

ITC Eucalypt Project

Prospectus 1998

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This Prospectus is dated 24 April 1998. A copy of this Prospectus was lodged with the Australian Securities Commission (ASC) on 24 April 1998. The ASC takes no responsibility as to the contents of this Prospectus.

The Prospectus contains information on areas available to be leased for the establishment of Tasmanian blue gum plantations. Growers who wish to participate in the Project will enter into a Lease Agreement with ITC and a Plantation Management Agreement with the Manager.

No Lease Agreements or Plantation Management Agreements will be entered into on the basis of this Prospectus after 23 April 1999.

This Prospectus should be read in its entirety and prospective growers who are not experienced with investments of this type should consult a professional adviser.

Prospective growers should be aware that:

- participation in the Project is for a fixed term that is likely to be for a minimum period of 10 years;
- Grower's Interests are likely to be illiquid because it is unlikely that there will be an active secondary market;
- Growers have no right to require their interests to be repurchased by the Manager, the Trustee or any other person;
- Growers will have an obligation to make annual payments in respect of the Lease Agreement and the Plantation Management Agreement;
- tree farming is an agricultural pursuit and is subject to the risks of climate, pest and disease associated with agricultural activities;
- the market for the timber products to be harvested from the plantation is not assured;
- approval from the relevant authorities for the establishment of a plantation on a Compartment may not have been granted at the time a Grower lodges an application (see Section 3.18 of this Prospectus for further explanation).

A Glossary of defined terms appears in Section 14 of this Prospectus. Words that commence with a capital letter are generally defined terms.

TABLE OF CONTENTS

1	CORPORATE DIRECTORY.....	4
2	BACKGROUND TO THE ITC EUCALYPT PROJECT 1998.....	5
3	PROJECT SUMMARY.....	6
4	DETAILS OF PROJECT COSTS.....	14
5	PROJECTIONS.....	20
6	MANAGEMENT.....	23
7	THE MARKET FOR TASMANIAN BLUE GUM.....	25
8	INDEPENDENT FORESTER'S REPORT.....	27
9	INCOME TAX OPINION.....	31
10	INDEPENDENT ACCOUNTANT'S REPORT.....	46
11	DETAILS OF PROJECT AGREEMENTS.....	52
12	ADDITIONAL INFORMATION.....	67
13	EXECUTION BY THE DIRECTORS.....	71
14	GLOSSARY.....	72
15	HOW TO APPLY.....	74
16	APPLICATION FORM.....	75
17	POWER OF ATTORNEY.....	78
	COMPARTMENTS AVAILABLE FOR LEASE.....	80

1 CORPORATE DIRECTORY

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Directors of the Manager	Robert George Bunning (Chairman) 17 View Street Peppermint Grove, Western Australia 6011 Antony Philip Jack 12 William Street Cottesloe, Western Australia 6011 Bruce Colin Mattinson 53 Melville Street Albany, Western Australia 6330 Ian David Wildy 31 Bernard Street Claremont, Western Australia 6010
Secretary of the Manager	Ian David Wildy 31 Bernard Street Claremont, Western Australia 6010
Contractor	Integrated Tree Cropping Pty Ltd ACN 069 762 634 Unit 7, 24 Leura Street Nedlands, Western Australia 6009
Trustee	Professional Funds Management Pty Ltd ACN 064 139 877 First Floor 30 Ledger Road Balcatta, Western Australia 6021
Dealer	ITC Securities Pty Ltd ACN 081 643 129 Unit 7, 24 Leura Street Nedlands, Western Australia 6009
Independent Forester	Forest West Pty Ltd ACN 009 351 651 10 John Street Bentley, Western Australia 6102
Independent Accountant	KPMG Corporate Finance (WA) Pty Ltd ACN 009 399 615 152-158 St George's Terrace Perth, Western Australia 6000
Taxation Expert	KPMG Chartered Accountants 152-158 St George's Terrace Perth, Western Australia 6000
Solicitors to the Manager and the Project	Freehill Hollingdale & Page 140 St George's Terrace Perth, Western Australia 6000
Auditors of the Manager and the Project	Sharyn Long Chartered Accountant 216 St George's Terrace Perth, Western Australia 6000

2 BACKGROUND TO THE ITC EUCALYPT PROJECT 1998

The ITC Eucalypt Project 1998 offers Applicants the opportunity to become growers of Tasmanian blue gum in the Green Triangle region of Victoria and South Australia. Tasmanian blue gum grows well in a plantation environment and is a favoured species in the pulp and paper industry. The ITC Group has the plantation management expertise to efficiently manage the plantations that are established as part of the Project.

