least tri-annually. These inspections will focus on survival, fire protection, weed control, growth rates and plantation health.

#### **Management Expertise**

Rewards Projects Ltd's executives are professionally qualified and experts in their field. The Project brings together a mix of long time experience in project management, plantation establishment and maintenance.

Rewards Projects Ltd has also acquired the services of experienced consultants to provide advice on Teak genetic selection, Teak planting density, growth rates and harvesting techniques.

#### **Plantation Teak Growth Rates**

The rate of growth and the quality of Teak from plantations is largely dependent on the characteristics of the soil, including topography and drainage; climatic factors such as rainfall & temperature; and management techniques.

Good growth and high plantation quality are associated with well-drained alluvial agricultural soils; appropriate tissue tube stock; and an annual precipitation from 1,500 to 4,000mm.

The mean annual increment (MAI) within well-managed plantations may vary from 15 to 18m<sup>3</sup> per hectare per year. This range is based on yield data from government yield models and growth data from government plantings on a number of sites in the Tully / Innisfail region.

The yields in the Project Returns section are estimated to have an MAI of 16.55m<sup>3</sup> per hectare per year. Given the plantation site

characteristics and climatic conditions, expertise of Rewards Projects Ltd and the Manager, and published growth data from Teak plantings, the yield estimates are reasonable.

#### **Harvest Costs**

Harvest costs in north Queensland of trees with similar harvesting requirements are currently in the range of \$20 to \$30 per m<sup>3</sup>.

#### **Transport and Loading Costs**

Transport and loading costs of timber logs in the north Queensland area are currently in the range of \$25 to \$35 per m<sup>3</sup>.

#### **Fees**

In my opinion the fees payable to Rewards Projects Ltd are sufficient and commercially realistic to ensure that the important establishment and maintenance phases are properly performed. The fees are in accordance with reasonable standard industry costs and practices and comparable to other forestry ventures.

#### **Risks**

The principal risks to Teak plantations in north Queensland are fire, wind, insect attack, drought and nutritional deficiencies.

Treetec has assessed the risk factors associated with the Project and is satisfied that all risks can be managed to minimise their influence on the Project's performance. Treetec has independently checked Rewards Projects Ltd's risk management strategy and can verify that appropriate measures are available to manage the risks.

Correct initial establishment techniques provide the best risk management strategy for plantations from weed competition and insect and vermin attack.

Wildfire is a risk in north Queensland during the dry season. However, a combination of well-maintained internal and external firebreaks and integration with fire fighting authorities will greatly minimise the risk of wildfires. Cyclone and windstorms are a risk in north Queensland during the monsoon season. Losses from fire, hail and windstorms can be covered by insurance. I advise Growers to consider insuring against damage or loss caused by bushfires and windstorms and to discuss this with Rewards Projects Ltd.

Plant deaths may occur in the first year after planting. Replanting will be carried out as part of the normal establishment regime as required.

## **Sandalwood**

The species to be grown for this Project is to be *Santalum spicatum*. This species is currently commercially harvested from native stands located in Western Australia's arid interior and approximately 2,000 tonnes are exported each year. *Santalum spicatum* is an obligate root semi-parasite requiring a host plant such as acacia trees, to survive and grow. Nutrients and water are obtained from the host plant root system so it is essential that the host trees be nurtured with the Sandalwood during the life of the Project.

The species grows mainly on loamy, acidic soils where rainfall is 200-500mm a year. It can withstand temperatures in excess of 40°C when established and prefers well-drained soils for subsequent growth and development. The higher rainfall areas of the Wheatbelt have been known to produce the largest Sandalwood trees, however, commercial stands are found in low rainfall areas.

Since the early 1980s, CALM and Curtin University have carried out extensive research and field trials on the propagation and establishment of Sandalwood on farmland. More recently, Rewards Projects Ltd has undertaken the

establishment of Sandalwood at a number of properties in the Wheatbelt using the current best practices for growing Sandalwood.

#### **Location of Plantation and Site Conditions**

The plantation land selected will be located on the western edge of the Western Australian Wheatbelt, within about 150 and 250km from Perth. The land selected will be gently undulating and will be already extensively cleared for agriculture. This land will have been regularly cropped to wheat, canola and legumes and grazed by sheep. The land will receive between 350 and 500mm of rainfall per annum. The soils will generally be sandy loams overlaying clay at depth >1-2m. The residual fertiliser will be relatively high in phosphorus and nitrogen and that will ensure good growth of the host plant and Sandalwood.

#### **Selection of planting materials**

Rewards Projects Ltd has entered into a supply contract with reputable nurseries for the supply of *Acacia acuminata* host seedlings. The same nurseries have supplied high quality acacia seedlings to Rewards Projects Ltd in previous planting seasons. The selected host plants have been sourced from provenances in the Wheatbelt and should perform well in the plantation.

Rewards Projects Ltd has also entered into a contract for the supply of high quality Sandalwood seed. Seed has been sourced from provenances in remnant stands of Sandalwood in the Wheatbelt and in neighbouring pastoral land areas. Selected seed sources have given excellent germination and survival at previous Rewards Projects Ltd plantations and these will be used in this Project.

#### **Plantation Configuration**

The host seedlings will be planted in winter following site preparation. Sandalwood seeds will be planted within 18 months of the Project commencing. This delayed Sandalwood seeding will ensure that the hosts are well established by the time of Sandalwood germination and root establishment.

Row width will vary slightly on different sites, but will usually be 5m apart and host seedling spacing along the row will be 1.85m apart giving an approximate stocking of about 1,100 hosts per hectare. Host plants will be planted by hand after delivery of the seedlings from the nursery.



In the year following host seedling establishment, Sandalwood seeds will be directly sown near the acacia host trees at a density of at least 4,000 seeds per hectare. The aim is to have the number of Sandalwood seedlings at 1,400 per hectare at age 5. Thinning operations will be based on several criteria including proximity to hosts, creating uniform Sandalwood density, and removal of less vigorous seedlings. The overall host to Sandalwood ratio will be about 7 hosts to 10 Sandalwood trees. Thinning may be delayed in some instances as there is a potential for sale of the wood.

Checks of plantation survival will be undertaken in the autumn following planting. If necessary, both Sandalwood seeds and host seedlings will be replaced during the following winter.

Rewards Projects Ltd estimates mortality in the first 5 years after the planting of the Sandalwood seeds to be about 150 trees per hectare. Considering research and trial planting results, this estimate is reasonable.

#### **Establishment and Management**

The plantation will require extensive weed control, consisting of broad spraying, mounding and post planting weed control.

Fertiliser requirements of Sandalwood and acacia are not well known, however, foliar analysis does provide a guide to whole tree requirements if measurements are taken seasonally. Based on this analysis, fertiliser will need to be applied if element levels are lower than published figures for slow growing trees. The fertiliser can readily be applied as hard compound fertiliser near the trees soon after Sandalwood seedlings become established or during the growing season throughout the rotation.

Firebreaks will need to be ploughed, graded or broad sprayed prior to summer. Access until harvesting will be by firebreaks. Roads will need to be formed as required to enable harvesting equipment access at the time of harvesting.

Treetec has reviewed Rewards Projects Ltd's methodologies for plantation establishment and maintenance and concludes that the silvicultural system to be used to establish Sandalwood in this Project is appropriate for the achievement of high establishment and Sandalwood growth rates.

#### **Monitoring**

The Project provides for regular inspections by an expert forester who reports to Rewards Projects Ltd. Inspections will occur in the first 13 months, and thereafter at least once every 3 years. These inspections will focus on survival, fire protection, weed control, growth rates and plantation health.

#### **Management Expertise**

Rewards Projects Ltd's executives are professionally qualified and experts in their field. The Project brings together a mix of long time experience in project management and plantation establishment and maintenance.

Rewards Projects Ltd has also acquired the services of experienced consultants to provide advice on Sandalwood provenance selection, host species suitability, Sandalwood planting density, Sandalwood growth rates and harvesting techniques.

#### **Plantation Sandalwood Growth Rates**

The rate of growth and the quality of Sandalwood from plantations is largely dependent on the characteristics of the soil, including topography and drainage; climatic factors such as rainfall and temperature; and management techniques.

Good growth and high plantation quality are associated with well-drained sandy loam agricultural soils; appropriate host trees; and an annual precipitation from 350 to 500mm.

The mean annual increment (MAI) within well-managed plantations may vary from 600 to 700kg per hectare per year. This range is based on yield data from government yield models and growth data from government plantings on a number of sites in the Western Australian Wheatbelt.

The yields in the Project Returns are estimated to be an MAI of 654kg per hectare per year. Given the plantation site characteristics and climatic conditions, expertise of Rewards Projects Ltd and the Manager, and published growth data from Sandalwood plantings, the yield estimates are reasonable.

#### **Harvest, Transport and Loadings Costs**

Harvest, transport and loading costs have been determined on the basis of costs for similar labour and transport requirements for general contract farming operations in the Western Australian Wheatbelt. Harvesting, transport and loading costs are currently calculated to be \$3.60 per tree.

#### **Project Returns**

Treetec's assessment of Rewards Projects Ltd's methodology for site selection, plantation establishment, maintenance and management indicates that potential risks to returns will be minimised, although returns are sensitive to price, yield and taxation treatment.

#### **Fees**

In my opinion the fees payable to Rewards Projects Ltd are sufficient and commercially realistic to ensure that the important establishment and maintenance phases are properly performed. The fees are in accordance with reasonable standard industry costs and practices, and comparable to other crop ventures.

#### **Risks**

The principal risks to Sandalwood plantations in the Wheatbelt are fire, wind, insect attack, drought, salinity and nutritional deficiencies.

Treetec has assessed the risk factors associated with the Project and is satisfied that all risks can be managed to minimise their influence on the Project's performance. Treetec has independently checked Rewards Projects Ltd's risk management strategy and can verify that appropriate measures are available to manage the risks.

Provided that the plantation is established in favourable areas, the risk of drought and salinity can be greatly minimised. Correct

initial establishment techniques provide the best risk management strategy for plantations from weed competition and insect and vermin attack.

Wildfire is a risk within the Wheatbelt. However, a combination of vehicle movement bans imposed by Shires during summer, well maintained internal and external firebreaks, and integration with fire fighting authorities will greatly minimise the risk of wildfires. Losses from fire, hail and windstorms can be covered by insurance. I advise Growers to consider insuring against damage or loss caused by bushfires and windstorms, and to discuss this with Rewards Projects Ltd.

Death of seedling host plants may occur in the first year after outplanting. Infills or replants will be carried out as part of the normal establishment regime as required.

Rewards Projects Ltd has conducted germination studies on the Sandalwood seed collected by the seed suppliers. Of the provenances tested, high rates of germination and establishment were recorded, with an average germination rate of about 80%. It is important that Rewards Projects Ltd continues to monitor and test the germination rates of the Sandalwood seed prior to seeding to ensure that the number of seedlings established match what is indicated in the PDS.

## Summary

The silvicultural procedures adopted by Rewards Projects Ltd for establishing Teak and Sandalwood plantations have been well thought out and are based on sound research and observations of past plantings and experience.

Treetec consents to being named as the Expert Forester in the PDS for Rewards Projects Ltd and to the inclusion of the Foresters Report in the form in which it is submitted. Treetec has acted as the Independent Forester and in no other capacity. Treetec takes no responsibility for any other matter in the PDS. Treetec will receive fees from Rewards Projects Ltd in connection with acting as an Independent Expert for the Project and other Rewards Group projects but has no other financial interest in Rewards Projects Ltd or the Project. Treetec does not hold an Australian Financial Services Licence.



**Dr Nick Malajczuk B.Sc. (For.) Ph.D.**

Treetec Consulting Pty Ltd



synovate

Research reinvented

*The Directors*  
Rewards Projects Ltd  
50 Colin Street  
West Perth 6005  
Western Australia

# Independent Market Report

## Rewards Group Premium Timber Project 2010

### I. Introduction

Synovate Pty Ltd ACN 054 505 127 (Synovate) has been commissioned by Rewards Projects Ltd ('the Company') to prepare this Independent Market Report, for inclusion in a Product Disclosure Statement (PDS) to be issued by the Company. The PDS offers investors the opportunity to subscribe to the Rewards Group Premium Timber Project 2010 ('the Project'). Synovate offers services in market research, market intelligence and strategic planning.

#### 1.1 About This Report

This report is based solely on a review of publicly-available industry data and published reports from Australian and international sources available as at 1 December 2009. Synovate has not examined any events occurring after this time. Important notes regarding this report are contained in Section 4 - the contents of this report should be read in conjunction with those notes.

The objective of this report is to examine the international markets for teak and sandalwood. At the request of the Company, this study was limited to an examination of the key uses and markets for teak and sandalwood, major producers and trade flows, value and growth of the markets, and the key market trends and issues impacting the future market outlook and export opportunities.

Synovate has specialist capabilities in evaluating products and markets and its consultants have prepared numerous independent market reports on a wide range of industries. This report has been prepared by Melanie Curtis (Senior Consultant, Business Consulting) and Andrew Prince (Analyst). Their individual qualifications are noted in Section 4.

### 2. Teak

#### 2.1 Overview of Teak Resources

##### About Teak

Teak is a highly valued hardwood that has been used for many purposes for over 2,000 years. Teak has been referred to as 'wooden gold' due to its easy-to-work nature, minimal shrinkage, extreme durability and strength properties. <sup>(1)</sup>

There are three species in the teak family; the most commonly traded being *Tectona grandis* (for the purposes of this report 'teak' will always refer to *Tectona grandis*). <sup>(2)</sup>

Teak forests are native to only four countries; India, Thailand, Laos and Myanmar (Burma). Teak has also been somewhat naturalised to parts of Africa, tropical Asia, Oceania, Central America, the Caribbean and tropical South America. <sup>(3)</sup>

Teak is a structural and appearance grade timber with a wide range of applications. Due to its structural properties and naturally occurring compounds contained within the timber (including silicates) teak is widely used in harsh environments. There have been reports of retrieving teak that had been under water for 150 years with little or no damage. <sup>(4)</sup>

Main applications for teak include: boat building (both decking and structural); furniture manufacture (outdoor furniture, indoor panelling and desks); and for use in building doorframes, window frames and floorboards. <sup>(5: 1)</sup> Immature teak that has been harvested from plantations in commercial thinning operations is generally used for doors and window frames. <sup>(5)</sup>

Teak resources have come under increasing strain as natural supplies dwindle, mainly due to over-exploitation. As a result, plantation teak grown in non-traditional markets has increasingly been called upon to satisfy growing global demand. <sup>(5)</sup>

#### 2.2 Production of Teak

It is estimated that by 2000 global production of teak reached 1.8 million cubic metres. It must be noted that this estimate takes no account of the reportedly significant poaching and black market trade in teak. It is not possible to report specific global production of teak due to the variation between yields from plantation teak and natural teak and the lack of official data by major producer nations. <sup>(5)</sup>

##### Natural Teak Production

There are reportedly up to 23 million hectares of natural teak forests in Myanmar, Thailand, India and Laos. Natural teak resources are highly regulated due to critical supply issues that have come about as a result of ecological exploitation. <sup>(5)</sup>

India banned the clear-felling of teak forests in 1986 and has since reduced and regulated all logging of natural teak. Thailand and Laos have completely banned the logging of natural teak forests since 1989. Myanmar remains the only country in the world that continues to log its native teak forests, however Myanmar claims to significantly regulate the logging of its forests. <sup>(6)</sup>

#### Plantation Teak Production

There are varying grades of teak depending on how and where it is grown. Plantation grown teak, with smaller log dimensions, suggests logs from these sources will be lower grades of classification because classifications are based on log dimensions. **Due to ongoing high demand for teak, in tandem with rapidly declining supply from natural forests, teak has been and will continue to be increasingly sourced from plantations.** <sup>(5)</sup>

Teak is grown in plantations in parts of Africa, tropical Asia, Oceania, Central America, the Caribbean and tropical South America. <sup>(3)</sup> Indicative of its long history of being highly prized, teak has been grown in plantations for more than 150 years.

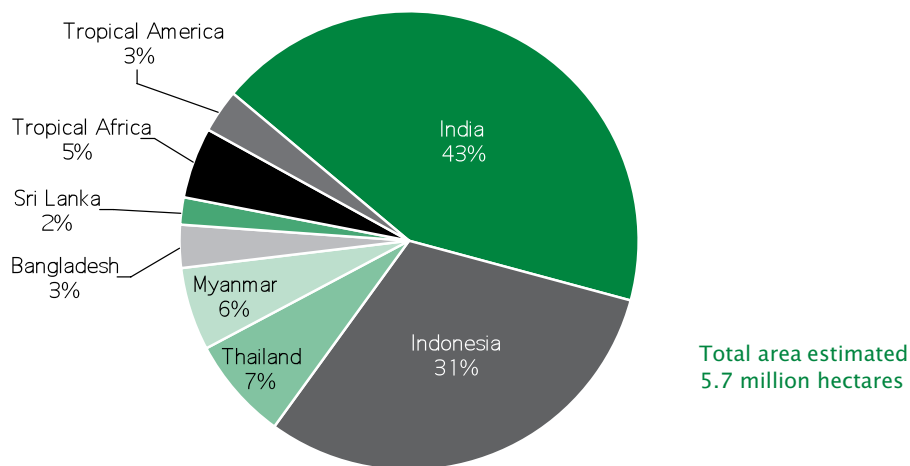
It was estimated in 2004 that globally there was 5.3 million hectares of teak plantations. Teak is estimated to account for 75% of the world's tropical hardwood plantations; however, teak accounts for just 3% of the world's overall timber plantations. This reflects the relatively small volumes of wood actually produced and traded. <sup>(7)</sup>

#### Locations of Teak Plantations

As shown in Figure 1 as at 2004 an estimated 87% of teak plantations were located in India, Indonesia, Myanmar and Thailand. India has by far the largest area of land under plantation with reports of approximately 2.3 million hectares – however it must be noted that many of these 'plantations' are low yielding and of varying quality. <sup>(7)</sup>

FIGURE 1 - World Teak Plantations (2004)

#### Proportion of area planted



Source: Teak growers unite. ITTO Tropical Forest Update. 2004, Vol. 14, 1.

Although not native to Indonesia, teak has been grown there for up to 800 years. As a result Indonesia has supplies of teak of different maturities and is a key global producer. In 2004 Indonesia had an estimated 1.6 million hectares under plantation. <sup>(8)</sup> Recent reports indicate that in 2007 Indonesia had 732,000 hectares under productive teak plantation, harvesting between 18,000 and 23,000 ha per year. <sup>(9)</sup>

In 2004 Thailand was estimated to have 371,000 hectares under plantation. In 2005 Thailand produced an estimated 21,000 cubic metres of teak logs and 33,000 cubic metres in 2006. <sup>(10)</sup>

West African nations have been relatively significant producers of plantation teak, a legacy of plantations established during colonial times. West African nations were estimated to have approximately 265,000 hectares under plantation in 2000. Recent reports however, indicate that over the last four years production of West African teak has declined rapidly due to a lack of sustainable management and limited replanting practices. <sup>(10: 5)</sup>

Central American countries such as Panama are relatively large producers of teak grown in short rotation plantations (15-25 years). In 2004, Panama teak plantations made up approximately 3% of the worlds teak plantations (including Brazil). <sup>(10: 7)</sup>

Brazil currently has an estimated 45,000 hectares of teak plantations, reportedly the largest area in South America. It is not known when these plantations will become productive as a large portion has been established in the ten years to 2004 and the rotation policy of the grower is not known, although it has been noted that some teak exports have begun. <sup>(11)</sup>

The majority of teak plantations around the world have been established under government plantation programs, usually within broader programs designed to create more sustainable communities and farming processes. <sup>(7)</sup>

There are a growing number of teak plantations being established by private enterprise. This trend is occurring particularly in Thailand, Costa Rica, Brazil and Ghana. <sup>(5)</sup>

**Outputs from Teak Plantations**

Plantations in the traditional producer nations of Myanmar, India, Indonesia, Sri Lanka, Bangladesh and Trinidad and Tobago are relatively mature and produce larger teak logs. Plantations established more recently in other countries tend to produce small teak logs and poles that are grown in shorter rotation periods.

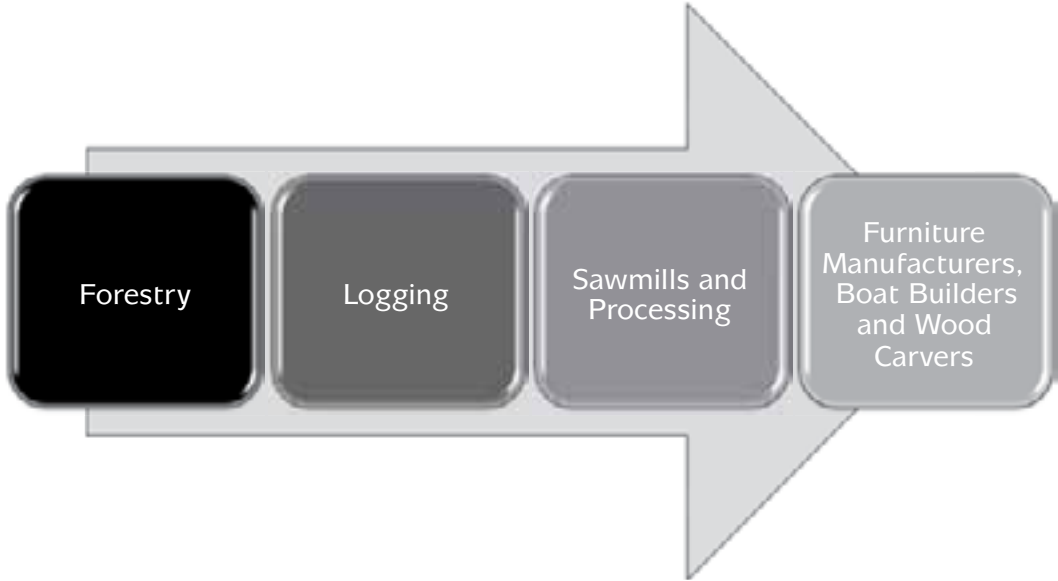
**Australian Situation**

Australian teak plantations commenced in Queensland in the 1990's. The Australian teak plantation industry remains in its relative infancy with 4,270 hectares under plantation as at 2008. <sup>(12)</sup> These plantings have been undertaken in three regions of Queensland over the last decade. <sup>(13)</sup> The majority of these plantations are located between Innisfail and Ingham in Queensland. Initial reports suggest success from these plantations with some commercial thinnings reportedly being carried out ahead of schedule.

**Teak Value Chain**

The teak value chain typically follows four steps as illustrated in Figure 2.

FIGURE 2 - Teak Industry Value Chain (high level only)



**2.3 Teak Trade and Markets**

Trade in teak wood forms a relatively small proportion of the total world timber market by volume. It does, however, retain a special status in timber markets due to its unique properties. <sup>(1: 5)</sup> There is considerable difficulty in estimating trade flows of teak. This is due to variability in the way that different countries record imports and exports of teak. It is further compounded by smuggling of teak, particularly throughout Indo-China.

Globally, trade of native grown teak has been further reduced by recent trade sanctions on Myanmar introduced by the USA and European Union (large end markets for teak products). The sanctions are a result of apparent human rights abuses occurring within Myanmar.

## Imports of Teak Logs and Sawnwood

### India

India has traditionally been the world's largest importer of teak in addition to being a major producer. It is estimated the volume of Indian teak imports in 2006 was 2.5 million cubic metres of logs. <sup>(14)</sup> Indian imports have declined significantly, dropping to just 500,000 cubic metres of logs in 2008. The volume of sawn teak imported is not known. This decline in imports may be indicative of reduced supply and/or demand for natural grown teak logs from Myanmar. Approximately 90% of the logs that India imported in 2008 were from plantation sources (mainly in Asia, West Africa and Myanmar). <sup>(15)</sup> Indian imports of native Myanmar teak logs have fallen to an estimated 50,000 cubic metres.

### Thailand

Due to a ban on logging of natural teak forests, the relatively young age of plantations and the low output from mature plantations, Thailand is a major importer of teak; estimated to be the second largest in the world in 2006. In 2006 Thailand imported 122,000 cubic metres of sawn teak and teak logs, up from 114,000 cubic metres in 2005. <sup>(16)</sup>

### China

Estimates of China's imports of teak are difficult due to a significant volume of undocumented cross-border log trade with Myanmar. Reports indicate that China is the third largest importer of teak logs, with a documented 85,000 cubic metres imported in 2005 and 2006. <sup>(16)</sup>

## Teak Exports

### Myanmar

Traditionally Myanmar has been the world's largest exporter of natural grown teak. In 2005 it was estimated that Myanmar exported at least 546,000 cubic metres of teak logs and sawnwood per annum (NB: this estimate does not take into account teak sold through undocumented channels). <sup>(6)</sup>

Recent estimates indicate that in the ten years to 2008 teak log exports from Myanmar declined by 50% from around 500,000 cubic metres per annum to approximately 250,000 cubic metres per annum. <sup>(15)</sup> The significant decline in exports is due to three key reasons. Firstly, over-exploitation of the natural teak supply in Myanmar has reached a critical point. Secondly, a ban has been placed on Myanmar grown teak by western countries. And thirdly, the investment in the value-added teak processing industry in Myanmar has led to greater volumes of teak logs and rough-sawnwood staying within Myanmar. Total tropical log exports from Myanmar declined by 12% in 2007 to 1.8 million cubic metres. <sup>(10)</sup>

Due to apparent human rights violations in Myanmar, the United States and the European Union (EU) have placed trade sanctions upon Myanmar. These sanctions include the ban of all wood products that originate from Myanmar, even where processed in a third party country. The EU ban, brought into effect in March 2008, is believed to have impacted China's imports of Myanmar teak logs. Although EU countries typically import just 2% of Myanmar's tropical log exports, they constitute major end-markets for teak products processed in China. Initial data for 2008 indicates that China's imports of tropical logs from Myanmar declined by 22% to 462,000 cubic metres.

China and India however, remain Myanmar's largest tropical wood trading partners, accounting for 50% of Myanmar's tropical log exports. Due to sanctions, however, an increasing proportion of Myanmar's exports in 2007 were to Middle Eastern countries (20%) and Vietnam (6%).

### Indonesia

As part of its forestry management plan Indonesia banned the export of whole teak logs in 1985 and has restricted the export of rough-sawn teak since 1992. <sup>(17)</sup> Indonesia has taken these steps partly due to supply issues, and partly to ensure that it retains a larger part of the value adding downstream processing of teak. <sup>(5)</sup>

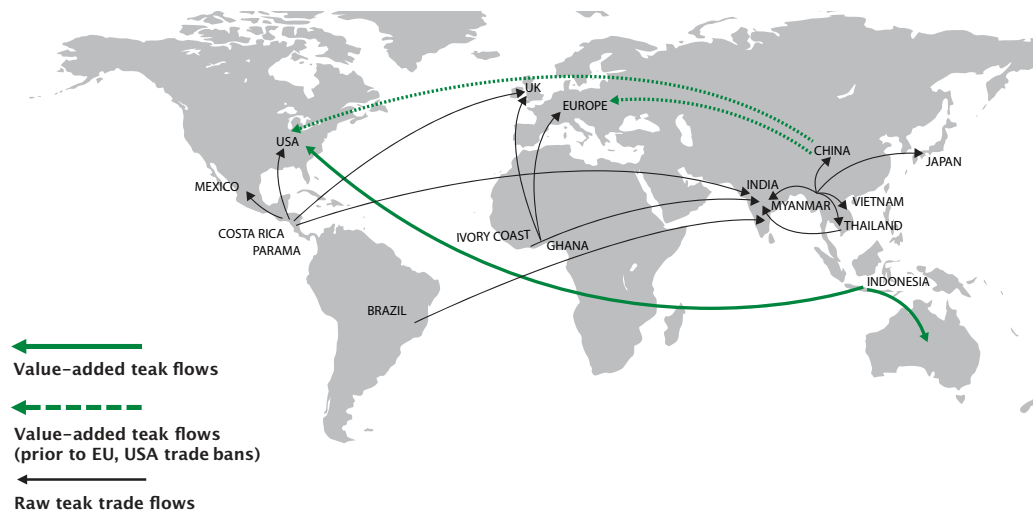
### World

Other major teak plantation exporters include West Africa (Ivory Coast, Ghana and Nigeria). Recent reports have indicated that exports of teak from these countries are in rapid decline. Although West African countries currently account for approximately 25% of India's teak log imports, it is expected that all West African Exports will cease within 5 years. <sup>(6; 15)</sup>

It is likely that Brazil will become a larger scale exporter of teak going forward with at least 45,000 hectares of land under plantation. It has been reported that substantial quantities of teak logs and sawn goods are already being exported from Brazil to India, Southeast Asia, Europe and the United States. <sup>(11)</sup>

Figure 3 illustrates the traditional and recently amended global trade flows for teak.

FIGURE 3 - Major Teak Trade Flows



Sources: *Teak growers unite. ITTO Tropical Forest Update. Vol. 14, 1. 2004*; *Food and Agriculture Organisation (FAO): Fore: Resources Development Service. Teak: a global overview, 2002*; *Division of Economic Information and Market Intelligence, International Tropical Timber Organisation (ITTO). Annual review and assessment of the world timber situation, 2007*; *Teak as social engineer. ITTO Tropical Forest Update. Vol. 14, 1. 2004*

### Intermediary Markets

Teak logs, poles and rough-sawnwood are exported to sawmills mainly located throughout India and Indo-China. Sawmills then process the wood into forms appropriate for boat and furniture manufacturers and the construction industry. The key countries that carry out this processing are India, Indonesia, Thailand and China.

#### India

India is the largest market for teak in terms of imports and local forestry (plantation) production. India has become a major teak processor partly due to its long history with the wood, but also due to its import tariff structure, which means that logs represent the cheapest way of importing teak, encouraging processing to be undertaken locally. <sup>(18)</sup> It has been reported that in 1999 teak accounted for an estimated 50% of total Indian wood consumption. <sup>(14)</sup> India mainly uses teak to produce sawn timber for construction and in decorative settings.

#### Thailand

Thailand's wood processing industry is relatively large, representing 8% of total manufacturing output in 2000. The once large teak sawmilling sector has declined due to severe supply issues. As a result, many of the sawmill and downstream processors have shut down or switched to alternative woods. <sup>(5, 19)</sup>

#### China

China has maintained a large teak processing industry that is supplied mostly by imported teak and supplemented by some domestic plantation teak. A majority of the teak processed in China is imported from neighbouring Myanmar. <sup>(20)</sup>

#### Indonesia

Indonesia has a large teak processing sector, however it typically processes its own plantation grown teak. Indonesia exports most of its value-added teak products to Europe and North America; usually in the form of furniture.

### End Markets

Major end markets for teak products include the **European Union, North America and India**. As stated in Section 2, major end uses for teak include boat building (both decking and structural); furniture manufacture (outdoor furniture, indoor panelling and desks); and for use in building doorframes, window frames and floorboards. <sup>(5, 1)</sup>

The **European Union** is a major consumer of value added teak products imported from China and other major teak manufacturing countries. Since the EU banned the import of teak and teak products originating from Myanmar, EU consumers have begun shifting to alternative woods as certified non-Myanmar teak is in short supply. <sup>(6)</sup> In the UK demand has shifted to less desirable alternatives such as *Iroko, Eucalypts and Acacias*. This shift to alternative woods in conjunction with the Global Financial Crisis has led to some teak market price dampening. <sup>(10)</sup>

**North America** is a major importer of teak for use in the construction of boats and teak products. As in the EU however, the USA has held sanctions on Myanmar for some time including an embargo upon teak and teak products. <sup>(6)</sup>

## 2.4 Pricing

Pricing of teak in international markets is based on the diameter of the teak log and the spacing of growth rings. The highest quality teak has the widest diameter and rings that are close together. Based upon these criteria naturally grown teak tends to be regarded as having the highest quality, resulting in **Myanmar-grown teak prices traditionally setting the standard for all teak worldwide.**

### Plantation Teak

Plantation grown teak has traditionally traded at a discount to naturally grown Myanmar teak and is likely to continue to do so. That said, prices for plantation grown teak have increased rapidly in recent times due to the critical global supply of teak.

Traditionally, the spacing of teak growth rings is important to manufacturers who wish to use the teak for veneers and high quality furniture. Because plantation grown teak is usually grown faster, the growth rings are further apart.

### Grades of Teak Pricing

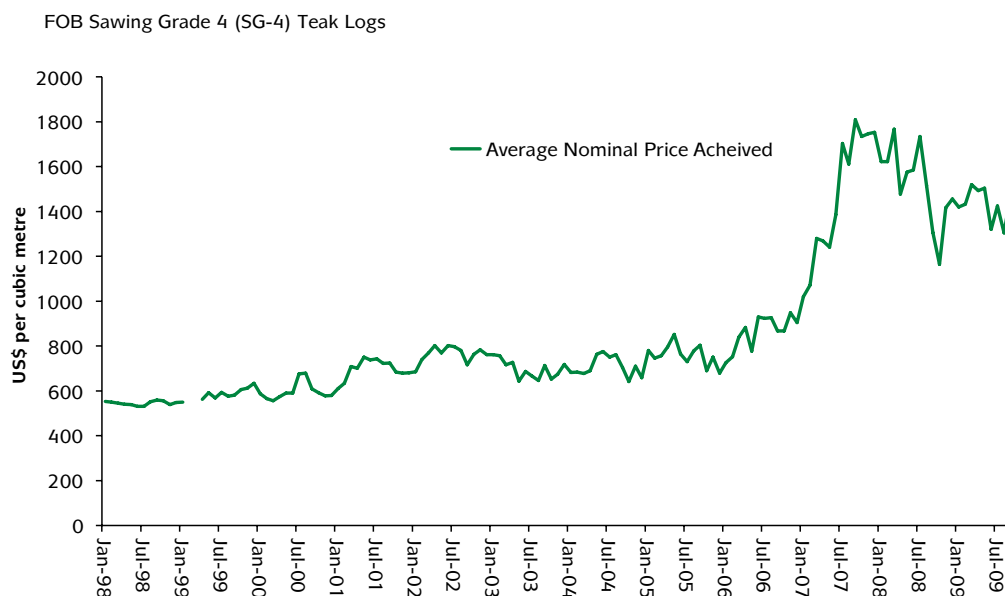
**Fourth grade Myanmar teak has traditionally been used as the price standard in teak markets.** Veneer fourth grade teak logs are usually used for high quality furniture and veneers. However, due to the extreme shortage of veneer fourth grade teak globally, sawing quality grade 4 (SG-4)<sup>(1)</sup> is now the standard typically used, particularly when comparing plantation grown teak.

Due to more consistent supply and quality of plantation teak that meets the SG-4 grade, SG-4 teak log pricing tends to be less volatile than other teak grades. Figure 4 illustrates SG-4 prices growing steadily at an average of 10.4% per annum from 1998 to 2009 (based on average annual prices) and achieving their highest historical price in September 2007 at AU\$2,038<sup>2</sup> per cubic metre. <sup>(6: 21)</sup>

Volatility in the price of teak is due to the relatively small volumes traded, variable seasonal availability, and changes in demand for the different types of teak. <sup>(6)</sup>

Other factors that can contribute to price volatility in teak markets include externally applied trade control measures and internal administrative changes by the reporting agency (ITTO) and the switch of teak-auction currency from the US dollar to the Euro. <sup>(10)</sup>

**FIGURE 4 - Myanmar teak Prices 1998-2009**



Source: International Tropical Timber Organization (ITTO), Division of Economic Information and Market Intelligence; Myanmar Log Prices 1998-2009

<sup>1</sup> SG-4 teak logs are of a lower grade than 4th grade teak logs.

<sup>2</sup> Currency Converted at Reserve Bank of Australia Rate on 21/12/2009 US\$1.0=AU\$1.127



In recent years, a general decline in teak log availability and quality has resulted in trade in smaller log categories being recognised and recorded, such as 'assorted', 'domestic', 'ER-1', 'ER-2' and 'ER-3' (ER: export rejection). Increased sales of these lower grades in the five years to 2009 reveal the continuing decline in teak log supply and increasing utilisation of smaller log categories. <sup>(16)</sup>

FIGURE 5: MYANMAR LOG PRICES (NATURAL FORESTS) 2009

| Teak Logs (FOB)       | € <sup>3</sup> per Cubic Metre (average) |           |
|-----------------------|--|-----------|
|                       | August                                   | September |
| <i>Veneer Quality</i> |  |           |
| 2nd Quality           | -  | -         |
| 3rd Quality           | -  | -         |
| 4th Quality           | 1,771                                    | 1,860     |
| <i>Sawing Grade</i>   |  |           |
| Grade 1 (SG-1)        | 1,239                                    | 1,316     |
| Grade 2 (SG-2)        | 1,061                                    | 1,071     |
| Grade 3 (SG-3)        | -  | -         |
| Grade 4 (SG-4)        | 767                                      | 852       |
| Grade 5 (SG-5)        | 823                                      | 830       |
| Grade 6 (SG-6)        | 697                                      | 695       |
| Grade 7 (ER-7)        | 547                                      | 499       |
| Grade 8 (ER-2)        | -  | 366       |

Source: International Tropical Timber Organization; Division of Economic Information and Market Intelligence. Market Information Service, December 2009

## 2.5 Trends and Issues in Teak Markets

### Diminishing Natural Supply

Diminishing supply of high quality natural grown teak is a key issue affecting teak markets worldwide. Although there are large teak plantations in locations around the world, with some approaching 150 years of age, there are not enough mature plantations to take the place of natural and semi-natural supplies from Myanmar, Thailand and West Africa. The decreasing supply of natural teak due to overexploitation has been paralleled by overexploitation of teak plantations in West Africa and Indonesia.

### Trade Embargoes

Political issues affecting Myanmar are also impacting upon teak markets, with the two major end consumer markets of the EU and USA banning all teak and teak products originating from Myanmar because of human rights concerns. Trade embargoes of this kind are likely to increase the value of plantation grown teak as accessible supply for these markets become scarce.

### Critical Supply Issues Forcing Substitution

Boat builders and outdoor furniture manufacturers in the European Union have increasingly sought alternative sources of teak (to naturally grown teak) and substitute species. This has been forced upon them by the critical supply issues present in teak markets in conjunction with the public acceptability of teak from Myanmar and other naturally grown sources. <sup>(10)</sup>

## 3. Sandalwood

### 3.1 Overview of Sandalwood Resources

#### About Sandalwood

Sandalwood timber possesses a distinct fragrance that is highly sought after for a variety of purposes including: incense (Joss) sticks burnt during religious ceremonies; component of perfumes and cosmetics; carved timber products; and edible products such as chewing tobacco <sup>(22)</sup>

There are two forms in which sandalwood is used. Sandalwood possesses a highly fragrant oil that is concentrated in the tree's heartwood. <sup>(23; 24)</sup> When extracted the oil has historically been, and remains, in very high demand and is therefore extremely valuable. Sandalwood sapwood and de-oiled heartwood are used for their distinct burning and fragrance carrying properties.

<sup>3</sup> According to Reserve Bank of Australia exchange rates in December 2009 Euros typically trade at Euro€1.0~AU\$1.6

Sandalwood is a slow growing tree that develops oil-bearing heartwood as it matures. Research and development in plantation sandalwood in Western Australia (WA) indicates that plantation sandalwood begins to bear oil within its first ten years of life, much more quickly than originally thought possible. <sup>(25; 22)</sup> With age sandalwood trees gain value as the ratio of heartwood to sapwood increases. <sup>(24; 26)</sup>

### Sandalwood Species

There are two main species of sandalwood used for commercial production of oil and wood - *Santalum album* and *Santalum spicatum*. There are 23 additional related species of sandalwood tree but of these only four are regarded as having any economic value. <sup>(27; 22)</sup> There are species of sandalwood native to areas of India, Australia, South-East Asia, Indonesia, and the Pacific Islands.

*Santalum album* is native to India and *Santalum spicatum* is native to WA. [For the purposes of this report these species will be referred to as Indian sandalwood (*Santalum album*) and Australian sandalwood (*Santalum spicatum*)]. It is only within the last 10 years that sandalwood has been grown in plantations in WA. <sup>(22)</sup>

### Commercial Value

Australian sandalwood and Indian sandalwood are regarded as the most commercially productive species due to the amount of oil they produce, its concentration and composition. Other sandalwood species produce such small volumes of oil and in such low concentrations as to make them economically unviable.

Indian sandalwood is regarded as the most highly valued species due to the volume and concentration of oil it can produce. It is native to India and Sri Lanka; and is now being grown in plantations in India, Indonesia and Australia. <sup>(28)</sup>

Global supplies of Indian sandalwood are dwindling due to the long term exploitation of natural resources in India and Sri Lanka. With Australian sandalwood recognised as a strong producer of the highly prized oil it is now regarded as the second most valuable sandalwood resource. <sup>(29; 30)</sup> **Dwindling supplies of Indian sandalwood and growing demand for Australian sandalwood has driven the development of sandalwood plantations.** <sup>(28; 22)</sup>

Different parts of the sandalwood tree attract different values, largely due to the relative presence of heartwood and therefore oil in each part of the tree. Sandalwood is initially processed into several different forms. 'Green' harvested trees are divided into the following categories, according to market value:

1. Roots and butts; the most valuable and high in oil content.
2. Uncleaned logs; from the trunk of the tree.
3. Small green logs; from the branches of the tree.
4. Mini green logs; the fine branches of the tree. <sup>(31; 32)</sup>

### History of Sandalwood in Western Australia

Australian sandalwood occurs naturally mainly in the south of the state of WA. Naturally occurring Australian sandalwood has made a large contribution to the growth of the economy of WA, accounting for a significant proportion of export earnings from 1844 to 1929. During that time, WA exported the majority of its sandalwood to Singapore and Shanghai. Exports of Australian sandalwood peaked in 1919-20 when WA exported over 14,000 tonnes of sandalwood per annum. This is significant when compared to the less than 2,000 tonnes exported per annum today. <sup>(33)</sup>

**As supplies of other species of sandalwood have declined around the world, Australian sandalwood has become a key global source of sandalwood.** Harvesting of Australian sandalwood has been restricted by the State Government since 1929. Legislation enacted in 1996 however, permits commercial production of sandalwood on private land. There remain tight restrictions on annual harvest volumes of naturally occurring Australian sandalwood.

Taking advantage of high demand in sandalwood markets, commercial plantations commenced in WA in 1999. <sup>(34; 22)</sup> Despite there being no large scale harvesting of sandalwood plantations to date, and only approximately 2,200 tonnes of naturally occurring sandalwood harvested per annum, **Western Australia is estimated to be the largest supplier of sandalwood to global markets.** <sup>(35; 22)</sup>

### Uses for Sandalwood Oil

#### Consumer Goods

Sandalwood oil is in high demand by the cosmetic and fragrance industries. The cosmetics industry desires sandalwood oil for its purported moisturising qualities in addition to its scent. <sup>(23; 36)</sup> The fragrance industry uses sandalwood oil as a base to make use of its own unique scent as well as a fixing agent for other fragrances.

In many Asian countries sandalwood oil is used in edible products. In southern and South-East Asia it is used to flavour chewing tobacco and Betel nut, a mix of Areca nut, Betel leaf and flavourings that is chewed for its mild stimulant qualities. Recently sandalwood oil has also been used as an additive to flavour wine and other food products. <sup>(28; 37)</sup>

### Medicines

Sandalwood oil and its active ingredients are reportedly being researched for use in medicines and pharmaceuticals. Traditionally sandalwood has been useful for the treatment of migraines and other complaints including bronchitis, and diseases of the urinary tract. Clinical research in this area remains in its infancy with compounds within sandalwood oil yet to be isolated for medicinal use. <sup>(22; 28)</sup>

### Religious Uses

Sandalwood oil has been used in religious and spiritual ceremonies for centuries by Hindu, Muslim, Buddhist and Parsi. Sandalwood oil is also used generically for spiritual purposes as it is reportedly beneficial in meditation. Sandalwood oil has traditionally been used in aromatherapy for similar purposes <sup>(23; 38)</sup> Cultural, religious and spiritual uses for sandalwood oil and incense have resulted in large markets for sandalwood in the Middle East and Asia. <sup>(22)</sup>

### Uses for Sandalwood Wood

Sandalwood wood is mainly used by the agarbhatti (incense) industry for the manufacture of incense (Joss) sticks. Sandalwood sapwood is desirable for its unique burning properties. Sandalwood timber burns slowly and the smoke it emits is sweet smelling and carries the wood's fragrance. Incense is manufactured by grinding the sapwood and deadwood into a powder which is then processed into 'Joss' sticks, cones and coils. The heartwood powder remaining after oil extraction, called 'spent charge', is also used in the manufacture of Joss sticks. <sup>(38; 22)</sup>

Traditionally the heartwood of sandalwood has been used in furniture manufacture and craftwork such as carving. In India and throughout parts of Asia, these industries typically only use the heartwood of Indian sandalwood, *S. yasi*, *S. australcaledonicum* and *S. macgregorii*. However, anecdotally the critical supply situation has resulted in these end uses declining. <sup>(37; 39)</sup> Due to the diminishing supply of these species, these industries are searching for replacement woods. It is considered likely that they will accept Australian sandalwood in the future. <sup>(38)</sup>

## 3.2 Production of Sandalwood

Across all sandalwood producing nations (except Australia) there is a lack of substantive documentation regarding production and trade. <sup>(22)</sup> It is therefore difficult to report market sizes and trade flows for sandalwood. For the purposes of this report indicative estimates have been provided wherever substantive information is available.

In addition to the lack of official documentation of production and trade, there is significant illegal poaching of Indian sandalwood in India and Indonesia. <sup>(28)</sup>

Despite the poor information base available it is widely accepted that natural supplies of all species of sandalwood have been overexploited. Indicative of this has been the steeply declining supply of sandalwood in all countries except Australia; correlated with sharply rising prices for sandalwood and its oil. <sup>(28; 31)</sup>

In response to declining natural sandalwood resources, commercial operations in a number of countries (including Australia, Indonesia and India) are developing sandalwood *plantations*. Of those countries, India has only recently enacted legislation to make sandalwood plantations commercially attractive. It is also having problems with disease, poaching and inadequate research into sandalwood plantation techniques and as a result is yet to show any success. <sup>(28)</sup> Plantations in Indonesia remain in their infancy with few reports as to their progress.

### Global Production (Estimated)

The most recently available estimate of global sandalwood production indicates that there was 4,870 tonnes of sandalwood produced in 2006. <sup>(28)</sup> This estimate must be treated with care as poor official documentation, significant illegal harvesting and differences in how weight is reported between countries<sup>4</sup> create significant differences between estimates.

There are five countries or regions in addition to Australia that have native species or naturally growing sandalwood resources. These include India, Indonesia, Timor Leste, Pacific region countries and Africa. Of these countries only India keeps any documentation of production and trade. According to reports by industry experts there is no reliable data as to the size of production or trade in these countries but sandalwood is assumed to be overexploited and in decline in all of those countries. <sup>(22)</sup>

**India** was reported to have produced 1,800 tonnes of sandalwood in 2006. Reports indicate that the total area of India with stands of natural sandalwood is just 5% of the area covered in the 1980's. <sup>(40)</sup> Supplies however, are dwindling due to overexploitation and a sandalwood tree disease called 'Spike' disease. <sup>(28)</sup> That said, poaching and illegal trade mean that the actual production volume may be much higher.

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<sup>4</sup> In India the sandalwood is stripped of its sapwood and only the heartwood is weighed. In Australia the sapwood and heartwood are weighed together.

### Australian Production

Australia currently harvests natural stands of sandalwood and also has significant areas of sandalwood plantations. Three species of sandalwood are grown in Australia; Australian sandalwood, Indian sandalwood and *S. lanceolatum*.

Currently only natural stands of Australian sandalwood and *S. lanceolatum* are being harvested for commercial purposes. No plantation Australian sandalwood has been harvested on a large scale as yet, with the first major harvests expected to occur in 2014. However, at least one plantation manager has reported that commercial thinning of Australian sandalwood has taken place. While Indian sandalwood plantations operate, no Indian sandalwood is yet available for commercial scale harvesting in Australia. These plantations in the north of WA are expected to come on stream in five to ten years time. <sup>(22)</sup>

Australia is in the process of developing increasing areas of both Indian and Australian sandalwood plantations. <sup>(36; 22)</sup> On the basis of area under plantation, research, development and industry organisation, **Western Australia is a world leader in sandalwood plantation development.** <sup>(28; 22)</sup>

### Natural Australian Sandalwood Production

The most recent estimates available indicate that there are approximately 200,000 tonnes of naturally occurring Australian sandalwood on Crown and private land in WA. There is estimated to be a further 15,000 tonnes of deadwood on Western Australian Crown land. <sup>(37; 22)</sup>

The Forest Products Commission (FPC) is a Western Australian Government agency that holds the sole licence to harvest **native** stands of Australian sandalwood on Western Australian Crown land. Expiring in 2016 the FPC is licensed to harvest (on average) 1,300 tonnes of natural greenwood and 700 tonnes of deadwood per annum. <sup>(22)</sup>

In 2006 the FPC harvested **2,132 tonnes of natural Australian sandalwood. Some industry experts estimated that this accounts for as much as 40% of total world supply.** <sup>(28)</sup>

A detailed breakdown of the FPC's most recent available sandalwood harvest volumes are laid out in Figure 6.

FIGURE 6: Native Australian Sandalwood Harvest

| Sandalwood Harvest Type | 2004/05<br>tonnes | 2005/06<br>tonnes | 2006/07<br>tonnes | 2007/08<br>tonnes | 2008/09<br>tonnes |
|-------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Green*                  | 1,131             | 1,369             | 1,178             | 1,008             | 1,261             |
| Roots                   | 199               | 205               | 173               | 343               | 599               |
| 3rd grade green         |                   | 17                | 99                | 185               | 249               |
| Dead                    | 626               | 653               | 682               | 656               | 232               |
| Bark                    | -                 | 38                | -                 | -                 | -                 |
| <b>Total</b>            | <b>1,956</b>      | <b>2,282</b>      | <b>2,132</b>      | <b>2,192</b>      | <b>2,341</b>      |

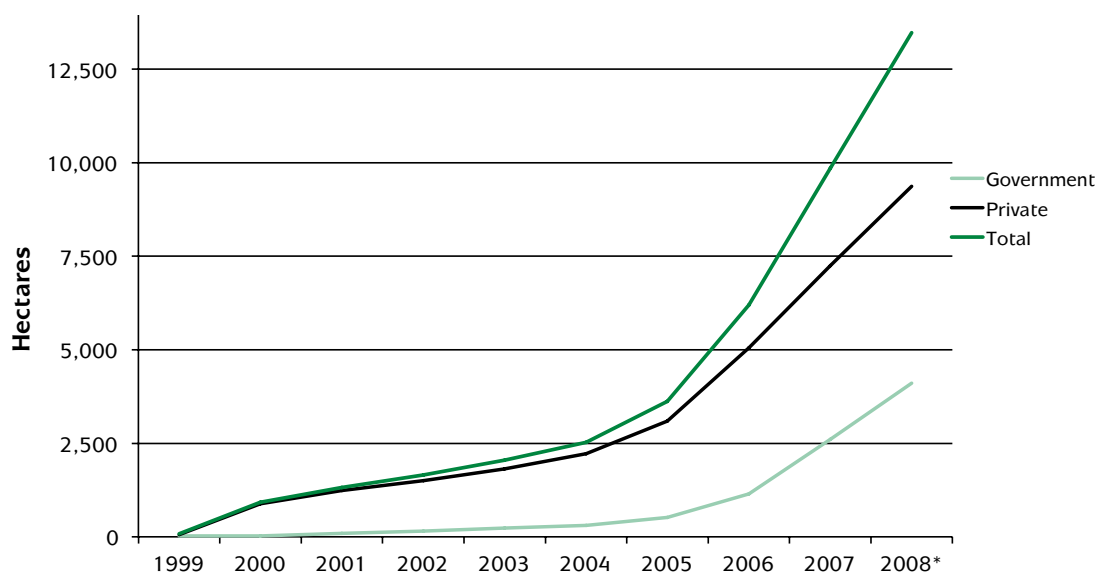
\*Green, excluding roots & 3rd grade green

Source: Forest Products Commission of WA, Annual Report 2008/09.

### Australian Plantation Production

Since 1999 the area under sandalwood plantation in Australia has grown to an estimated 13,476 hectares. <sup>(22)</sup> Figure 7 shows the growth in area under Australian sandalwood plantation since 1999. Approximately 42% of plantations have been developed by private commercial interests, 28% by private farmers and 30% by the Government (through the FPC). Based on currently established plantations (as at 2008), Western Australia has capacity to increase production of sandalwood until 2023. <sup>(28)</sup> The reported increase in production based on current plantings has been estimated to comprise a significant proportion of global sandalwood supply by 2020. <sup>(22)</sup>

FIGURE 7 - Growth in area under WA Sandalwood plantation 1999-2008



Source: Australian Sandalwood Network, 'WA Sandalwood Industry Development Plan 2008-2020', May 2008

#### Indian Sandalwood Plantation Production in WA

With 2,414 hectares of Indian sandalwood plantation in the Ord River region of WA, as at 2007, Australia is estimated to have more area under Indian sandalwood production than the total remaining area of Indian natural supply.<sup>(22)</sup> Due to a lack of transparent figures from other producer nations this estimate must be treated with caution.<sup>(41)</sup> One hundred and ninety seven hectares of Indian sandalwood plantations established in 1990 are expected to be harvested in 2014 at the earliest.

#### Australian Sandalwood Oil Production

A local Australian sandalwood oil company has contracted the right to purchase 550 tonnes per annum of high value natural Australian sandalwood heartwood from the Government (through the FPC), through to 2016. The company processes the heartwood locally to produce approximately 11,000-12,000 kilograms of sandalwood oil per annum<sup>5</sup>.<sup>(28; 37)</sup>

Recently another sandalwood oil producer has entered the Western Australian market, with reported capacity to produce 10,400 kilograms of sandalwood oil per annum. With the company only beginning operations this year it remains too early to judge its impact on the Australian sandalwood oil production market.<sup>(42)</sup>

#### Indian Sandalwood Oil Production

Australia does not currently produce Indian sandalwood oil on a commercial scale. According to the most recently available estimates India and Indonesia remain the leading producers of Indian **sandalwood oil** producing approximately 220,000 kilograms of sandalwood oil in 2005. This is in addition to the estimated 12,000 kilograms of Australian sandalwood oil currently produced each year.<sup>(28)</sup>

FIGURE 8: World Indian Sandalwood Oil Production

| Region             | 2004 kilograms (est) | 2005 kilograms (est) |
|--------------------|----------------------|----------------------|
| India (Tamil Nadu) | 75,000               | 125,000              |
| India (Other)      | 75,000               | 75,000               |
| Indonesia          | 10,000               | 10,000               |
| Other              | 10,000               | 10,000               |
| <b>Total</b>       | <b>170,000</b>       | <b>220,000</b>       |

Source: Australia's Sandalwood Industry: An overview and analysis of research needs. Rural Industries Research and Development Corporation, December 2006.

<sup>5</sup> Mount Romance produces Australian sandalwood oil.

### 3.3 Sandalwood Trade and Markets

#### Exports of Raw Sandalwood

Figure 9 shows the major trade flows of sandalwood, and shows the **major exporters** of sandalwood traditionally being **Australia, India and Indonesia**.

Indonesia has officially banned the export of raw sandalwood since 1978-79. It is understood however, that remaining Indonesian resources continue to be exploited illegally. <sup>(22)</sup>

India banned the export of sandalwood in its raw form in 1996 except where the wood had been purchased at a Government auction. Even when purchasing wood at a Government auction however, the owner must apply for an export license which can take up to two years to secure, making commercial sandalwood exporting operations virtually impossible. <sup>(43: 40)</sup> Despite official bans on sandalwood harvesting and export, it is understood that significant, although not quantifiable, illegal trade does continue.

As mentioned in Section 3.2, Timor Leste, Pacific island nations and Africa reportedly continue to produce and export sandalwood, however, no substantive documentation relating to quantities is available.

Australia is currently the largest documented, legitimate exporter of raw sandalwood in the world with a guaranteed supply of up to 2,200 tonnes per annum of natural Australian sandalwood. A portion of this supply typically remains in Australia for processing by two sandalwood oil distilleries, the remainder (approximately 1,500 tonnes per annum) is ground into powder and sold by the FPC's agent (Wescorp) to export markets including Taiwan, Hong Kong and Singapore (mainly for agarbhatti). <sup>(22)</sup> Wescorp also exports to Malaysia, China, India and Thailand. <sup>(34)</sup>

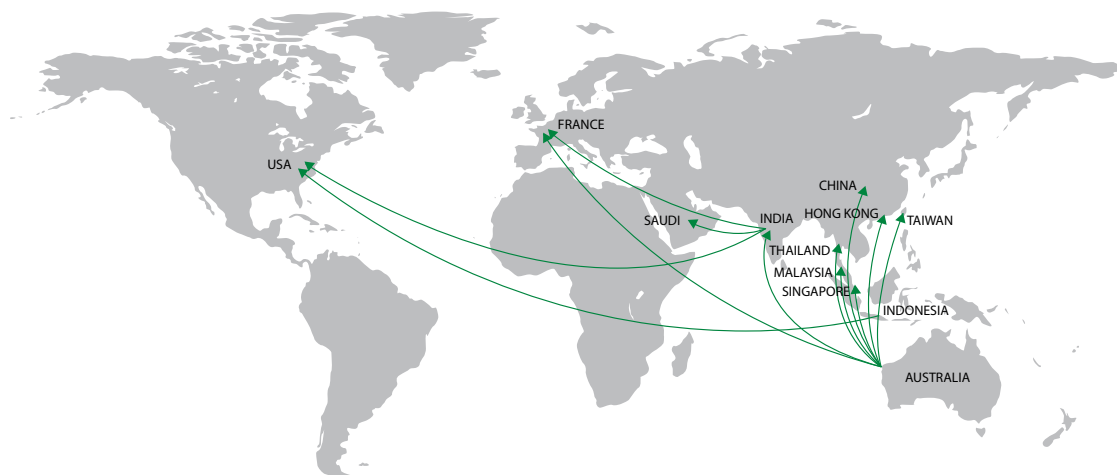
#### Exports of Sandalwood Oil

Australia exported approximately 7.8 tonnes of sandalwood oil in 2005, out of a total global production of approximately 12 tonnes. Since then export markets for Australian sandalwood oil have developed, indicating that larger quantities may now be exported. <sup>(22)</sup> Australian sandalwood oil not exported is used in local value-adding industries including the manufacture of perfumes and cosmetics. <sup>(28)</sup>

India, with average exports of 100 tonnes per annum throughout the 1980's and 1990's was once the largest exporter of sandalwood oil in the world. Recent reports indicate that this volume has plummeted to less than 5 tonnes per annum. <sup>(40)</sup> It is reasonable to assume that local demand for sandalwood oil by the Indian Attar industry and local markets consume a majority of the reportedly significant production of Indian sandalwood oil (estimated at 200 tonnes in 2005). <sup>(28)</sup>

Having banned raw sandalwood exports in the late 1970's, Indonesia continues to produce and export sandalwood oil. In 2005, Indonesia was estimated to have produced 10 tonnes of sandalwood oil with little of that volume consumed locally. A major end market for Indonesian sandalwood oil is the USA, consuming as much as 30% of Indonesian production. <sup>(28)</sup>

FIGURE 9 - Major Trade Flows - Sandalwood



Sources: Royal Dutch Geographical Society. *Niche markets, regional diversification and the reinvention of Western Australia's sandalwood industry*, 2003; Australian Agribusiness Group. *Market Overview: The Australian Sandalwood Industry - Independent Assessment*, November 2006; Wescorp. *Exporting sandalwood to the world*, September 2006; *The Sandalwooder. Sandalwood Market Report 2007. Summer, Vol. 1, 6. 2007*; RIRDC. *Australia's Sandalwood Industry: An overview and analysis of research needs*, December 2006

### Major Importers of Sandalwood

The largest consumers of sandalwood (both wood and oil) are India, France, Saudi Arabia, USA, China, Hong Kong and Taiwan. <sup>(23; 22)</sup> India continues to restrict the import of sandalwood, indicating that its consumption is satisfied by local production. <sup>(40; 28)</sup> With no local production of sandalwood in France, Saudi Arabia, China, Hong Kong, or Taiwan, all of their consumption must be satisfied by imports.

Figure 10 shows the estimated global consumption of Indian sandalwood oil. India is the world's largest consumer of sandalwood oil; followed by France (for perfumes and cosmetics) and Saudi Arabia (where it is traditionally used in the Islamic rituals associated with Ramadan). The USA is a major destination for Indonesian and Sri Lankan sandalwood oil exports. <sup>(28; 44)</sup>

FIGURE 10: WORLD INDIAN SANDALWOOD OIL CONSUMPTION

| Region       | 2004 kilograms (est) | 2005 kilograms (est) |
|--------------|----------------------|----------------------|
| India        | 75,000               | 90,000               |
| France       | 35,000               | 35,000               |
| Saudi Arabia | 30,000               | 35,000               |
| USA          | 15,000               | 15,000               |
| Other        | 15,000               | 45,000               |
| <b>Total</b> | <b>170,000</b>       | <b>220,000</b>       |

Source: Australia's Sandalwood Industry: An overview and analysis of research needs. Rural Industries Research and Development Corporation (RIRDC), December 2006.

### Trade Destinations for Australian Sandalwood Oil

Approximately 7.8 tonnes of sandalwood oil is exported from WA to fragrance manufacturers in France, the Middle East, Malaysia, Taiwan and India. <sup>(28; 34)</sup>

### End Markets for Raw Sandalwood

The **agarbhatti (incense) industry** is a major consumer of sandalwood sapwood and 'spent charge' by volume. <sup>(38; 39)</sup> Sandalwood sapwood is ground into a powder, mixed with other products, and manufactured into Joss sticks. <sup>(45)</sup> The agarbhatti industry uses an estimated 500,000 tonnes of wood material per annum; including 5,000 tonnes of sandalwood. <sup>(46)</sup> The agarbhatti industry is a readily available market for appropriately priced sandalwood sapwood. <sup>(35)</sup>

Australia has its own relatively small (just one company) agarbhatti industry; locally Wescorp produces similar products to the international agarbhatti industry. Naturally grown Australian sandalwood is utilised by Wescorp, under its 'New Mountain' brand, to produce a range of incense sticks, including mosquito repellent sticks. <sup>(47)</sup>

### End Markets for Sandalwood Oil

#### Perfume and Cosmetics

Sandalwood oil is a highly demanded ingredient in perfumes and cosmetics. Sandalwood oil has a unique property that allows it to act as a 'base note' fragrance whilst also holding other scents added to it remarkably well. Australian sandalwood is becoming well regarded in international markets due to its more complex and spicy fragrance (as compared to Indian sandalwood oil). <sup>(22; 28)</sup>

The perfume industry uses the oil as a harmonising agent, a fixative for other fragrances, and as a base fragrance. The cosmetic industry uses the oil both for its fragrance and its moisturising qualities. <sup>(37; 45)</sup> Prestigious perfume brands that use sandalwood oil include Chanel, Calvin Klein, Christian Dior, Ralph Lauren and more recently, Lancome. <sup>(28; 29)</sup>

To the benefit of the Australian sandalwood industry, illegal harvesting of natural supplies in India and Indonesia has caused major fragrance manufacturers such as Givaudan, IFF, Firmenich and Robertet, to refuse to buy Indian sandalwood. <sup>(30)</sup> Australian sandalwood oil is now used by five of the six major perfume houses: Givaudan, Quest, Firmenich, Robertet and IFF. <sup>(30)</sup>

#### Other Key Markets

As outlined in Section 3.1, other major end markets for sandalwood oil include religious markets and a growing pharmaceutical market. <sup>(22)</sup>

### 3.4 Pricing

The price that sandalwood achieves at market is dependent upon the volume of oil-bearing heartwood contained in any given piece of wood. Other factors include the size of the raw material, its carving ability, its colour and aroma at burning. <sup>(35)</sup> In addition, the supply-demand dynamic has an effect with both sandalwood solids and oil prices rising as supply becomes increasingly limited.

International price reports regarding Indian sandalwood must be used with caution for two reasons. Firstly, spot market sales of Indian sandalwood can and often do achieve much higher prices than normal; being the result of particular batches of very high quality material becoming available on the market. Secondly, prices between batches and Santalum species are not easily comparable as they may refer to a weight of de-sapped heartwood, or may refer to just the weight of the heartwood itself.

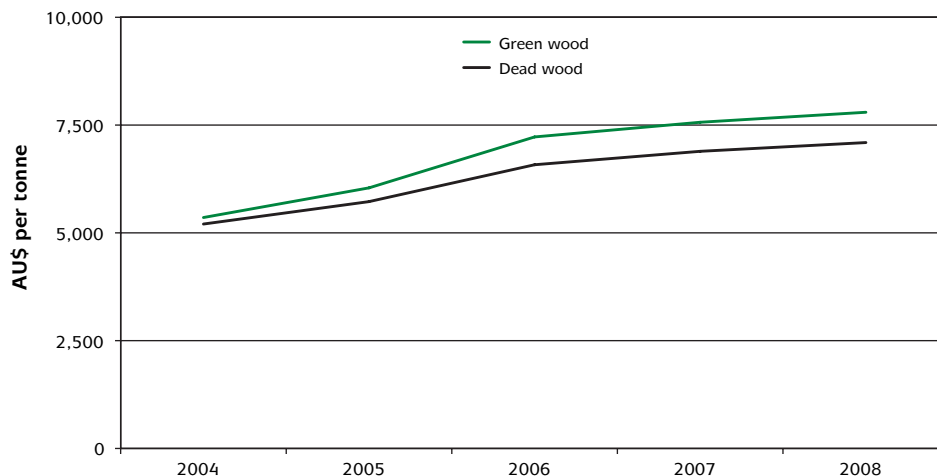
The price of Indian sandalwood has historically set the benchmark for prices of other species of sandalwood. Indian sandalwood has traditionally achieved the highest prices due to the generally larger amounts of oil and higher concentration of the active ingredient *Santolol* contained in its heartwood. <sup>(28)</sup>

Although values for sandalwood have grown strongly over recent years, it is unlikely that this level of price growth will be sustained due to the imminent harvesting of Australian sandalwood plantations, synthetic sandalwood oil and similar substitute oils to sandalwood in essential oil markets. <sup>(28)</sup>

### Australian Sandalwood Pricing

WA has typically traded at lower prices than Indian sandalwood, but as a result of the growing scarcity and prices of Indian sandalwood, Australian sandalwood has markedly increased in value in recent years. The average price of green Australian sandalwood has increased in value at an average annual rate of 9.03% since 2004 to reach \$7,792<sup>6</sup> per tonne in 2008. <sup>(48: 22)</sup> Figure 11 illustrates the growth in Australian sandalwood value since 2004. It must be noted that certain parts of each sandalwood tree, such as the roots and butts, are significantly more valuable than the mini green logs taken from near the top of the tree, therefore average prices do not represent a complete picture of pricing.

FIGURE 11 - Average Western Australian Native Sandalwood Prices (All Grades) 2004-08



Source: Forest Products Commission 2008

### Indian Sandalwood Pricing

In correlation with decreasing world supply Indian sandalwood prices have increased sharply in recent years. Some estimates of these price increases show an average annual growth in prices of 23% over the last 15 years. <sup>(49)</sup> In December 2007 the highest price reached at auction was **AU\$160,167<sup>7</sup> per tonne** for high quality root heartwood. <sup>(50)</sup> A more recent report, in 2009, indicates that legally traded premium batches of Indian sandalwood (normally more than 65 years old) traded at a peak price of AU\$157,861<sup>6</sup> per tonne. <sup>(40)</sup>

In May 2009 Australian grown Indian sandalwood produced from 20 year old plantation trials was sold at auction for the first time. The auctioned wood comprised 20 year old wood, eight year old roots and eight year old sapwood. In total 1.7 tonnes of sandalwood was sold in three lots attracting a total price of AU\$9,500. <sup>(51)</sup>

Indian sandalwood oil from legitimate sources is reported to trade in the range of AU\$2,428 to AU\$3,643 per kilogram. Indian sandalwood oil from illegal sources is reported to achieve prices of approximately AU\$1,578 per kilogram. <sup>(40)</sup>

<sup>6</sup> For the purposes of this report, prices per tonne have been listed in Australian dollars. It is standard international practice to usually list prices per tonne in US\$. All conversions have been undertaken at current exchange rates as listed by the Reserve Bank of Australia on the 21st December 2009 of 1 Australian dollar = US\$0.8872.

<sup>7</sup> Australian dollar figures were converted from Indian Rupees using the 22 December 2009 exchange rate of: AU\$1.00 = 41.17 Indian Rupees.



### 3.5 Trends and Issues in Sandalwood Markets

#### Diminishing Natural Resources

Experts believe it is likely that commercially viable varieties of sandalwood in all producer nations except Australia will not survive in the natural environment. This is due to a combination of poor sustainability planning by government institutions and illegal poaching and smuggling. Poaching and smuggling has been encouraged by the supply and demand imbalance that has caused the value of sandalwood to increase rapidly, particularly in developing nations such as India and Indonesia.

#### Australian Sustainability

Western Australia, currently supplying a large proportion of the global sandalwood market, has followed a policy of legislated sustainability since the early 20th century. The sustainability of natural supplies will be further increased by plantation supplies coming on stream over the next 15 years. <sup>(8)</sup>

The sustainability of Australia's sandalwood industry aligns with global social trends that place environmental sustainability and socially responsible production practices in high regard. This is particularly an issue for major perfume and cosmetics manufacturers who, as a key element of their brand positioning, need to certify their products for environmental and social sustainability. <sup>(30)</sup>

#### Technology Advances

Technological innovations have allowed the sandalwood industry to be increasingly efficient and therefore more sustainable. The harvesting and subsequent processing of entire sandalwood trees means that there is less wastage and therefore fewer natural trees required to be harvested.

#### Increase in Plantations

Plantations of both Australian sandalwood and Indian sandalwood located in Western Australia are forecast to be sustainable as long as there is careful industry cooperation in managing the marketing of sandalwood and its products in international markets. <sup>(1)</sup> Other producer nations such as India, Indonesia and Malaysia have had mixed success with plantations due to poor research support and the continued poaching of immature plants before they are ready to be harvested.

#### Poor Market Information

There are no published estimates of the volume of natural sandalwood supplies remaining in the key producer nations, other than Australia, as a result of poor documentation, combined with significant black markets for sandalwood.

#### Value Adding in Domestic Markets

There is a growing trend for sandalwood producers to add value to the raw sandalwood by processing it domestically before export. In Australia the FPC's agent, Wescorp, processes sandalwood into incense sticks. Mt Romance also processes sandalwood into oil, cosmetics and perfumes.

#### Commercialisation of Nuts Produced on Australian Sandalwood Trees

The prospect of developing consumer markets for Australian sandalwood tree nuts is widely reported. Australian sandalwood is the only *Santalum* species to produce nuts of this kind. Production and market development remain in their infancy at the time of writing this report and it is noted that a large amount of research and market development needs to take place before this opportunity can be leveraged. <sup>(22)</sup>

## 4. Notes Regarding This Report

### 4.1 Consent

Synovate has given its consent to be named as an expert adviser, and to the issue of the PDS with this Independent Market Report in the form and context in which it is included, and has not withdrawn its consent before the issue of the PDS.

Rewards Group Ltd has agreed to indemnify and hold harmless Synovate from and against any claims, liabilities, costs or expenses, except to the extent that they result from negligence or wilful misconduct, arising directly from or in relation to this report.

### 4.2 Disclosure

This report is an independent report. Synovate does not have a pecuniary or other interest in the Company. Other than the recording of its company name as an independent expert, Synovate has had no involvement in the preparation of the PDS, has not authorised or caused the issue of the PDS and takes no responsibility for any part of the PDS other than this report and references to its name. The payment of fees to Synovate for the preparation of this Independent Market Report is not contingent on the outcome of the PDS.

### 4.3 Assumptions and Qualifications

- In estimating the value and size of markets, Synovate has relied upon a base of information that has been provided by internationally-recognised sources including information provided by the Company. Whilst best endeavours have been taken to validate the data, no warranty of accuracy is given to the information contained in this report and obtained from these sources. References are provided for the reader's information.
- The market estimates referred to throughout this report were derived from the most recently available data as at 1 December 2009.
- In some instances, the most recent market information available is several years old or contains approximations of market size, value and/or growth, and in some cases no actual market data was identified. Where possible Synovate has stated the underlying assumptions upon which quoted approximations were based; however, in many cases authors quoted do not state these assumptions and they are therefore not included. Readers should exercise caution in interpreting such approximations, and in light of the underlying assumptions detailed in the body of this report.
- There is no direct reference to the market or sales potential of the Company's products and/or services in this report as this will largely depend on market acceptance and other factors.
- The findings of this report are based entirely on the secondary research conducted by Synovate, drawing upon documents published by respected industry authorities and commentators.
- This report has been prepared for the purpose of inclusion in a Product Disclosure Statement to be issued by Rewards Projects Ltd. The contents of the report should be read in its entirety and within the context of the scope of the report. The report has been prepared for information purposes only and does not constitute any form of investment opinion or advice. Synovate does not hold an Australian Financial Services Licence.

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# Summary of Material Agreements

The following are summaries of the principal terms of material agreements, which relate to the Rewards Group Premium Timber Project 2010. The Project has been registered by the Australian Securities and Investments Commission as a managed investment scheme.

The material agreements are:

- Licence
- Management Agreement
- Constitution
- Head Lease
- Operations Agreement
- Teak Off-take Agreements
- Sandalwood Sapwood Off-take Agreements
- Teak Sales Agent Agreement
- Sandalwood Sales Agent Agreement

Copies of the material agreements described below are available for inspection at the registered office of Rewards Projects Ltd during normal business hours. This PDS does not set out all of the provisions of these documents. Any intending Applicant who wishes to gain a full knowledge of the contents of any agreement should inspect the documents. Prospective Applicants should seek independent professional advice on these agreements, if necessary.

## Licence

### Parties

Rewards Projects Ltd as Responsible Entity of the Project (**Licensor**) and each Grower.

### Grant of Licence

The Licensor grants the Grower licences in respect of the Grower's Woodlots allotted under the PDS, commencing on the date of such allotment until completion of the final harvest.

The Licensor licences each Grower to occupy and use the Woodlots for the purpose of the Project, to use the infrastructure on the land required for the Project and to access the land for the purposes of growing trees on the Woodlot.

The Grower is entitled to the trees planted on the Woodlots and all timber there from (but not seed and propagation material).

The Licensor has or expects to have the benefit of a lease of the land for the Plantation (see the summary of the head lease on page 64).

If at the time the Responsible Entity accepts the Grower's application the Responsible Entity has not specifically approved land for use in the Project, then the Responsible Entity must use its best endeavours to as soon as practicable, and in any event within fifteen months of the end of the Financial Year in which the Grower's application is accepted, approve land for use in the Project

that meets the selection criteria in the PDS. Once the Responsible Entity has approved land for use in the Project, the Responsible Entity must promptly complete the licence agreement by inserting a description of the land approved by the Responsible Entity for use in the Project, a description of the Woodlots allocated to the Grower and such other details as the Responsible Entity considers are necessary or desirable to give effect to the licence agreement.

The Grower irrevocably authorises and agrees to ratify any changes made to the licence agreement by the Responsible Entity pursuant to this process.

### Licence Fee

The Grower shall pay licence fees based on net sale proceeds of each harvest after deducting applicable harvest costs. The fees are 22.33% (including GST) of the Grower's share of net sale proceeds from the Teak Block and 17.05% (including GST) of the Grower's share of net sale proceeds from the Sandalwood Block.

### Grower Covenants

The Grower will:

1. plant trees on each Woodlot;
2. tend to the trees according to good forestry principles;
3. prevent or combat land degradation in relation to Woodlots;
4. comply with all laws, regulations and other legal obligations relating to fire on the Woodlots;
5. not render any applicable insurance policy void or voidable;
6. comply with all laws, regulations and other legal obligations in respect of the use or occupancy of Woodlots;
7. permit the Licensor to enter the Woodlots as necessary;
8. give such access to occupiers of adjoining Woodlots as is necessary; and
9. take all reasonable steps to avoid interfering with the operations of any owner or occupier of neighbouring land.

### **Licensor's Covenants**

The Licensor will provide the Grower access to the Woodlots during the term. The Licensor will also meet all rates, taxes and other charges levied by any local or other relevant government authority in respect of the land.

### **Interest**

The Grower must pay to the Responsible Entity interest on any overdue monies at the rate being 3% per annum above the base rate charged by National Australia Bank Limited on overdrafts of less than \$100,000.

### **Default**

The Licensor may terminate the licence agreement if the Grower is declared bankrupt, goes into liquidation, a receiver is appointed to the undertaking of the Grower or the Grower fails to perform its obligations under the management agreement, constitution or the licence agreement and such default continues for a period of 21 days after receipt by the Grower of written notice. Upon such termination, the trees shall vest in the Licensor with no compensation for the monies contributed by the Grower.

The Grower may terminate the licence agreement if the Licensor is in default under the licence agreement and such default continues for a period of 21 days after receipt by the Licensor of written notice.

### **Prohibited Activities**

The Grower shall not:

1. use the Woodlots for anything other than cultivating trees;
2. permit any nuisance or disturbance upon the Woodlots;
3. erect any buildings, structures or dwellings on the Woodlots;
4. use the Woodlots for any illegal purpose;
5. store or use any flammable, chemical, noxious or dangerous substances on the Woodlots in a manner likely to cause damage;
6. light any fires in the Woodlots except in accordance with the laws and regulations relating to fire on the Woodlots; or
7. lodge any absolute caveat against the land.

The Grower appoints the Licensor and its officers as its attorney, to execute and register a withdrawal of any absolute caveat or a withdrawal of any subject to claim caveat.

### **Upon Termination**

Upon termination, the Grower must remove any plant, equipment, all debris or rubbish and deliver up the Woodlots in good repair, order and condition.

### **GST**

Unless otherwise stated, all amounts referred to in the licence agreement are inclusive of GST.

### **Licence subject to Constitution**

The rights and liabilities of the parties to the licence are subject to the terms and conditions of the constitution (including the Responsible Entity's right to sell the Woodlots of a Grower that is in default of its obligations under the licence).

## **Management Agreement**

### **Parties**

Rewards Projects Ltd (**Responsible Entity**) and each Grower.

### **Appointment of Responsible Entity**

The Grower engages the Responsible Entity as an independent contractor to carry out the Initial Services and the Ongoing Services in accordance with sound forestry and environmental practices.

### **Initial Services**

The Initial Services which the Responsible Entity must perform during the period from 1 July 2010 to 31 December 2011 are as follows:

1. ensure that the Woodlots are ready for planting including ripping, mounding and herbicidal spraying (if required);
2. for the Sandalwood Block, in accordance with the specifications recommended in the Management Plan:
  - (a) supply sufficient host tree seedlings;
  - (b) supply sufficient sandalwood seed; and
  - (c) plant the host trees and sow the sandalwood seed;
3. for the Teak Block, in accordance with the specifications recommended in the Management Plan:
  - (a) supply sufficient tissue culture teak plantlets;
  - (b) grow out the teak plantlets in the nursery; and
  - (c) during the wet season, plant the teak plants.

### **Ongoing Services**

The Ongoing Services which the Responsible Entity must perform are as follows:

1. prevent or combat land degradation in relation to the Woodlots;
2. ensure necessary approvals are obtained;
3. tend to the trees according to the principles of good forestry, including such nutrient analysis, pruning, fertilising and pest control as the Responsible Entity deems appropriate to promote tree growth and yields;
4. maintain and repair roads and fences on the land and keep the Woodlots in good and substantial repair and condition;
5. control disease, rodents, vermin, noxious weeds, rabbits, insect pests and all other pests of any kind;
6. comply with the provisions of any legislation relating to the prevention of bush fires;

7. attend such local government meetings as are considered necessary;
8. secure entryways to the land against trespass as considered necessary;
9. keep a public risk insurance policy in respect of the Plantation for not less than \$5 million;
10. on the Sandalwood Block, within twelve months of the planting of host trees and the sowing of the sandalwood seeds respectively, conduct a survival count and replant or resow (as the case may be) the host trees or seeds such that there is an average of 1,100 host trees and 1,400 sandalwood seedlings per hectare;
11. on the Teak Block, within 12 months of planting of the trees, conduct a survival count and replant the trees such that there is an average of 1,125 trees per hectare;
12. carry out any other obligation imposed on the Grower under the provisions of clause 4.1 and clause 10 of the licence agreement subject to the other provisions thereof;
12. within twelve months following any harvest on the Teak Block prune the remaining trees;
13. undertake periodic site inspections;
14. determine the harvest schedule and manage each harvest;
15. manage the sale of harvested timber; and
16. provide periodic reports to the Grower.

#### **Fees and Costs**

The following management fees are payable:

1. \$6,050 (including GST) per Woodlot for the Initial Services payable on application;
2. for the Ongoing Services, an amount equal to 13.42% (including GST) of the Grower's share of the net teak sale proceeds and 13.53% (including GST) of the Grower's share of the net sandalwood sale proceeds of each harvest after deducting harvest costs payable out of such proceeds; and
3. a pruning fee payable at the time of each harvest on the Teak Block, this fee is initially set at \$66 (including GST) per Woodlot with the fee adjusted annually on 1 July for movements in the CPI.

#### **Tree Insurance**

The Responsible Entity shall use its best endeavours to arrange appropriate tree insurance at the Grower's election and cost.

#### **Tree Farming**

The Responsible Entity must:

1. be allowed full access to the Woodlots to carry out its duties;
2. not erect any structures on the Woodlots;
3. not use the Woodlots for any illegal purpose or create a nuisance;
4. not use or store any flammable, chemical, noxious or dangerous substances in a manner likely to cause damage;
5. comply with all applicable laws, regulations and notices; and
6. take all reasonable steps to avoid interfering with the operations of any owner or occupier of neighbouring land.

Subject to meeting the relevant costs, the Responsible Entity has the right to erect a sign on the Plantation.

If the Responsible Entity sells any carbon credits in connection with the trees, the proceeds will belong 60% to the Grower and 40% to the Responsible Entity. All seed and other propagation material from the trees will be the property of the Responsible Entity.

#### **Harvest**

Harvest shall take place as and when deemed appropriate by the Responsible Entity. The aim being to produce the best overall result for Growers. The timing of a harvest may be altered by the Responsible Entity as against the indicative harvest schedule in this PDS.

Prior to each harvest, the Responsible Entity will provide to the Grower a harvest plan setting out expected harvest dates, an estimate of expected costs, the proposed method of sale of the timber and the estimated number of trees to be harvested.

The Grower irrevocably and exclusively appoints the Responsible Entity to arrange the harvest and engage contractors to undertake the harvest. The Responsible Entity will use its best endeavours to ensure the work is undertaken in a competent manner and for a competitive price. The Grower is liable to pay the Grower's share of all costs of and incidental to harvest. If practicable, these costs shall be paid out of the proceeds of the relevant harvest. The Responsible Entity may also deduct and retain any costs associated with removing all debris and rubbish from the Grower's Woodlot.

#### **Sale**

The Grower irrevocably and exclusively appoints the Responsible Entity to negotiate the sale of the harvested timber. The Responsible Entity will use its best endeavours to negotiate the highest price practicable. The proceeds of sale will be paid directly to the Responsible Entity and dealt with in accordance with the constitution.

#### **Harvest and Sale by Grower**

The Grower acknowledges that the appointment of the Responsible Entity to arrange harvest and sale is exclusive and the Grower forgoes any right to cause or allow the Grower or any person (other than the Responsible Entity) to harvest or sell timber from the Grower's Woodlot.

#### **Other Rights**

Growers may inspect documents and other information relevant to the Responsible Entity's activities subject to appropriate confidentiality undertakings.

#### **Interest on Overdue Monies**

The Grower must pay the Responsible Entity interest on any overdue monies at the rate being 3% per annum above the base rate charged by National Australia Bank Limited on overdrafts of less than \$100,000.

## Termination

The Responsible Entity may terminate the management agreement if:

1. the Grower is declared bankrupt, goes into liquidation, a receiver is appointed to the undertaking of the Grower; or
2. the Grower fails to perform its obligations under the management agreement, constitution or licence agreement and such default continues for a period of 21 days after receipt of written notice.

Upon such termination, in addition to any other remedy or entitlement of the Responsible Entity arising out of any default by the Grower of its obligations under the management agreement:

- A. the Grower must compensate the Responsible Entity in respect of any breach of any essential term of the management agreement;
- B. the Responsible Entity is entitled to recover damages from the Grower in respect of each breach; and
- C. the Grower must pay to the Responsible Entity on demand the total of:
  - (i) the Responsible Entity's reasonable estimate of the maintenance fee which would have been payable by the Grower for the unexpired balance of the term, if the term had expired by effluxion of time;
  - (ii) plus, any loss, damage or expense incurred or reasonably expected to be incurred by the Responsible Entity as a result of that early determination including all costs incurred by the Responsible Entity in its endeavours to use the Woodlots for any purpose; and
  - (iii) less, any monies which the Responsible Entity reasonably expects to obtain from the Woodlots between the date of termination and the date on which the term would have expired by effluxion of time, but the Responsible Entity must take reasonable steps to mitigate its damage.

A certificate given to the Grower by the Responsible Entity of the amount of any monies payable by the Grower will be conclusive as between the Grower and the Responsible Entity except in the case of manifest error.

The Responsible Entity may without prejudice to any other remedy, sue the Grower for any monies owing under the management agreement which may from time to time become due and owing by the Grower to the Responsible Entity and in particular, the Responsible Entity may:

1. sue for any monies due and payable by the Grower under the management agreement as and when those instalments become due; and
2. by a separate suit or suits sue for any further sum or sums which may be found to be due or owing by the Grower to the Responsible Entity on the completion of the calculations made at the end of each Financial Year, but

Neither the institution of any suit nor the entering of judgment in any suit will bar the Responsible Entity from bringing a separate or subsequent suit or suits for the balance of any monies due and payable by the Grower to the Responsible Entity from time to time.

The Grower may terminate the management agreement, if the Responsible Entity fails to perform its obligations under the management agreement and such default continues for a period of twenty-one days after receipt of written notice.

## Force Majeure

The parties will be excused from the performance of their obligations to the extent such performance is prevented by circumstances beyond the reasonable control of either party, other than financial circumstances.

## Delegation

The Responsible Entity may, for the better performance of its obligations under the management agreement, employ agents, contractors, professional

advisers and other consultants. Delegation by the Responsible Entity of any of its duties and functions pursuant to the management agreement does not release it from liability except to the extent that the Responsible Entity is entitled to rely upon any advice to the extent outlined in the terms of the constitution.

## GST

Unless otherwise stated, all amounts referred to in the management agreement are inclusive of GST.

## Management Agreement subject to Constitution

The rights and liabilities of the parties to the management agreement are subject to the terms and conditions of the constitution (including the Responsible Entity's right to sell the Woodlots of a Grower that is in default of its obligations under the management agreement).

## Constitution

### Parties

Rewards Projects Ltd (**Responsible Entity**) and each several Grower.

### Appointments

Rewards Projects Ltd acts as Responsible Entity for the Growers in relation to the Project.

The Responsible Entity may delegate its functions, including to a Custodian, to hold the funds set up under the constitution.

### Subscription money

All subscription money must be placed in a trust bank account called the subscription fund. The Subscription Fund is held on trust for the Applicant.

### Conditions for Acceptance of Applications

The Responsible Entity may not accept an application under this PDS until it is satisfied that:

1. minimum subscription (if any) is reached; and
2. it has reasonable grounds to believe that there is no material risk that within fifteen months of the end of the Financial Year in which an application is accepted the licence will not confer on the Grower a right to use land meeting the criteria disclosed in the PDS or leases between the owner of the land the subject of the



licence will not have been lodged for registration under land titles law;

3. there are no outstanding material breaches of the constitution which are detrimental to the interests of the applicants.

If an application is accepted by the Responsible Entity, the Applicant is deemed to have contemporaneously become a party to the constitution, licence agreement and management agreement (**Agreements**). To the extent the application is accepted, the subscription monies will be held in the Project Fund to be applied towards the fees payable by the Grower under the Agreements.

#### Conditions for release of Project Fees

The Responsible Entity may not release a Grower's project fees from the Project Fund until the Responsible Entity is satisfied that:

1. (as advised by a legal expert) it has the capacity to grant the licence and the licence will remain in force for the duration of the Project;
2. the licence agreement and management agreement are in proper form;
3. any other matters necessary for the creation of the licence agreement and management agreement have been attended to.

In the event that, within fifteen months of the end of the Financial Year in which it accepts an application from a Grower the licence does not confer on the Grower a right to use land meeting the criteria disclosed in the PDS, or leases between the owner of the land the subject of the licence and the Responsible Entity have not been registered, the Responsible Entity must within fourteen days of receiving a written request from the Grower, repay the subscription money to the Grower.

#### Trust Accounts

The Responsible Entity will create the following separate funds:

1. the subscription fund for the purpose of depositing subscription money;
2. the Project fund for the purpose of depositing Project fees;
3. the Planting services Fund; and
4. one or more proceeds funds for the purpose of depositing receipts including the proceeds of sale of the timber. Separate proceeds funds may be established in relation to separate harvests.

These funds will be pooled in a trust bank account.

The subscription fund will be deemed to have become the Project fund upon Woodlots being allotted to the Grower to the extent that the moneys of the applicant are applied thereto.

The Responsible Entity shall be entitled to any interest earned on the subscription fund. Growers are entitled to any interest earned on receipts.

#### Planting Services Fund

The Planting Services Fund is a fund to be held by the Responsible Entity to secure performance of its obligations under the management agreement during the period from 1 July 2010 to 30 June 2013.

The Responsible Entity agrees with the Growers to deposit or cause the Manager to deposit into the Planting Services Fund \$500 per Woodlot by 30 September 2010 in the case of Applications accepted on or before 30 June 2010 and in any other case within ninety days of accepting a Grower's Application.

The Responsible Entity may invest the Planting Services Fund in any Authorised Investments at its discretion. Authorised Investments include money, interest bearing deposits at call or for a term not exceeding three months with or without security, bank accepted and/or bank endorsed bills of exchange and promissory notes; negotiable certificates of deposit issued by or bills of exchange drawn, accepted or endorsed by any Bank and any other similar

investment the Responsible Entity approves in writing as an Authorised Investment.

The Responsible Entity is entitled to any income or capital appreciation arising in respect of the Planting Services Fund.

The Responsible Entity may deduct the following amounts from the Planting Services Fund:

1. 40% (\$200) per Woodlot upon conferring on each Grower a right to use land meeting the criteria disclosed in the Offer Document;
2. 50% (\$250) per Woodlot when the Independent Forester confirms in writing that the Initial Services specified in the management agreement have been completed in a proper and timely manner;
3. 5% (\$24) per Woodlot when the Independent Forester confirms in writing that the Ongoing Services specified in the management agreement for the period 1 July 2011 to 30 June 2012 have been completed in a proper and timely manner;
4. the balance of the Planting Services Fund when the Independent Forester confirms in writing that the Ongoing Services specified in the management agreement for the period 1 July 2012 to 30 June 2013 have been completed in a proper and timely manner.

If the Responsible Entity believes on reasonable grounds the Manager cannot complete works required to be completed under the management agreement during the Nominated Period in a timely manner it may deduct funds from the Planting Services Fund to secure alternative contractors to complete in a proper and timely manner the relevant works.

The Responsible Entity must refer any dispute regarding the proper performance of the Planting Services to the Independent Forester whose decision shall be final.

#### Consideration Payable by Grower

Each Grower pays subscription money of \$6,050 (including GST) for acquiring an interest in the Project. Each Grower then pays:

1. any other fees, instalments, costs, interest, expenses, taxes or other monies payable under the management agreement; and
2. any fees, costs, interest, expenses, taxes or other monies payable under the licence agreement.

### **Powers of Responsible Entity**

The Responsible Entity shall have power to, amongst other things:

1. receive, hold and invest money received from or on behalf of the Grower;
2. discharge the Grower's obligations pursuant to the management and licence agreements;
3. confirm the Grower as a party to those agreements;
4. appoint the Manager to supervise, carry out, manage, administer and monitor the performance of tree farming under the operations agreement;
5. monitor the performance of the Licensor's obligations;
6. exercise all rights and powers of the Grower under the licence agreement;
7. enter into any harvest agreement and sale agreement on behalf of the Grower;
8. sell or assign all rights, title and interests of the Grower in relation to the Project, whether for money, shares or some other consideration upon the termination of the Project, or earlier after the passing of a resolution at a meeting of Growers in terms which support the proposed sale or assignment;
9. commence legal proceedings as authorised in the constitution;
10. receive, collect, pay, settle and compromise any payments, debts, obligations, judgments or settlements in relation to the Project;
11. execute any deed, agreement, certificate or other document and to do all other things necessary or desirable in furtherance of the powers granted to the Responsible Entity; and
12. borrow or raise money for the purposes of the Project.

### **Payment of Project Fees**

The Responsible Entity will arrange dispatch to Growers an invoice requesting payment from each Grower of Project fees at least one month prior to the date for payment. The Grower will pay interest at 3% per annum above the base rate charged by National Australia Bank Limited on overdrafts of less than \$100,000 on any late payment of monies.

In the event that any Project fees or other monies due from a Grower to the Responsible Entity remain unpaid for a period of 30 days, the Responsible Entity may give written notice to the Grower that the Responsible Entity intends to sell any Woodlots held by the Grower unless payment is made within twenty-one days of the notice being given to the Grower.

If the Responsible Entity is able to sell the Woodlots, any proceeds of sale net of all costs incurred by the Responsible Entity in connection with the sale or offering the Woodlot for sale, are to be dealt with in the same manner as receipts of the Project (see following section). If the sale proceeds are insufficient to meet the Responsible Entity's costs, the Grower is liable to reimburse the Responsible Entity for the difference.

The Grower appoints the Responsible Entity its attorney to offer the Woodlots for sale and to enter into and execute any document and do such other things as the Responsible Entity considers necessary or desirable to transfer or assign the Woodlots and the Grower's interest in the management agreement and the licence agreement.

### **Dealing with Receipts**

The Responsible Entity shall calculate each Grower's share of receipts and then deal with the Grower's share of receipts of the Project and any other money in the proceeds fund of the Grower, in the following manner and priority:

1. pay the Grower's share of costs of the harvest and sale;

2. pay to the Responsible Entity any outstanding Project fees or other fees, costs, interest or taxes owing by the Grower to the Responsible Entity under the constitution;
3. pay to or as directed by the Responsible Entity the reasonable estimate of what may be required within the following twelve months to pay any Project fees payable by the Grower;
4. pay to the Responsible Entity any outstanding fees, costs, interest or taxes owing by the Grower to the Responsible Entity under the management agreement;
5. pay to the Licensor any outstanding licence fees or other fees, costs, interest, expenses or taxes owing by the Grower to the Licensor under the licence agreement;
6. pay to the Responsible Entity any other liability owing by the Grower in any capacity, to the Responsible Entity in any capacity, which is overdue or otherwise immediately due and payable to the Responsible Entity; and
7. distribute the balance to the Grower (provided the entire balance distributed to Growers is greater than \$1,000).

The Responsible Entity shall deal with the receipts of the Project in accordance with the previous paragraph in a timely manner following the end of each harvest. Prior to distribution, Growers do not have any right to require the Responsible Entity to pay their share of receipts.

The Responsible Entity must establish and maintain a procedure for dealing with Complaints which is consistent with Australian Standard AS ISO 10002-2006 "Customer satisfaction – Guidelines for complaints handling in organizations" or such other standard which satisfies the requirements (if any) of the Corporations Act from time to time.

The Responsible Entity must if it is possible to do so immediately acknowledge receipt of a Complaint and in any other case provide an acknowledgement as soon as possible after receiving the Complaint. The Responsible Entity must address Complaints promptly in accordance with their degree of urgency and the time frames nominated by any relevant external dispute resolution body.

The Responsible Entity must keep a record of Complaints including the following matters:

- the date of the receipt of the Complaint;

- the name and address of the person who lodged the Complaint;
- the date of any acknowledgment of the Complaint;
- the nature of the Complaint; and
- the date and nature of any response to the Complaint.

Within 30 days of receiving a Complaint, the Responsible Entity must properly consider the Complaint and make a decision on:

- the merit of the Complaint;
- the scope of any investigation;
- the nature of any remedial action; and
- the nature of the response to the Complaint.

Within 14 days after a decision is made in respect of a Complaint, the Responsible Entity must provide a response to the person who made the Complaint. The response must:

- contain the reasons for any decision made in respect of the Complaint;
- set out any remedial action the Responsible Entity has taken or intends to take in response to the Complaint;
- outline any remedies available to address the Complaint; and
- advise of any further avenue for complaint if the person is not satisfied with the response.

The person making a Complaint must not be charged for any costs or expenses of the Responsible Entity in dealing with a Complaint.

#### **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 to follow procedures for meetings of Growers, to keep the register of Growers, to comply with provisions regarding the transfer/assignment of Woodlots and related party transactions and to comply with the statutory duties of the Responsible Entity.

Except as set out under the heading “Conditions for release of Project Fees”, Growers do not have the right to withdraw from or realise the assets of the Project. A Grower does not have the right to require payment to it of any money in a trust account other than as provided for in the constitution.

#### **Term of Project**

The Project shall commence upon the date upon which applications are first accepted in relation to the Project and subject to the terms of the constitution and the Corporations Act, shall terminate upon the later of the termination of the licence agreement or the final distribution of receipts to the Grower.

#### **Termination of Project**

At any time, a meeting of Growers may by extraordinary resolution resolve to terminate the Project. The Responsible Entity may terminate the Project in accordance with the Corporations Act. However, the Project may be continued if it appears to the Responsible Entity to be in the interest of the Growers for it to do so for such period as is determined by the Responsible Entity.

Upon termination, the Responsible Entity shall immediately sell, call in, convert and realise all wood and Project property and pay all proper costs and fees of termination.

#### **Grower’s Relationships**

The Grower does not have any relationship or contract with any other Growers in the Project and all Growers are independent.

#### **Indemnities**

The Responsible Entity may be indemnified from and against any expense or liability incurred by the Responsible Entity in legal proceedings relating to the Project. If the Project account is taxed under the Tax Act, the Responsible Entity may be indemnified out of receipts.

The Responsible Entity shall not be liable for anything done or suffered as a result of it acting in good faith in reliance upon the opinion or advice of an expert. The Responsible Entity shall not be under any liability on account of anything done or suffered by other parties.

The indemnities apply to the extent permitted by law. Provided the Responsible Entity has not breached its duties under Section 601FC or elsewhere in the Corporations Act or as a trustee, it shall not in any way be responsible for any loss, costs, damages or inconvenience resulting from the exercise or non-exercise of the powers, authorities and discretions under the constitution or reliance on documents reasonably believed to be genuine.

The Responsible Entity may delegate any of its functions under the constitution. The Responsible Entity will remain responsible for any such delegate’s acts and omissions which constitute a breach of duty.

The Responsible Entity will not be liable for any failure of a Grower to obtain a tax deduction in respect of the Project.

#### **Responsible Entity may hold Woodlots**

Subject to the Corporations Act, nothing in this constitution restricts the Responsible Entity (or its associates) from holding Woodlots in any capacity (including acquiring Woodlots from Growers).

#### **Destruction of Woodlot**

If the Responsible Entity believes some or all of a Grower’s Woodlot has been partially or totally destroyed to such an extent there will be no saleable timber produced on all or part of a particular Woodlot for the remainder of the term of the Project, it may give a Grower a notice stating that belief (**Destruction Notice**).

Upon receipt of a Destruction Notice the Grower must within ten business days either accept the facts in the notice and advise the Responsible Entity of that acceptance, or not accept the facts and refer the matter to an expert to make a determination. Failure to refer the matter to an expert in this

regard will amount to an acceptance by the Grower of the facts set out in the Responsible Entity's notice.

The Responsible Entity must at all times have an expert available to provide the necessary determination. A Destruction Notice must include the full details of the expert (name, address, phone number, fax and email).

Within fourteen days the nominated expert must make a determination as to whether all or some of the Grower's Woodlot has been totally or partially destroyed, having regard to all the relevant facts and circumstances including the likelihood of the destroyed part being replanted to be able to produce timber at any time during the remainder of the term of the Project. The determination of the expert is final and binding on all parties.

The Responsible Entity must ensure the expert immediately notifies the Responsible Entity once a determination is made. The Responsible Entity must then immediately notify the Grower of the determination.

If the determination concludes a destruction of all or some of the Grower's Woodlot, and the Grower has not elected to take up insurance (refer below):

1. there must be a reduction in the fees paid by the affected Grower under the Grower's management and licence agreements and the income received by the Grower from the sale of the Growers' timber;
2. the reduction of the fees payable and income receivable must be in the same proportion that the part of the Grower's Woodlot as determined to be destroyed bears to the total area of the Grower's Woodlot prior to the destructive event. For the sake of clarity, but subject to paragraphs 4 and 5 below, total destruction of the Grower's Woodlot means a total reduction in fees payable and income receivable;
3. any reduction of fees will not come into effect until the start of the year immediately following the year in which the determination was made. The reduction of income will only come into effect in respect of harvests occurring subsequent to the total or partial destruction;
4. if all or part of the destroyed part of the affected Woodlot is subsequently replanted with new trees the existing terms of the relevant Grower's management agreement and licence agreement in respect of payment of fees and receipt of income will continue to apply from the time of the planting of the new trees to the extent of the productive parts of the Woodlot; and
5. the Responsible Entity agrees it will continue to manage the remaining part of the Woodlot not deemed to be damaged or destroyed pursuant to a determination and all reference to "Woodlot" in the constitution is deemed to be the reduced area still suitable for tree farming.

### **Insurance**

A Grower may elect by written notice to the Responsible Entity to take out, or have the Responsible Entity arrange on the Grower's behalf, insurance of the Grower's trees. The election must be made annually during the term of the Project. Growers who elect to take out insurance are referred to as "electing Growers".

The electing Growers will insure their trees to provide cover in respect of the interest and obligations of the electing Growers with one or more reputable insurance companies against destruction of or damage to the Growers' trees by fire and/or other usual risks for an amount equal to the replacement value of the trees as assessed by the Responsible Entity from time to time.

Each of the electing Growers irrevocably appoints the Responsible Entity (which appointment of the Responsible Entity is deemed to have been accepted) as the electing Grower's agent for the purpose of arranging the insurance of the Grower's trees in accordance with this clause. The Responsible Entity, on behalf of the electing Growers, will use all reasonable endeavours to arrange the insurance of those trees.

The electing Growers are responsible for payment of the premiums for the insurance and the Responsible Entity may:

1. invoice the electing Growers directly;
2. pay the premiums and then invoice the electing Growers; or
3. pay the premiums and deduct the amount from any income (or insurance proceeds) payable to the electing Growers out of the proceeds fund.

Growers with the benefit of insurance cover paid for by the Responsible Entity in accordance with clause 2.3 of the management agreement are deemed to be electing Growers.

All insurance proceeds in respect of any successful claim made pursuant to a policy of insurance will be paid by the relevant insurance company to the Responsible Entity and each of the electing Growers authorise the Responsible Entity to instruct all insurance companies with which the Responsible Entity arranges insurance, to pay all insurance proceeds to the Responsible Entity.

On receipt by the Responsible Entity of insurance proceeds in respect of a successful claim the Responsible Entity will determine each of the electing Grower's proportional interest of the insurance proceeds by reference to the specific area of each electing Grower's Woodlot which was damaged or destroyed, compared against the total area of all Woodlots which were damaged or destroyed.

The Responsible Entity will hold each electing Grower's proportion of insurance proceeds on behalf of the electing Growers and will pay those proceeds into the proceeds fund to be distributed in the same manner as receipts from the sale of timber (discussed above). In the event of total destruction of a Woodlot, the relevant electing Grower will no longer be a Grower in the Project, however, the rights and obligations of the Responsible Entity and the electing Grower will continue until all amounts required to be paid to the electing Grower out of the proceeds fund have been paid.

For the sake of clarity:

1. where there is an event which only affects some electing Grower's Woodlots and insurance proceeds are paid in respect of that event, then proceeds are divided between those electing Growers only;
2. any Grower who does not elect to take out insurance for a year is not entitled to

any part of the insurance proceeds paid for that year and that Grower's entitlement to income is determined in the manner described in the previous section; and

3. the electing Growers who receive their proportion of the insurance proceeds do not receive any other part of, or distribution from, the balance of the proceeds fund for the relevant year.

## Head Lease

### Parties

Rewards Land Pty Ltd or The ARK Fund Ltd (**Owners** and each an **Owner**) and Rewards Projects Ltd (**Lessee** or **Responsible Entity**).

### Grant of Lease

The Owners lease the land to the Responsible Entity commencing on the date of allotment of Growers' Woodlots under the PDS for a twenty year term. The Responsible Entity may exercise options to extend the term for a further three years.

The Owners will allow the Responsible Entity to occupy and use the land for the purpose of the Project, to use the infrastructure on the land required for the Project and to access the land for the purpose of growing trees on the land.

The Owners are the registered proprietors of the land.

### Rent

The Responsible Entity must either pay rent on a commercial basis throughout the term or in the case of Rewards Land Pty Ltd pay as rent an amount equal to 22.33% (including GST) of the net teak sale proceeds and 17.05% (including GST) of the net sandalwood sale proceeds of each harvest of timber grown on the land payable out of such net sale proceeds.

### Responsible Entity's Covenants

The Responsible Entity shall:

1. carry on the business of tree farming on the land in a proper and efficient manner;
2. farm, manage and cultivate the Project land in a proper and skilful manner according to and utilising the best practices and approved forestry methods utilised in or applicable to the district in which the land is located;
3. not carry on, or permit or suffer to be carried on, any offensive, noisome, harmful, illegal or noxious activities, matter or thing nor permit or suffer anything to be done on the land that may be or become, obnoxious or a nuisance to the Owners or any occupier of adjoining land;
4. not use or store any noxious chemicals or dangerous substances on the land in a manner likely to cause damage to the land or any adjoining land;
5. comply with all laws, regulations and other legal obligations in respect of the use or occupancy of the land;
6. permit the Owners to enter the land as necessary;
7. duly and punctually pay or reimburse the Owners for all rates levied in respect of the land together with any interest, penalties, fines and expenses incurred in connection with the rates; and
8. maintain a public risk insurance policy to cover claims of not less than \$5 million or such higher amount as may be reasonably required by the Owners from time to time and such additional insurance including fire insurance as may reasonably be required by the Owners.

### Responsible Entity's Indemnities

The Responsible Entity indemnifies and holds harmless the Owners against

all losses, claims, demands, actions and costs whatsoever or howsoever arising from which the Owners may become liable in respect of any loss, damage to property or other claim contributed to by the occupancy of the land except to the extent caused by the Owners.

### Owner's Covenants

The Owners will allow the Responsible Entity to peaceably enjoy the land throughout the term.

### Interest

The Grower must pay the Responsible Entity interest on any overdue monies at 3% per annum above the base rate charged by National Australia Bank Limited on overdrawn accounts.

### Default

The Lessor may terminate the lease if the Lessee goes into liquidation, a receiver or administrator is appointed to the Lessee or the Lessee fails to perform its obligations under the head lease and such default continues for a period of 30 days after receipt by the Lessee of written notice.

### Total or Partial Destruction

If any improvements on the land are destroyed or damaged so that in the Responsible Entity's opinion it is uneconomical for the Responsible Entity to replant trees on the land or any part of it, the Responsible Entity may terminate the lease or that part of the lease that relates to the damaged land.

### Upon Termination

Upon termination, the Responsible Entity must remove any plant, equipment, debris or rubbish and deliver up the Woodlots in good repair, order and condition.

## Operations Agreement

### Parties

Rewards Projects Ltd (**Responsible Entity**) and Rewards Management Pty Ltd (**Manager**).

### Appointment of Manager

The Responsible Entity will appoint the Manager to perform the obligations of the Responsible Entity under the management agreement which are summarised in section 2 of this Summary of Material Agreements. These obligations include providing the Initial Services and Ongoing Services.

The Responsible Entity will pay the Manager the amounts payable to the Responsible Entity under the management agreement for providing those services, and the Responsible Entity's share of proceeds of sale of carbon credits.

The Responsible Entity remains responsible for all acts and omissions of the Manager pursuant to the management agreement, subject to the extent permitted by law.

## Teak Off-take Agreements

Rewards Projects Ltd has entered into three sale and purchase agreements with the Buyers (**Off-take Agreements**) which by their nature involve the pre-sale of the teak wood that may be produced from the Woodlots.

### Parties

Rewards Projects Ltd (**Responsible Entity** and **Seller**) and each of the following buyers: Huseinee Anik & Co Pvt Ltd, Royal Global Exports Pte Ltd, Regency Wood Products, Associate Lumbers Pvt Ltd, Jawahar Saw Mills and Farouk Sodagar Darvesh & Co (**Buyers**).

Each Off-take Agreement is subject to and conditional upon the satisfaction of a number of commercial but standard conditions precedent. Those conditions precedent are:

1. a successful harvest by the Seller from the Woodlots of the required m<sup>3</sup> of teak logs necessary to fulfil the quantity in m<sup>3</sup> required and necessary to satisfy the teak log specifications required by the Buyer;
2. the agreement between the Seller and the Buyer of the price free on board (**FOB**) per m<sup>3</sup> in US dollars to be paid by the Buyer for the teak logs; and
3. the execution by the Seller and the Buyer of a long form legally binding sale and purchase agreement within sixty days of reaching agreement on the price FOB per m<sup>3</sup> in US dollars to be paid by the Buyer for the teak logs.

The operative terms of each of the Off-take Agreements are as follows:

- A. the term of each Off-take Agreement is for an eleven year period between year 2010 and year 2020 (inclusive);
- B. each agreement provides for the sale of 576,000m<sup>3</sup> of teak logs over this eleven year period; and
- C. under the terms of each agreement, the Buyer shall purchase FOB and take delivery of regular shipments of teak logs from the port of Townsville, Queensland (with each shipment being at a minimum one forty foot sea container holding approximately 15m<sup>3</sup> to 17m<sup>3</sup> of teak logs). The Buyer shall bear the cost of shipping and insurance from the port of Townsville in the State of Queensland. Ownership of each shipment of teak logs shall pass to the Buyer when the shipment of teak logs crosses the ship's rail in the port in Townsville. The FOB price to be paid by the Buyer for the teak logs shall be determined in US dollars per m<sup>3</sup>.

## Sandalwood Sapwood Off-take Agreements

Rewards Projects Ltd (**Responsible Entity** and **Seller**) has entered into three sale and purchase agreements with the buyers (**Off-take Agreements**), which by their nature involve the pre-sale of the sandalwood sapwood that may be produced from the Woodlots at the time of the expected first thinning of the Woodlots, which is approximately when the sandalwood trees are five years of age.

### Parties

Rewards Projects Ltd (**Responsible Entity** and **Seller**) and each of the following buyers: G.J. Fragrance & Aromatics Limited, K.V. Fragrances and Flower Perfumes Manufacturing Company (Buyers).

Each Off-take Agreement is subject to and conditional upon the satisfaction of a number of commercial but standard conditions precedent. Those conditions precedent are:

1. a successful harvest by the Seller from the Woodlots of the required tonnage of sandalwood sapwood necessary to fulfil the quantity in tonnes required, and necessary to satisfy the sandalwood sapwood specifications required by the Buyer;
2. the agreement between the Seller and the Buyer of the price FOB per tonne in US dollars to be paid by the Buyer for the sandalwood sapwood; and
3. the execution by the Seller and the Buyer of a long form legally binding sale and purchase agreement, within sixty days of the reaching of agreement on the price FOB per tonne in US dollars to be paid by the Buyer for the sandalwood sapwood.

The term of each Off-take Agreement is for a ten year period between Year 2008 and Year 2017 (inclusive). Each Off-take Agreement provides for the sale of 2,150 sandalwood sapwood logs over this ten year period.

Under the terms of each agreement, the Buyer shall purchase FOB, and take delivery of regular shipments of sandalwood sapwood in 50kg hessian bags from the port of Fremantle, Western Australia (with each shipment being at a minimum one 40 foot sea container holding approximately fifteen to seventeen tonnes of sandalwood sapwood, comprised of 50kg hessian bags). The Buyer shall bear the cost of shipping and insurance from the port of Fremantle, in the State of Western Australia. Ownership of each shipment of sandalwood sapwood shall pass to the Buyer when the shipment of sandalwood sapwood crosses the ship's rail in the port in Fremantle, Western Australia. The FOB price to be paid by the Buyer for the sandalwood sapwood shall be determined in US dollars per tonne.

## Teak Sales Agent Agreement

### Parties

Rewards Projects Ltd (**Responsible Entity** and **Seller**) and Berar Timber Industries Pvt Ltd (**Agent**).

The Responsible Entity has entered into a sales agent agreement with the Agent, which by its nature involves the appointment (on a non-exclusive basis) of a sales agent to act for and on behalf of the Seller, in relation to the sale to customers in India of all teak poles and logs that may be produced from the Woodlots or other teak plantations operated by Rewards Projects Ltd.

The Agent shall assist the Seller to sell teak poles and logs and provide regular market status reports on all matters relating to the international teak market.

The Agent is being paid a retainer by the Seller of A\$1,000 per month and US\$5 per m<sup>3</sup> sales commission.

The sales agent agreement is for a ten year period, between Year 2007 and Year 2016 (inclusive).

## Sandalwood Sales Agent Agreement

### Parties

Rewards Projects Ltd (**Responsible Entity** and **Seller**) and Jiwan International (**Agent**).

The Responsible Entity has entered into a sales agent agreement with the Agent, which by its nature involves the appointment (on a non-exclusive basis) of a sales agent to act for and on behalf of the Seller, in relation to the sale to customers in India of all the five year old sandalwood logs that may be produced from the Woodlots or other sandalwood plantations operated by Rewards Projects Ltd.

The Agent shall assist the Seller to sell the five year old sandalwood logs and provide regular market status reports on all matters relating to the sandalwood market in India.

The Agent is being paid a retainer by the Seller of A\$1,000 per month and 3% of the selling price agreed upon for the five year old sandalwood logs.

The sales agent agreement is for a ten year period, between Year 2006 and Year 2015 (inclusive), and in respect of the sale of 10,750 tonnes of five year old sandalwood logs over this ten year period.

# Additional Information

## Applications and Allotments

All applications should be sent to Rewards Projects Ltd. Rewards Projects Ltd has the discretion to accept or reject applications under this PDS in whole or in part. When Rewards Projects Ltd accepts an application relating to the Project and allots one or more Woodlots, the Grower automatically becomes bound by the constitution, licence agreement and management agreement. After the allotment of Woodlots, the subscription money may be released in payment of Project fees in accordance with the licence agreement, management agreement and constitution. Rewards Projects Ltd also has the power to invest the subscription money in any authorised investment.

## Allocation Policy

Unless agreed otherwise with any particular Growers or financial intermediary, Rewards Projects Ltd will allocate Woodlots in order of receipt of completed applications.

## Subscriptions and Oversubscriptions

The offer is for 9,000 Woodlots of 0.25 hectares each. There is no minimum subscription for the Project. Rewards Projects Ltd reserves the right to accept oversubscriptions or to reduce the number of Woodlots offered under this PDS.

## Land

Rewards Projects Ltd is in the process of identifying further land suitable for the Project that meets the selection criteria described in this PDS and the approval of the Independent Forester. In the event that the number of applicants who subscribe to this offer exceeds the maximum number that can be accommodated on land identified by Rewards Projects Ltd at the time of acceptance, it may accept oversubscriptions to the extent of any further land it reasonably expects will become available within fifteen months of acceptance.

An instrument that confers the right to use the land for the purposes of the Project will be lodged for registration under State land titles law either prior to or as soon as reasonably practicable after the issue of interests in the Project and in any event within fifteen months after allotment. If land is not secured within fifteen months of allotment of an interest to a Grower, Rewards Projects Ltd will within fourteen days of receiving a written request from the Grower provide a full refund of the person's subscription money.

## Commissions

Rewards Projects Ltd may pay commissions or brokerage in relation to Woodlots for which an Applicant applies, to those persons authorised by the Corporations Act to receive such commissions or brokerage. The commission is up to 8% of the Initial Fee or \$440 per Woodlot. In addition, Rewards Projects Ltd may pay a further 2% or \$110 per Woodlot to those persons, if they have provided particular marketing or administrative assistance in connection with the Project. Alternatively, Rewards Projects Ltd may offer up front commission of up to \$275 per Woodlot and trailing commission of \$55 per Woodlot per annum for the first five years of the Project.

Rewards Projects Limited intends to defer paying any commissions in relation to applications that are accepted until the results of the ARK Shareholder meeting are known. If the Project is terminated because the merger is not approved no commissions, brokerage or other allowances will be paid.

## Liquidity

Subject to any encumbrance created by a Grower in favour of a lender, Woodlots may be assigned or sold to a third party with the prior written consent of the Responsible Entity. If permitted by law, the Responsible Entity may maintain a register of interested parties either seeking to sell or buy Woodlots.

Participation in the Project is long-term and there is currently no secondary market for trading of Woodlots.

Growers are advised to obtain their own tax advice when considering selling or assigning their Woodlots.

## Register

Rewards Projects Ltd will maintain the principal register of Growers at its registered office at Ground Floor, 50 Colin Street, West Perth, Western Australia. The register may be inspected by any member of the public between the hours of 9.00am and 5.00pm on Monday to Friday inclusive, excluding public holidays.

## Disclosure

### Interests and Fees

Rewards Projects Ltd (**Responsible Entity** and **Lessor**), Rewards Management Pty Ltd (**Manager**), Rewards Land Pty Ltd (**Land Owner**) and Greentree Capital Pty Ltd (**Provider**) are all wholly owned subsidiaries of Rewards Group Ltd. The ARK Fund Ltd is listed on the ASX. As at the date of this PDS, Rewards Group Ltd holds 3,226,935 shares in The ARK Fund Ltd. A proposed merger between ARK and Rewards Group was announced on 31 March 2010. Refer to page



29 for further details. Rewards Projects Ltd is entitled to any interest earned on Project subscription funds.

In relation to the Project, the Responsible Entity will receive the fees set out in the summary of the management agreement, which it will in turn pay to the Manager under the operations agreement, and interest earned on the Project subscription fund. Investors are entitled to interest on the proceeds funds.

The Responsible Entity, as Licensor will receive the licence fees described in the summary of the licence agreement. It must in turn pay rent as agreed with the relevant land owner.

#### **Consents**

The following have each given (and have not prior to the date 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. Each was involved only in the preparation of those reports, sections, express and implied references and statements.

Treetec Consulting Pty Ltd as an independent expert, for inclusion in the PDS of the Independent Expert Report, for references and statements in the assumptions used in the Project Returns section, and being referred to in the Corporate Directory.

Synovate Pty Ltd for inclusion in the PDS of the Independent Market Report, references and statements in the assumptions used in the Project Returns section, and being referred to in the Corporate Directory.

The ARK Fund Ltd ACN 009 204 175 to being referred to in this PDS in the form and context in which it is named.

KPMG, Ernst & Young and McMahon Clarke Legal to being referred to in the Corporate Directory.

#### **Formation and Issue Expenses**

All expenses of the issue detailed in this PDS will be paid by Rewards Projects Ltd or Rewards Management Pty Ltd.

#### **No Guarantee**

Rewards Projects Ltd does not guarantee the amount or timing of any tax deduction or item.

#### **Inspection of Documents**

Copies of the licence agreement, management agreement, operations agreement, constitution and compliance plan may be inspected or obtained, free of charge, during normal business hours at our registered office Ground Floor, 50 Colin Street, West Perth, Western Australia.

#### **Disclosing Entity Reporting Requirements**

During any period in which the number of members in the Project exceeds 100, the Project will be a 'disclosing entity' under the Corporations Act. All disclosing entities are subject to regular reporting and disclosure obligations.

Copies of documents lodged by the Responsible Entity with ASIC in relation to a scheme may be obtained from, or inspected at any ASIC office. You also have the right to request a copy of the most recent annual financial report for the scheme and any half-year report or continuous disclosure notice lodged after the most recent annual report.

The Responsible Entity will also publish continuous disclosure notices on [www.rewardsgroup.com.au](http://www.rewardsgroup.com.au)

#### **Litigation**

There is no litigation of a material nature pending or threatened, which may significantly affect Rewards Group or the Project.

#### **Application of this PDS**

This PDS has been prepared to comply with the laws of Australia. The offer of Woodlots contained in this PDS is available to persons receiving this PDS within Australia.

#### **Complaints Handling**

Rewards Projects Ltd maintains procedures for handling complaints and other enquiries. Members may contact the Rewards Projects Complaints Officer on 1800 111 781 or (08) 9324 1155. Rewards Projects Ltd has a brochure setting out its complaints procedure which will be provided free of charge on request.

If the Responsible Entity is unable to resolve your complaint to your satisfaction, you can contact the Financial Ombudsman Service Limited (**FOS**) on 1300 780 808 or (03) 9613 7366, an external dispute resolution scheme of which Rewards Projects Ltd is a member. The postal address for FOS is PO Box 3, Melbourne VIC 3001.

#### **Access to Annual Financial Reports and Notices of Meeting**

Under the Corporations Act, the Responsible Entity is required to prepare and make available to Growers in the Project an annual financial report. The Responsible Entity intends to publish annual reports for the Project on its website ([www.rewardsgroup.com.au](http://www.rewardsgroup.com.au)).

Growers may choose to receive an electronic or paper copy of the annual report by notifying the Responsible Entity in writing. Growers that do not elect to receive a direct copy of the annual report will be sent a notice with details of how to access the annual report.

If the Grower has provided an email address to the Responsible Entity, then subject to the Corporations Act unless the Responsible Entity is aware that the email address has been cancelled or revoked or a Grower has requested in writing that the email address not be used for the purpose of sending information, the Grower is deemed to have nominated the email address for the following purposes:

1. as an email address by which the Responsible Entity may send statutory

- reports or notice of meetings of Growers to the Grower; and
2. as an electronic means the Responsible Entity may use to notify the member that an annual financial report for the Project is available.

#### **Merchant Fees and Other Payment Processing Fees**

The Responsible Entity will only accept payments of insurance by credit card using Visa, MasterCard and American Express. Where the Responsible Entity accepts payments of insurance by credit card, the Grower must also meet the cost of any payment processing fees incurred by the Responsible Entity in receiving the payment.

At the date of this PDS, the applicable merchant fee (inclusive of GST) for Visa, MasterCard and American Express is 1.65%.

The Responsible Entity does not currently accept BPay™ payments for applications but may do so in the future. BPay™ may be used to pay insurance.

Growers may call 1800 111 781 to confirm the available payment options and applicable fees for a particular payment.

#### **Anti-Money Laundering and Counter-Terrorism Financing Act**

In 2006, the Federal Government enacted the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (AML/CTF Act).

#### **Why does this legislation affect Rewards Projects Ltd?**

Rewards Projects Ltd is a 'reporting entity' pursuant to the AML/CTF Act and as such must meet stringent investor identification and verification requirements based on a risk based approach. For scheme operators like Rewards Projects Ltd, these requirements came into force on 31 January 2008. This means that prior to Woodlots in the Project being issued, Rewards Projects Ltd must be 'reasonably satisfied' that the Grower exists and is who they claim to be.

#### **What do you need to do?**

Growers need to provide Rewards Projects Ltd with the identification information required pursuant to the AML/CTF Act as set out in the section titled "Application Guide". If the Grower invests in the Project through a dealer, IDPS or other financial adviser then that person or entity will request and collect any verification materials. Otherwise the Grower must provide Rewards Projects Ltd with the relevant identification material (see the "Application Guide"), along with the completed application form. Rewards Projects Ltd may request additional information from Growers where Rewards Projects Ltd reasonably considers it necessary to satisfy its obligations under the AML/CTF Act.

If you are unable to provide the documentation listed in the Application Guide, please contact us for alternatives.

#### **What will Rewards Projects Ltd do with the information you give to us?**

Rewards Projects Ltd will maintain all information collected from investors in a secure manner in accordance with the AML/CTF Act and relevant privacy principles. Identification information may need to be disclosed to government or law enforcement agencies or otherwise to comply with Rewards Projects Ltd's anti-money laundering obligations.

# Glossary

**Applicant(s)**

a person who has completed an application form attached to the PDS.

**Application Form**

an application made by an Applicant to acquire Woodlots on a duly completed application form included in or accompanied by this PDS.

**ASIC**

the Australian Securities and Investments Commission.

**ATO**

the Australian Taxation Office.

**Corporations Act**

the Corporations Act 2001 (Commonwealth) for the time being in force including the Corporations Regulations.

**Custodian**

a person or body who acts as custodian for the Project.

**Financial Year**

financial year ending on 30 June of the relevant year.

**Grower**

a person (or in the case of joint Applicants, those persons) who becomes a Grower as a result of either the allotment of Woodlots under this PDS or a transmission, transfer, mortgage, assignment or other disposal of Woodlots under the provisions of the licence agreement and the management agreement and who remains the registered holder for the time being of any relevant Woodlots.

**GST**

the goods and services tax imposed under A New Tax System (Goods and Services) Act 1999.

**Initial Fee**

\$6,050 (including GST) per Woodlot.

**Initial Services**

the initial services to be provided by the Responsible Entity under the terms of the management agreement during the period from 1 July 2010 to 31 December 2011 (see page 57 of this PDS for a summary).

**Licensor**

Rewards Projects Ltd ACN 089 582 427.

**Management Plan**

the management plan for the Project (as amended or updated from time to time).

**Manager**

Rewards Management Pty Ltd ACN 089 940 376.

**Ongoing Services**

the ongoing services to be provided by the Responsible Entity under the terms of the management agreement (see pages 57 and 58 of this PDS for a summary).

**Plantation**

the teak and sandalwood plantations described on page 17 of this PDS.

**Planting Services Fund**

the fund described on page 60 of this PDS.

**Project**

the registered managed investment scheme known as the Rewards Group Premium Timber Project 2010 ARSN 142 461 916.

**Provider**

Greentree Capital Pty Ltd ACN 093 209 173.

**Responsible Entity**

Rewards Projects Ltd ACN 089 582 427.

**Rewards Group Ltd**

the ultimate holding company of the Responsible Entity, the Manager and Rewards Land Pty Ltd (which owns land upon which the Project operates).

**Sandalwood Block**

a specified area of land of approximately 0.15 hectares comprising a sandalwood plantation, identified by a number and licensed to a Grower pursuant to the Agreements.

**Scheme Documentation**

in relation to the Project means the constitution, management agreement and licence agreement and any other relevant documentation.

**Teak Block**

a specified area of land of approximately 0.1 hectares comprising a teak plantation, identified by a number and licensed to a Grower pursuant to the Agreements.

**Woodlot**

an area of approximately 0.25 hectares (comprising a Sandalwood Block of 0.15 hectares and a Teak Block of 0.1 hectares) offered to be licensed to a Grower.

# Application Guide

Rewards Group Premium Timber Project 2010

REWARDS PROJECTS LTD - AFS LICENCE 224000

# Instructions to Applicants

Before making an Application, please ensure you have read the following sections:

- Power of Attorney.
- Privacy Consent.

**If you are applying with cash, complete pages 75 and 76, and sign at the bottom of page 76.**

**If you are applying for the 12 month interest free loan offered by the Provider, complete pages 75 to 85, and sign at the bottom of pages 76, 77 and 85.**

Examples of how to complete the Application Form are contained on our website [www.rewardsgroup.com.au](http://www.rewardsgroup.com.au)

## Power of Attorney

By completing the Application Form, each Applicant agrees to irrevocably appoint Rewards Projects Ltd and each director for the time being of Rewards Projects Ltd (Attorney) to be his/her Attorney from the date of the Application to the expiration of the management agreement and licence agreement, which are summarised on pages 48 to 51 of the PDS (Agreements).

The Attorney may do in the name of the Applicant and on his/her behalf, everything necessary or expedient to:

- (a) execute and deliver the Agreements, summarised on pages 56 to 69 of the PDS;
- (b) complete blanks and make amendments, alterations or additions to the Agreements considered necessary or desirable by the Attorney;
- (c) execute and deliver any other documents or do any acts which are referred to in the Agreements, which are ancillary or related to the transactions contemplated by them, in the absolute discretion of the Attorney;
- (d) appoint one or more substitute attorneys to exercise one or more of the powers given to the Attorney and to revoke any of those appointments, and in this Power of Attorney, "Attorney" includes a substitute attorney appointed under this clause; and
- (e) if applicable, stamp and register this Power of Attorney.

The Attorney may exercise his/her powers under this Power of Attorney even if the Attorney benefits from the exercise of that power.

The Applicant declares all acts, matters and things done by the Attorney in exercising powers under this Power of Attorney will be as good and valid as if they had been done by the Applicant and agrees to ratify and confirm whatever the Attorney does in exercising powers under this Power of Attorney.

The Applicant indemnifies the Attorney against liability, loss, costs, charges or expenses arising from the exercise of powers under this Power of Attorney.

The Applicant declares that a person (including, but not limited to, a firm, body corporate, unincorporated association or authority) who deals with the Attorney in good faith, may accept a written statement signed by the Attorney to the effect that this Power of Attorney has not been revoked, as conclusive evidence of the fact.

The Applicant declares that the Applicant and a person (including, but not limited to, an executor, administrator, successor, substitute or assign) claiming under the Applicant, are bound by anything the Attorney does in exercising powers under this Power of Attorney.

## Privacy

By completing the Application Form, you agree to Rewards Projects Ltd and, if applicable, the Provider ("we" or "us") collecting, holding and using personal information about you to process your application, and administer and manage the products and services we provide to you. This includes monitoring, auditing and evaluating those products and services, modelling data, maintaining our relationship with you, data testing, communicating with you and dealing with any complaints or enquiries.

You need not give us any of the personal information requested in the Application Form or in any other document or communication relating to the products or services we supply to you. However, without this information, we may not be able to process your Application or provide you with an appropriate level of service.

Under the Privacy Act 1988, we are obliged to take reasonable steps to ensure that any personal information stored by us is protected from misuse or loss and from unauthorised access, modification or disclosure.

You agree to allow us to disclose your personal information to other companies in Rewards Projects Ltd as well as our external service providers, which provide services in connection with our products and services.

If an adviser stamp appears on the Application Form we will supply that adviser (and any relevant dealer group of which that adviser is an authorised representative) with information about your investments.

We may also disclose your personal information:

- if, acting in good faith, we believe that the law requires or permits us to do so;
- if you consent; or
- to any party proposing to acquire an interest in our business.

Unless you tick the box in section 5 of the Application Form, we and other companies in the Rewards Projects Ltd group may use your personal information to offer you products or services that may be of interest to you.

Under the Privacy Act 1988, you may request access to your personal information that we hold. You can contact us to make such a request or for any other reason relating to the privacy of your personal information by telephoning us on (08) 9324 1155 or 1800 111 781 and asking to speak to the Privacy Officer, or writing to:

**Privacy Officer**  
**Rewards Projects Ltd**  
**PO Box 803**  
**West Perth WA 6872**

Our privacy statement and details on how you may access or update your personal information held can also be found at [www.rewardsgroup.com.au](http://www.rewardsgroup.com.au)

## Consents - Privacy Act

### Consent and Acknowledgment for applicants applying under the 12 Month Interest Free Loan Option

I/We authorise the Provider to obtain certain credit information to enable assessment of my/our application for commercial or personal credit. I/We authorise the Provider:

- To obtain from a credit reporting agency a credit report containing personal information about me/us in relation to personal credit provided by the Provider.
- To obtain from a credit reporting agency a credit report containing personal information about me/us in relation to commercial credit provided by the Provider. This is in accordance with the Privacy Act 1988 (Act).
- To obtain a report containing information about my/our commercial activities or commercial credit worthiness from a business which provides information about the commercial credit worthiness of a person in relation to personal credit provided by the Provider. This is in accordance with the Act.
- To obtain a report from a credit reporting agency any other information in relation to my/our commercial credit activities.
- To obtain personal information about me/us from any motor vehicle or driver's licence registry in Australia, if required.

I/We understand that the Act allows the Provider to give a credit reporting agency certain personal information about me/us which I/we authorise the Provider to do. The information which may be given to the agency is covered by Section 18E(1) of the Act and includes:

- Details to identify me/us. For example name, sex, date of birth, current address, my/our current or last known employer and my/our drivers licence number.
- The fact that I/we have applied for credit and the amount.
- The fact that the Provider is a credit provider to me/us.
- Payments which become overdue by more than sixty (60) days.
- Cheque(s) drawn by me/us which have become dishonoured.
- Advice that payments are no longer overdue.
- In specified circumstances, that in the opinion of the Provider, I/we have committed a serious credit infringement.
- That the credit provided to me/us has been paid or otherwise discharged.

In accordance with the Act, I/we authorise the Provider to give and obtain from credit providers named in the credit application and that may be named in the credit report issued by a credit reporting agency, information about my/our credit worthiness, credit standing, credit history or credit capacity that credit providers are allowed to give or receive from each other under the Act.

The Provider is committed to protecting the privacy of the personal information you provide to us and we only collect personal information from you, which is necessary for us to provide assistance to you. We need to collect the personal information

requested to provide us with sufficient information to enable us to assess and process the application. If you do not provide us with this information, we may not be able to assess and process your application.

To assist us to assess and process the application, we may disclose your personal information that we collect to our relevant staff involved and to our agents, financial advisers and contractors engaged by us.

We must rely on you to provide information to us that is current and accurate and we will give you the opportunity to find out what personal information we hold about you and, where necessary, correct any errors in this information (some restrictions and costs may apply).

By signing the application for the 12 month interest free loan, you agree to us using and disclosing your information as set out above. If signed under attorney, the attorney states that he/she has no notice of the revocation of the Power of Attorney under the authority of which it is signed.

## Identification Requirements

If you are not investing through a dealer, IDPS, other financial adviser, or via an authorised representative of Rewards, then you must provide us with the following identification materials for AML/CTF legislative purposes.

**Individual** Please provide a certified copy of one of the following:

- ❑ an Australian driver's licence that contains a photograph of the licence/permit holder; or
- ❑ an Australian passport; or
- ❑ a passport or other document of identity for the purpose of international travel that contains a photograph and signature of the passport holder and is issued by a foreign government, the UN or a UN agency and if written in a language other than English, is accompanied by an English translation prepared by an accredited translator.

If you are a sole trader, please **also** provide:

- ❑ A business name search.

**Company** Please provide:

- ❑ A full company search from the ASIC database showing:
  - the full name of the company;
  - the ACN;
  - the registered office address of the company;
  - the principal place of business of the company;
  - the names of each director of the company (only for a proprietary company); and
  - the shareholders of the company (for all proprietary companies that are not licensed subject to regulatory oversight of a Commonwealth, State or Territory statutory regulator).
- ❑ If the company is a regulated company, a search of the licence or other records of the relevant Commonwealth, State or Territory statutory regulator.
- ❑ If the company is listed, a search of the relevant financial market.

**Trust** Please provide:

- ❑ For a registered managed investment scheme or a government superannuation fund:
  - an ASIC search confirming the registration of the managed investment scheme; or
  - an extract from relevant legislation confirming the establishment of the government superannuation fund.
- ❑ For an unregistered managed investment scheme that only has wholesale clients and does not make small scale offerings under 1012E of the Corporations Act 2001, a declaration to that effect.
- ❑ For all other trusts (including wrap trusts/master trusts/IDPS):
  - the original trust deed or a certified copy or certified extract of the trust deed confirming the full name of the trust, the type of trust (e.g. unit trust) and the country where the trust is established; and
  - the name of each beneficiary or class of beneficiary.
  - If the trustee is an individual, please also provide documentation required for individuals (above).
  - If the trustee is a company, please also provide documentation required for companies (above).

# APPLICATION FORM – WOODLOTS

REWARDS PROJECTS LTD - AFS LICENCE 224000

RAN: 014537  
Name: Wealth Focus Pty Ltd  
Company: PO Box 760  
Manly, NSW 1655  
Tel: 1300 559869  
AFSL: 314872

Post completed applications to: Rewards Projects Ltd, PO Box 803, West Perth WA 6872

This Application Form relates to the Product Disclosure Statement (PDS) dated 21 April 2010.

It is important that you have read the PDS accompanying this Application Form before applying for Woodlots in the Rewards Group Premium Timber Project 2010 (ARSN 142 461 916). This Application Form must not be provided to any person unless at the same time access is given to the PDS. If you have received this PDS electronically, the Responsible Entity will provide a free paper copy on request. Unless otherwise defined in this Application Form, capitalised terms have the same meaning as defined in the PDS. Examples of how to complete the Application Form are contained on our website [www.rewardsgroup.com.au](http://www.rewardsgroup.com.au)

## 1. Application Type

Sole  Joint

## 2. Applicant Details

### Applicant 1

Individual  Joint  Corporate  Trust

Mr/Mrs/Miss/Ms/Dr/Other

First Name

Middle Name

Last Name

Company Name  ACN

Director 1

Director 2

Name of Trust  ABN

Trustee 1

Trustee 2

Residential Address/Registered Office

State  Postcode

Postal address (if different to above)

State  Postcode

Occupation  Date of Birth  -  -

Email Address

Contact Numbers Work  -  Home  -

Mobile  Facsimile  -

### Applicant 2

Individual  Joint  Corporate  Trust

Mr/Mrs/Miss/Ms/Dr/Other

First Name

Middle Name

Last Name

Company Name  ACN

Director 1

Director 2

Name of Trust  ABN

Trustee 1

Trustee 2

Residential Address/Registered Office

State  Postcode

Postal address (if different to above)

State  Postcode

Occupation  Date of Birth  -  -

Email Address

Contact Numbers Work  -  Home  -

Mobile  Facsimile  -

## 3. APPLICATION FOR WOODLOTS

I/We apply for  Woodlots at \$6,050 (inc GST) per Woodlot totaling \$



#### 4. METHOD OF PAYMENT

**Cheque** (for full amount) \$  payable to Rewards Projects Ltd Trust Account

**Credit Card** (for full amount)

Please debit my  MasterCard  Visa  Diners  Amex

Card Number  -  -  -  Expiry Date  -

Debit the amount of \$  **plus any applicable credit card merchant fee**

Cardholders Name

Cardholders Signature  Date  -  -

**12 Month Interest Free Loan**  
(complete section 7 and pages 77 to 85 of this Application Form)

#### 5. PRIVACY *Refer to Privacy information on page 62 and 63 of the PDS for further details.*

Unless you tick the box below, we and other companies in the Rewards Projects Ltd group may use your personal information to offer you products or services that may be of interest to you.

I do not consent to the use of my personal information for this purpose.

#### 6. APPLICANTS' SIGNATURE

By signing this Application I/we acknowledge, agree and declare that:

- (a) I/we the undersigned apply for the number of Woodlots specified above;
- (b) I/we have read and understand the terms of the PDS and have had the opportunity to seek independent professional advice;
- (c) I/we acknowledge that Rewards Projects Ltd is not bound to accept this application;
- (d) I/we have not relied on any statements or representations made by any party (including Rewards Projects Ltd and its officers, agents and employees) prior to applying, other than those written representations made in the PDS;
- (e) I/we agree to be bound by the terms of the constitution for the Rewards Group Premium Timber Project 2010 (as it may be amended from time to time), the licence agreement and management agreement (Agreements) and the provisions of this PDS;
- (f) I/we irrevocably appoint Rewards Projects Ltd and each director for the time being of Rewards Projects Ltd as my/our Attorney on the terms and with the powers set out on page 62 of the PDS and direct that the Agreements be signed on my/our behalf pursuant to those terms;
- (g) I/we acknowledge that the full amount of any application moneys is immediately due and payable upon signing this Application Form;
- (h) to comply with the requirements of the Corporations Act, this Application Form cannot be passed on unless attached to this PDS;
- (i) the term of the Project is expected to be at least twenty (20) years from the commencement date or until the expiration of the management agreement;
- (j) Rewards Projects Ltd is not obliged to redeem, repurchase or cause to be repurchased my/our interest in the Project;
- (k) I/we acknowledge that the Responsible Entity does not guarantee the repayment of capital invested, and that no return is promised;
- (l) Rewards Projects Ltd can provide information on the status of my investment to my/our nominated adviser; and
- (m) I/we consent to payment to licensed advisers for procuring my/our investment, an amount calculated (as 8% (plus GST) of the amount I/we invest, plus a further 2% (plus GST) for marketing), as determined by Rewards Projects Ltd, if this Application Form bears their stamp. Alternatively, Rewards Projects Ltd may offer up front commission of up to \$275 per Woodlot and trailing commission of \$55 per Woodlot per annum for the first 5 years of the Project.

Signature of Applicant 1

Name

Date

 -  - 

Signature of Witness

Signature of Applicant 2

Name

Date

 -  - 

Name of Witness

Date

 -  - 

#### ENSURE YOUR SIGNATURE IS WITNESSED

Executed in Accordance with Section 127(1) of the Corporations Act by authority of its Directors in the presence of:

Signature of Director

Name

Date

 -  - 

Signature of Witness

Signature of Director/Company Secretary

Name

Date

 -  - 

Name of Witness

Date

 -  - 

#### ENSURE YOUR SIGNATURE IS WITNESSED

## 7. 12 MONTH INTEREST FREE LOAN

Enter the loan amount you are applying for (based on number of Woodlots).

| Number of Woodlots   | Loan Application Amount |
|----------------------|-------------------------|
| <input type="text"/> | <input type="text"/>    |

x \$6,050 (inc GST) per Woodlot = \$

Notes:

1. As part of the loan repayments you must make 12 monthly repayments of \$504.16 per Woodlot. Stamp duty, ASIC registration fees and a Loan Application Fee of 0.25% of the Loan Application Amount, subject to a minimum of \$250 also apply.
2. If your loan application is accepted, the Provider will write to you to confirm acceptance of your application and to advise you of your actual Instalment Amount, Loan Application Fee, applicable stamp duty and any ASIC registration fees. Your monthly Instalment Amount will commence approximately one month after acceptance of your application.
3. The Loan Application Fee, stamp duty (if any) and ASIC registration fees will be deducted with the first payment approximately one month after acceptance of your application.

## 8. DIRECT DEBIT SERVICE AGREEMENT

### 8.1 DIRECT DEBIT REQUEST

Request and authority to debit the account named below to pay the Provider.

#### Request and Authority to debit

Surname or Company Name

Given names or ACN/ABN  (you)

request and authorise the Provider [APCA User ID 150 234] to arrange, through its own financial institution, for monthly instalments and any other amount the Provider may debit or charge you to be debited through the Bulk Electronic Clearing System, from an account held at the financial institution identified below and paid to the Debit User, subject to the terms and conditions of the Direct Debit Request Service Agreement and any further instructions provided below.

#### Insert the name and address of financial institution at which account is held

Financial Institution Name

Address

State  Postcode

#### Insert details of account to be debited

Name of account

BSB number    -    Account Number    -    -

**NOTE: Credit cards will not be accepted.**

#### MONTHLY INSTALMENTS

The first debit will be made approximately one month after acceptance of the application and monthly thereafter (on the last business day of the month). Each debit will be of equal amounts.

The actual Instalment Amount, Loan Application Fee, applicable stamp duty payable and any ASIC registration fees will be advised to you upon acceptance of the Loan Application.

#### INSERT YOUR SIGNATURE AND ADDRESS

By signing below I/we hereby:

- acknowledge having read and understood the terms and conditions governing the direct debit arrangements set out in this request and in the Direct Debit Request Service Agreement, and agree to those terms and conditions; and
- certify that I/we are authorised signatories to the account named above and have the authority to enter into this direct debit request.

Signature(s) – If signing for a company, sign and print full name and capacity for signing (e.g. director)

Address

State  Postcode

Capacity  Date of Birth   -   -

## 8.2 DIRECT DEBIT REQUEST SERVICE AGREEMENT

### DEFINITIONS

- “**account**” means the account held at your financial institution from which we are authorised to arrange for funds to be debited.
- “**agreement**” means this Direct Debit Request Service Agreement between you and us.
- “**business day**” means a day other than a Saturday, Sunday or a public holiday listed in the State of Western Australia.
- “**debit day**” means the day the payment by you to us is due.
- “**debit payment**” means a particular transaction where a debit is made.
- “**direct debit request**” means the direct debit request between us and you (and includes any Form PD-C approved for use in the transitional period).
- “**transitional period**” means the period commencing on the industry implementation date for direct debit requests and concluding 12 calendar months from that date.
- “**us or we**” means the Provider which you have authorised by signing a direct debit request.
- “**you**” means the client who signed the direct debit request.
- “**your financial institution**” is the financial institution where you hold the account that you have authorised us to arrange to debit.

### 1. Debiting your Account

- 1.1 This agreement covers drawings by the Provider against a client’s nominated account in all events covered by any written agreement between us and you.
- 1.2 By signing a direct debit request, you have authorised us to arrange for funds to be debited from your account. If the debit falls on a day that is not a business day, we may debit your account on the prior business day.

### 2. Changes by Us

- 2.1 We may vary any details of this agreement or a direct debit request at any time by giving you at least fourteen (14) days written notice.

### 3. Changes by You

- 3.1 Subject to 3.2 and 3.3, you may change the arrangements under a direct debit request by contacting us.
- 3.2 If you wish to stop or defer a debit payment, you must notify us in writing at least five (5) business days before the next debit day. This notice should be given to us in the first instance.
- 3.3 You may also cancel your authority for us to debit your account at any time by giving us at least thirty (30) days notice in writing before the next debit day, provided alternative arrangements are made for any amounts owing to us. This notice should be given to us in the first instance.

### 4. Your Obligations

- 4.1 It is your responsibility to ensure that there are sufficient clear funds available in your account to allow a debit payment to be made in accordance with the direct debit request.
- 4.2 If there are insufficient clear funds in your account to meet a debit payment:
  - (a) you may be charged a fee and/or interest by your financial institution;
  - (b) you may also incur fees or charges imposed or incurred by us;
  - (c) you must arrange for the debit payment to be made by another method or arrange for sufficient clear funds to be in your account by an agreed time so that we can process the debit payment; and
  - (d) you should check your account statement to verify that the amounts debited from your account are correct.

### 5. Dispute

- 5.1 If you believe that there has been an error in debiting your account, you should notify us or your financial institution as soon as possible so that your query can be resolved.
- 5.2 If we conclude as a result of our investigations that your account has been incorrectly debited, we will respond to your query by arranging a credit into your account to adjust your account accordingly. We will also notify you in writing of the amount by which your account has been adjusted.
- 5.3 If we conclude as a result of our investigations that your account has not been incorrectly debited, we will respond to your query providing you with reasons and any evidence for this finding.
- 5.4 Should the error be caused by your financial institution, this matter will need to be directly resolved between you and your financial institution.

### 6. Accounts

- 6.1 You should check:
  - (a) with your financial institution whether direct debiting is available from your account, as direct debiting is not available on all accounts offered by financial institutions;
  - (b) your account details which you have provided to us are correct, by checking them against a recent account statement; and
  - (c) with your financial institution before completing the direct debit request if you have any queries about how to complete the direct debit request.

### 7. Confidentiality

- 7.1 We will keep any information (including your account details) in your direct debit request confidential. We will make reasonable efforts to keep any such information that we have about you secure and to ensure that any of our employees or agents who have access to information about you do not make any unauthorised use, modification, reproduction or disclosure of that information.
- 7.2 We will only disclose information that we have about you:
  - (a) to the extent specifically required by law; or
  - (b) for the purposes of this agreement (including disclosing information in connection with any query or claim).

### 8. Notice

- 8.1 If you wish to notify us in writing about anything relating to this agreement, you should write to us care of Rewards Projects Ltd PO Box 803, West Perth WA 6872 or contact us via the following numbers: (08) 9324 1155 or 1800 111 781.
- 8.2 We will notify you by sending a notice in the ordinary post to the address on our records.
- 8.3 Any notice will be deemed to have been received two (2) business days after it is posted.

## 9. LOAN AGREEMENT

### REWARDS GROUP PREMIUM TIMBER PROJECT 2010

#### 1. Advance of Principal Sum

1.1 Subject to the Client satisfying all conditions precedent specified by the Provider, on the date specified by the Provider, but in any event being a date on or prior to 30 June 2010, the Provider agrees to advance to the Client and the Client agrees to accept the Loan Application Amount which must be applied for no purpose other than the Approved Purpose.

#### 2. Repayment of the Principal Sum

2.1 The Client will pay each Instalment Amount in accordance with the schedule of monthly payments set out in the written confirmation sent by the Provider to the Client.

2.2 The Client must pay the following amounts to the Provider on the First Instalment Date:

- (a) a Loan Application Fee of 0.25% of the Loan Application Amount, subject to a minimum of \$250;
- (b) all applicable stamp duty (if any) payable on this document and the Transaction Documents must be paid in full by the Client to the Provider; and
- (c) the Provider's estimate of ASIC charge registration fees.

2.3 The Client must pay to the Provider all other money comprising the Secured Money on the Repayment Date.

2.4 The Client may pay or prepay all or part of the Secured Monies at any time.

2.5 If the Client fails to pay any amount due under the Transaction Documents on time, then interest on the late payment is payable for every day that the relevant payment is outstanding. The rate of interest payable on late payments is the Default Rate. The Provider may add any unpaid interest charges to the Principal Sum and continue to charge you interest on the Principal Sum and outstanding interest.

2.6 If the day for payment of any amount due under this document is a Saturday, Sunday or public holiday (in Perth), then the amount must be paid on the preceding business day.

#### 3. Woodlot Mortgage

3.1 The Client as beneficial owner absolutely assigns and conveys the Mortgaged Property to the Provider free of all charges, liens and other encumbrances and free of any liability to attachment (other than those disclosed in writing to the Provider) as security for the payment of the Secured Money and the performance of all other obligations owed by the Client to the Provider.

3.2 Upon payment in full of the Secured Money and the Provider being satisfied that no Secured Money will arise in the future by virtue of any current transaction or circumstance, the Provider must at the written request and cost of the Client, absolutely assign and convey its interest in the Mortgaged Property back to the Client.

3.3 The Client must immediately upon request by the Provider do such acts, obtain consents, pay fees and execute deeds and other documents deemed necessary or desirable by the Provider to perfect any mortgage or charge created pursuant to this document.

3.4 If the Woodlot Mortgage has become enforceable, the Provider or a Receiver appointed by the Provider may deal in the Mortgaged Property as if it was the absolute and unencumbered owner of the Mortgaged Property.

3.5 The Client:

- (a) authorises the Provider to direct the Responsible Entity as follows:
  - (i) to make such record in the Scheme's Woodlot register of the Provider's interest as mortgagee of the Woodlots that represent Mortgaged Property;
  - (ii) whilst any Secured Monies are outstanding, if requested by the Provider, to provide such information to the Provider regarding the Client's Woodlots, including without limitation, the information recorded in the Scheme's Woodlot register; and
  - (iii) without the prior consent of the Provider to not record any transfer, mortgage or other dealing in Woodlots that represent Mortgaged Property or the interests of any transferee, mortgagee or any other person claiming any interest therein, except as set out in this document;
- (b) releases the Responsible Entity from any liability that it might incur as a result of acting in accordance with any authorisation and direction contained in this clause 3.5.

#### 4. Warranties

4.1 The Client warrants to the Provider that:

- (a) the Transaction Documents constitute and will continue to constitute valid and binding documents enforceable in accordance with their terms;
- (b) the Client has obtained all necessary consents and complied with all internal procedures in relation to the execution and performance of this document and any security granted by it;
- (c) any financial statement, report, return or information given by or on behalf of the Client to the Provider in connection with the Transaction Documents (including, without limitation, this Application provided by the Client) are true and correct and not misleading in any way and there has been no material adverse change in the financial position of the Client from that shown in those documents;

- (d) the Client has not relied upon any representation or statement by or on behalf of the Provider or any of its related entities, but has determined to enter into the Transaction Documents and invest in the Scheme solely upon its own assessment after having obtained advice from its own legal and financial advisers; and
  - (e) the Client is or will be the holder and legal and beneficial owner of the Mortgaged Property free and clear of all charges, liens and other encumbrances.
- 4.2 Each warranty contained in clause 4.1 will be deemed to be repeated on each day whilst any Secured Money remains outstanding, with reference to the facts and circumstances then subsisting, as if made on each such day.

## 5. Undertakings

5.1 The Client undertakes to the Provider to:

- (a) insure all Mortgaged Property of an insurable nature and keep it insured with a reputable, responsible and solvent insurer on terms, against risks and in an amount acceptable to the Provider;
- (b) take out and maintain accident, consequential loss, force majeure, business interruption and public liability insurances with respect to the Mortgaged Property with a reputable, responsible and solvent insurer on terms and in an amount acceptable to the Provider;
- (c) ensure that each insurance policy has noted on it the name of the Provider as first loss payee;
- (d) duly and punctually pay all premiums, commissions, stamp duties, charges and other expenses necessary for keeping in force each insurance policy;
- (e) on request deliver to the Provider certificates of currency in respect of insurances and all other details as to the insurances the Provider requires;
- (f) not do or omit anything or permit anything to be done which may adversely affect an insurance policy;
- (g) do all things necessary and provide all documents, evidence and information necessary to enable the Provider to collect or recover money due or to become due under an insurance policy relating to the Mortgaged Property;
- (h) keep proper books of account which give a true and fair view of its financial condition and state of affairs;
- (i) notify the Provider as soon as it is aware of any of the following:
  - (i) any event of default under this document occurring;
  - (ii) any litigation, arbitration or administrative proceeding in respect of the Client or the Mortgaged Property being commenced or threatened;
  - (iii) any encumbrance, other than this Woodlot Mortgage, being created or entered into in respect of the Mortgaged Property;
  - (iv) any proposal of, or notice to the Client by any Governmental Agency of the compulsory acquisition of any of the Mortgaged Property or any asset of the Client; and
  - (v) the entry into or any proposal to enter into, any Sales Contract (other than a Sales Contract arranged by the Responsible Entity) together with a copy of the Sales Contract or proposed Sales Contract.

5.2 If the Client fails to keep in force an insurance policy required under clause 5.1 with respect to the Mortgaged Property or if an insurance policy for any reason becomes void or voidable, the Provider may (but is not obliged to) effect or keep in force that insurance policy at the cost of the Client.

## 6. Trust Provisions

6.1 This clause 6 applies where the Client has entered into this document and the Transaction Documents as the trustee of a Trust.

6.2 The Client warrants to the Provider that:

- (a) the Trust is validly created and subsisting and no circumstances exist pursuant to which it may be determined and no date for the vesting of any of the Trust fund has been appointed other than as may be set out in the Trust Deed;
- (b) the Client is validly appointed as the sole trustee of the Trust, is not in breach of its obligations as trustee and no circumstances exist pursuant to which it may be removed;
- (c) the Transaction Documents and any application for Woodlots are duly executed and granted pursuant to and in proper exercise of the powers of the Client as trustee of the Trust and all formalities required by the Trust Deed in connection with the Transaction Documents or application for Woodlots have been complied with;
- (d) the execution and performance of the Transaction Documents and application for Woodlots and the borrowing of the Principal Sum is for a proper purpose and provides commercial benefit to the Trust;
- (e) the Client is entitled to be fully indemnified out of the assets of the Trust in respect of its liability for the Secured Money; and
- (f) the Client is the legal owner of all the assets of the Trust.

6.3 The Client must not, without the Provider's consent:

- (a) cease to be the sole trustee of the Trust;
- (b) cause or permit the Trust to be determined or a vesting date to be appointed;
- (c) do or permit anything which adversely affects the Client's right of indemnity against the Trust assets;
- (d) in any way vary the Trust Deed or permit it to be varied; or
- (e) distribute or dispose of any Trust assets.

- 6.4 Without limiting any right of subrogation the Provider may have, the Client must at the Provider's request, exercise the Client's right of indemnity against Trust assets to enable payment of the Secured Money to the Provider.
- 6.5 The Client grants the Provider direct access and recourse to the Trust assets to satisfy its obligations under the Transaction Documents. This right is separate to and independent of the Provider's other rights including, without limitation, its rights under clause 6.4.
- 6.6 If and to the extent that the Client is not entitled to an indemnity against Trust assets to enable payment of the Secured Money to the Provider or to perform any other obligation under the Transaction Documents, then the obligation to pay or perform the obligation will be a personal obligation of the Client and must be performed by it accordingly.

## 7. Indemnities

- 7.1 The Client indemnifies the Provider against all actions, fines, claims, demands, losses, damages, liabilities, costs and expenses of any nature sustained or incurred at any time actually or contingently by the Provider arising directly or indirectly from or in connection with a breach by the Client of any of its obligations under the Transaction Documents.
- 7.2 A certificate by the Provider is prima facie evidence of any loss payable by the Client pursuant to clause 7.1.
- 7.3 The Client's obligations to indemnify the Provider are absolute, irrevocable and unconditional and continue (irrespective of discharge of any Transaction Document) until an express release is given.

## 8. Prohibition on dealing with the Mortgaged Property

- 8.1 The Client must not, without the Provider's written consent:
  - (a) sell, lease, charge, encumber, surrender, grant any interest in or power over or otherwise in any manner deal or agree or attempt to deal with the Mortgaged Property or any interest in the Mortgaged Property; or
  - (b) permit any charge, lien, pledge, hypothecation, security, trust or power to arise or exist in respect of the Mortgaged Property.

## 9. Events of Default

- 9.1 An Event of Default occurs if any of the following occurs:
  - (a) the Client fails to pay when payable any Secured Money or any other money which the Client is at any time liable to pay to the Provider;
  - (b) any of the following occurs in respect of a corporate Client:
    - (i) an application is made, proceedings are initiated or a meeting (whether of shareholders, creditors or directors) is called with a view to winding it or any part of its undertaking up or placing it or any part of its undertaking under administration;
    - (ii) a receiver, liquidator or administrator is appointed;
    - (iii) a compromise or arrangement of the kind referred to in part 5.1 of the Corporations Act 2001 is proposed;
    - (iv) an application is made or an action is initiated with a view to cancelling its registration or appointing an inspector or other officer to investigate any of its affairs pursuant to any legislation;
    - (v) it is, or is or may be deemed within the meaning of any applicable law to be, insolvent or unable to pay its debts; or
    - (vi) circumstances exist which would enable a court upon application to order its winding up pursuant to section 461 of the Corporations Act 2001;
  - (c) the Client defaults in the performance or observance of any obligation owed or undertaking given to the Provider which is not the payment of money and, to the extent that default is capable of remedy within five (5) business days, it continues for five (5) business days after written notice from the Provider requiring its remedy;
  - (d) a warranty, representation, answer to requisition or statutory declaration made or given by or on behalf of the Client in connection with the Transaction Documents is at any time found to be incorrect or misleading;
  - (e) the Client commits an act of bankruptcy within the meaning of section 40 of the Bankruptcy Act 1966 or the Client defaults in the performance or observance of any obligation owed or undertaking given under or in connection with any Transaction Document; and
  - (f) the Client defaults in the performance or observance of any obligation owed under any Grower Agreement and, to the extent that such default is capable of remedy within five (5) business days, it continues for five (5) business days after notice has been given to the Client by the Provider requiring its remedy.
- 9.2 The Client must immediately notify the Provider of the occurrence or likely occurrence of any Event of Default or potential or likely Event of Default.

## 10. Consequences of an Event of Default

- 10.1 Following the occurrence of an Event of Default:
  - (a) the Client must, if the Provider so demands (and irrespective of any delay) immediately pay to the Provider the whole of the Secured Money;
  - (b) the Provider may enforce the Woodlot Mortgage; and
  - (c) the Provider is appointed as the Client's attorney to exercise all rights available to that of a Woodlot Holder including the right to vote on behalf of the Client at Meetings.

- 10.2 Following the occurrence of an Event of Default, the Provider may:
- (a) appoint one or more persons to be jointly, severally or jointly and severally a Receiver of any Mortgaged Property;
  - (b) appoint any person to replace any Receiver who has been removed or who has retired or died;
  - (c) by written notice to a Receiver remove that Receiver absolutely or in relation to any part of the Mortgaged Property;
  - (d) fix the remuneration of a Receiver and at any time by agreement with that Receiver vary that Receiver's remuneration;
  - (e) direct payment of the remuneration referred to in this clause and any costs, charges and expenses of the Receiver out of the proceeds of any realisation of the Mortgaged Property; or
  - (f) exercise in its own right or through an agent the Receiver's Powers (as if it were the Receiver) and all other rights, powers and remedies that it has at general law or otherwise.
- 10.3 Subject to any express exclusion by the terms of the Receiver's appointment, the Receiver may exercise all rights, powers and remedies that it may have at general law including, without limitation, the Receiver's Powers.
- 10.4 Unless otherwise prevented by law, a Receiver will be the agent of the Client. The Client agrees to be responsible for the Receiver's acts and omissions.

#### **11. Costs and Duties**

- 11.1 Each party must pay its own costs and expenses (including legal costs) incurred by it under or in connection with this document.
- 11.2 Following the occurrence of an Event of Default, the Client must on demand pay to the Provider or as it may direct all costs and expenses (including legal costs on a full indemnity basis) incurred by the Provider, any Receiver or agent appointed by the Provider under any Transaction Document and any officer of the Provider acting as attorney under the Transaction Documents in connection with the recovery of the Secured Money or the exercise or attempted exercise of any power conferred on the Provider (or any Receiver, agent or attorney) pursuant to the Transaction Documents or by law.

#### **12. Notices**

- 12.1 Any statement, demand or notice to any party may be validly served for the purposes of this document by being delivered or sent by registered post to:
- (a) in the case of the Applicant, the address set out in the Loan Application; and
  - (b) in the case of the Provider, Ground Floor 50 Colin Street West Perth WA 6005 or sent by facsimile to the facsimile number of the Applicant set out in the Loan Application, or such other address or facsimile number as are from time to time notified in writing by one party to the other party. Service pursuant to this clause is taken to be effected:
    - (i) where delivered, upon actual delivery;
    - (ii) where sent by registered post, 3 days after posting; and
    - (iii) where sent by facsimile, on production of a transmission report by the machine from which the facsimile was sent which indicates that the facsimile was sent in its entirety to the facsimile number of the recipient, except where actual delivery is made or the facsimile is sent after 4.30pm or on a day which is not a business day. In such cases, service will be deemed to be effected at 9am on the immediately following business day.

#### **13. GST**

- 13.1 If all or part of any payment by the Client to the Provider is the consideration for a taxable supply for GST purposes then, when the Client makes the payment:
- (a) it must pay to the Provider an additional amount equal to that payment (or part) multiplied by the appropriate rate of GST (currently 10%); and
  - (b) the Provider must upon written request by the Client, provide to the Client a tax invoice complying with the relevant GST legislation.
- 13.2 Where the Client is required to reimburse or indemnify for an amount, the Client will pay the relevant amount (including any sum in respect of GST) less any GST input tax credit the Provider determines that it is entitled to claim in respect of that amount.

#### **14. Provider May Deal with its Rights**

- 14.1 The Provider may at any time sell, assign, transfer, negotiate, grant participations in or otherwise dispose of or deal with all or any part of its interest in this document, any Transaction Document or the Secured Money without notifying or requiring any consent of the Client. The Client must at any time at the request of the Provider execute and deliver to the Provider or to such person as the Provider may specify all documents as the Provider may reasonably require to affect such purpose.
- 14.2 The Provider may without notice to the Client disclose information relating to the Client or the Secured Money in connection with a genuine proposal to assign any interest in the Secured Money or a Transaction Document.

#### **15. Power of Attorney**

- 15.1 For valuable consideration the Client irrevocably appoints the Provider, the directors and secretary of the Provider and any employee whose title includes the word 'manager' severally its attorneys with full power in the name of the Client or the attorney to:
- (a) do all acts, matters and things and execute all documents which the attorney considers desirable or expedient for the due performance of any obligation of the Client under the Transaction Documents, for more effectively securing to the Provider the due performance of the Client's obligations under the Transaction Documents, and for more effectively securing or perfecting any charge or interest constituted by the Transaction Documents;
  - (b) complete any blanks and correct any manifest errors in the Transaction Documents and register the Transaction Documents (if necessary);

- (c) following the occurrence of an Event of Default, do anything which the Provider or any Receiver appointed by the Provider may do under the Transaction Documents or by law, including signing any transfer of the Woodlots that represents the Mortgaged Property on behalf of the Client; and
  - (d) to appoint one or more substitute attorneys to exercise any of these powers and to revoke any such appointment (each substitute attorney being an 'Attorney' for the purposes of this clause 15).
- 15.2 The Client undertakes to ratify all that the attorney does under this clause and indemnifies the Provider in respect of any loss arising from any act done under this clause.
- 15.3 An attorney appointed under clause 15.1 may act notwithstanding any conflict of interest.

## 16. Miscellaneous

- 16.1 This document is governed by and must be interpreted in accordance with the laws of Western Australia.
- 16.2 A reference to any legislation includes any regulation, by-laws or instrument made under it and any orders or instruments having the force of law and where amended, re-enacted or replaced means that amended, re-enacted or replacement legislation.
- 16.3 Every provision of this document is independent of the others. Any provision which is prohibited or unenforceable in any jurisdiction is to the extent of the prohibition or unenforceability deemed removed without invalidating the remaining provisions.
- 16.4 Unless the context otherwise requires a reference to:
- (a) a clause or schedule is a reference to a clause or schedule to this document; and
  - (b) a person includes an individual, a body corporate and a government.
- 16.5 Time is of the essence in relation to the performance of the Client's obligations under this document.
- 16.6 If the Client is more than one person, the obligations of the Client (as the case may be) are joint and several.
- 16.7 No failure to exercise and no delay in exercising any right, power or remedy under the Loan Agreement or this document by the Provider operates as a waiver. Nor does any single or partial exercise of any right, power or remedy preclude any other or further exercise of that or any other right, power or remedy. The rights, powers and remedies provided in the Loan Agreement and this document are in addition to, and do not exclude or limit any right, power or remedy provided by law.

## DEFINITIONS

In this document, words denoting one gender shall include the other and words denoting the singular shall include the plural and references to a person, includes a corporation. The following words have the meanings described below:

**Acceptance Date** means the date the Client's Loan Application is accepted by the Provider or as otherwise agreed between the Provider and Client.

**Application Form** means the application form attached to the PDS for the Scheme which incorporates the Loan Application.

**Approved Purpose** means the establishment and operation of one or more Woodlots in accordance with the Grower Agreements or such other purpose as the Provider may agree to in writing.

**Base Rate** means the interest rate charged by National Australia Bank Limited on overdrafts of less than \$100,000.

**Client** means a person who has applied for Woodlots using the 12 month interest free loan by completing the Loan Application and whose application has been accepted by the Provider.

**Document** means this Loan Agreement and the Application Form.

**\$** means Australian dollars.

**Default Rate** means the Base Rate plus four point five percent (4.5%).

**Direct Debit Service Agreement** means the request and authority given to debit a specified bank account in order to pay the Provider and which is annexed to this document.

**Event** means any event upon the occurrence of which monies not yet accrued to the Provider become payable or may become payable by the Client at the option of the Provider.

**Event of Default** means any of the events specified in clause 10.1.

**Financial Accommodation** means the amount of financial accommodation or credit provided or agreed to be provided to the Client under or pursuant to this document and/or any Transaction Document.

**First Instalment Date** means the date nominated by the Provider approximately one month after the Acceptance Date.

**Grower Agreements** means the agreements the Client enters into on becoming a grower in the Scheme in respect of the Woodlots being (a) the management agreement; (b) the licence agreement; and (c) the Scheme constitution.

**GST** has the same meaning as is given to that term in the A New Tax System (Goods and Services Tax) Act 1999 (Cth).

**Instalment Amount** means the Loan Application Amount divided by 12 plus in relation to the First Instalment Date any amounts payable by the Client pursuant to clause 2.2.



**Instalment Date** means the date specified in the schedule of payments set out in the written confirmation sent by the Provider to the Client being the date on which an Instalment Amount is to be paid by the Client to the Provider.

**Loan Agreement** means the agreement for a 12 month interest free loan which forms part of this document.

**Loan Application** means items 7 to 10 of the Application Form attached to the PDS for the Scheme.

**Loan Application Amount** means the amount in item 7 of the Application Form (plus any amount of GST the Client may be required to pay to the RE in connection with the issue of Woodlots in the Scheme) or, where the context requires, the balance of that amount remaining outstanding.

**Loan Application Fee** means the fee per Woodlot referred to in clause 2.2(a) of this Loan Agreement, which is 0.25% of the Loan Application Amount, subject to a minimum of \$250.

**Loss** means at any time the total credit accommodation provided by the Provider to the Client under or pursuant to the Transaction Document plus the amount of any interest, terms, charges, fees, expenses or discounts payable by the Client but unpaid, less the total of all payments made by the Client. The amount of the Provider's loss will include the amount of any loss or detriment suffered by the Provider as a result of any order made by a court on the application of a liquidator of the Client under section 588FF or otherwise under the Corporations Act.

**Meetings** means gatherings by members of the Scheme to vote on matters pertaining to the Scheme.

**Mortgaged Property** means all of the Client's present and future right, title and interest in and to, and all entitlements and benefits arising in favour of the Client in respect of the Scheme, including without limitation, the Woodlots and the Grower Agreements.

**PDS** means a Product Disclosure Statement issued in accordance with the provisions of the Corporations Act and includes any replacement or supplementary Product Disclosure Statement.

**Principal Sum** means the Loan Application Amount, the Loan Application Fee and any applicable stamp duty or ASIC fees or where the context requires, the balance of that amount remaining outstanding.

**Provider** means Greentree Capital.

**Receiver** means a receiver appointed by the Provider under this document.

**Receiver's Powers** means the rights, powers and remedies which are conferred on a Receiver pursuant to section 420 of the Corporations Act 2001 (as if references in that section to 'property of a corporation' were references to the Mortgaged Property).

**Repayment Date** means the date at which the Loan Application Amount is fully paid or such other date as the Provider and the Client may agree to in writing.

**Responsible Entity or RE** means the responsible entity for the time being of the Scheme being Rewards Projects Ltd (AFS Licence 224000) and includes any temporary or replacement responsible entity.

**Sales Contract** means a contract for the sale of timber contemplated by the operation of the Scheme.

**Scheme** means the Rewards Group Premium Timber Project 2010 ARSN 142 461 916.

**Secured Money** means any money which at any time the Client in any capacity and whether alone or with others:

- (a) is actually or contingently liable to pay to the Provider (including, without limitation, the Principal Sum and all fees and interest amounts under or in connection with this document or the Transaction Documents);
- (b) may become actually or contingently liable to pay to the Provider in the future pursuant to any transaction or arrangement at any time entered into or made by the Provider with any person; or
- (c) may become actually or contingently liable to pay to the Provider in the future as liquidated or unliquidated damages pursuant to any claim or cause of action.

**Transaction Documents** means this document pursuant to which the Provider will provide a loan to approved applicants for the Approved Purpose, the Grower Agreements and any other document which is in any way related to or connected with this document, including the Direct Debit Service Agreement and any notice sent by the Provider to the Client confirming acceptance of the Loan Application and Transaction Documents means each or any one of them as the context requires.

**Trust** means any trust or settlement as trustee of which the Client enters into this document as specified in the Application Form.

**Trust Deed** means, in relation to a Trust, the instrument setting out all the terms currently governing that Trust.

**Woodlot** means a Woodlot in the Scheme.

**Woodlot Holder** means the holder of a Woodlot in the Scheme.

**Woodlot Mortgage** means the mortgage created by clause 3.1 which will create and thereby constitutes the first ranking mortgage or charge over all of the Client's right, title and interest in the Scheme.

## 10. APPLICANT'S ACKNOWLEDGEMENTS, DECLARATIONS AND SIGNATURES

To be completed by all 12 month interest free loan Applicants.

### IMPORTANT INFORMATION

By selecting the 12 month interest free loan option in item 7 of the Application Form to request the Provider provide a loan to the Applicant, I/we acknowledge and declare that:

- I/We have read and understood the Loan Agreement and the Direct Debit Service Agreement (refer to pages 67 to 74) to an extent that, I/we consider necessary and have had the opportunity to seek independent professional advice.
- I/We am a resident of Australia.
- I/We agree to be bound by the Loan Agreement and the Direct Debit Service Agreement (refer to pages 67 to 74), and I/we agree to the terms of each agreement.
- I/We have not relied on any statements or representations made by any party (including the Provider) prior to the Applicant applying for a loan or any investment in the Rewards Group Premium Timber Project 2010.
- Any loan to be provided to me/us by the Provider is to be applied for business or investment purposes. I/We further acknowledge that I/we may lose my/our protection under the Consumer Credit Code.
- I/We know the Provider will be relying on the information (and any other information I/we might provide to the Provider) when providing Financial Accommodation to the Applicant.
- The Provider may accept or reject my/our application at its sole and absolute discretion and that upon acceptance, I/we agree to be bound by the terms of the Loan Agreement and the Direct Debit Service Agreement.
- By signing and returning this Loan Application I/we am/are doing so as a deed poll, irrevocably and in accordance with the terms of this application (including the Loan Agreement and the Direct Debit Service Agreement).
- The Provider can provide information on the status of this loan facility to my/our nominated adviser.
- I/We have read and understood that:
  - monies invested in the Rewards Group Premium Timber Project 2010 do not represent deposits or other liabilities of Rewards Projects Ltd and are subject to investment risk including possible delays in repayment and loss of income or capital invested;
  - Rewards Projects Ltd does not stand behind the capital value nor do they guarantee the performance of this investment or the underlying assets; and
  - Rewards Projects Ltd does not guarantee or provide assurance in respect of its obligations of the Rewards Group Premium Timber Project 2010.
- My/Our obligations under the Loan Agreement and the Direct Debit Service Agreement including my/our obligations to pay money, interest, costs, fees and charges or guarantee the obligations of the Applicant are not affected by:
  - the success or failure of the Rewards Group Premium Timber Project 2010;
  - the level of return from or loss of money invested in the Rewards Group Premium Timber Project 2010;
  - any breach by the Responsible Entity of the Rewards Group Premium Timber Project 2010 of its obligations; or
  - any illegality in connection with the Rewards Group Premium Timber Project 2010, or any Product Disclosure Statement issued with respect to the Rewards Group Premium Timber Project 2010.

Signature of Applicant 1

Name

Date

Signature of Witness

Signature of Applicant 2

Name

Date

Name of Witness

Date

### ENSURE YOUR SIGNATURE IS WITNESSED

Executed in Accordance with Section 127(1) of the Corporations Act by authority of its Directors in the presence of:

Signature of Director

Name

Date

Signature of Witness

Signature of Director/Company Secretary

Name

Date

Name of Witness

Date

### ENSURE YOUR SIGNATURE IS WITNESSED