2.1 Tasmanian blue gum

The Tasmanian blue gum – *Eucalyptus globulus* – is native to Tasmania, the islands of Bass Strait and Victoria. It has been harvested extensively from its natural range for more than a century and has been grown commercially in various places throughout the world for more than 80 years. It is only in the last twenty years, however, that plantations of Tasmanian blue gum were trialed in Australia, and only in the last ten years that large scale commercial plantations have been grown in this country. The majority of commercial plantations have been established in the south west region of Western Australia, where growing conditions have proved to be suitable for the species.

The main use for Tasmanian blue gum is in the pulp and paper industry where the very high pulp yield (amount of pulp per unit volume of wood) and the low chemical requirement at pulping make it the first choice in Japan as a feedstock for hardwood pulp production. The pulp produced is versatile and can be used for a number of paper products. The major product is fine grade printing and writing papers. This sector of the paper industry is currently experiencing the highest rate of increase in consumption and production worldwide.

2.2 The ITC Group

Integrated Tree Cropping Pty Ltd (ITC), the parent company of the Manager, is a leading developer and manager of Tasmanian blue gum plantations in Western Australia. The directors of ITC and of the Manager have many years of experience in plantation management and have contributed to the development of modern management techniques for Tasmanian blue gum plantations.

Since 1989 the ITC Group and its directors have been involved in the establishment of more than 14,000 hectares of Tasmanian blue gum plantation in Western Australia.

Over the last three years the Group has studied the potential of the Green Triangle to grow commercial Tasmanian blue gum plantations and in 1997 ITC established two tree farms in the region with an area of approximately 150 hectares.

ITC Project Management Limited (Manager) was incorporated to promote and manage the Project offered pursuant to this Prospectus. The Manager will contract ITC to manage the establishment, maintenance and harvesting of the plantations that comprise the Project.

2.3 The Green Triangle Region

An area of south west Victoria and south east South Australia is known as the Green Triangle. The region contains areas with similar soil and climatic conditions to those in the south west of Western Australia where Tasmanian blue gum has been successfully grown. The region also supports a substantial softwood industry with extensive areas of pine plantations and has the infrastructure in place to support the plantation industry.

Trial plots of Tasmanian blue gum planted over the last ten years have demonstrated that the species can be grown commercially in the Green Triangle. However, the potential for Tasmanian blue gum in the region is only now being developed. While in excess of 80,000 hectares of Tasmanian blue gum plantations have been established on cleared agricultural land in Western Australia, the total area committed to this species to date in the Green Triangle is estimated to be less than 10,000 hectares.

3 PROJECT SUMMARY

3.1 Summary

Growers in the ITC Eucalypt Project 1998 will become tree farmers by leasing an identified area of land and entering into a Plantation Management Agreement for the establishment of a Tasmanian blue gum plantation on the land.

Subject to market conditions prevailing at the time, Growers will derive income when the Plantation is harvested which is expected to be when the Plantation is approximately 10 years of age. At that time it is expected that the wood will be sold as pulpwood for the manufacture of printing and writing paper.

Some of the Properties in the Project will be established to a Plantation in 1998. Growers leasing these Properties (which include the Properties detailed in the Schedule commencing on page 80) will be known as 1998 Growers. Other Properties may be established in 1999 and Growers who lease these Properties will be known as 1999 Growers.

The Project will cease after the first harvest, subject to the provisions for termination contained in the Lease Agreement, the Plantation Management Agreement and the Deed.

3.2 Cost of Participation

The cost of participation in the Project has several components which are listed below. Further explanation of the cost is contained in Section 4 of this Prospectus.

- **Lease rent:** Pursuant to the Lease Agreement, rent will be paid annually in advance and will be adjusted for inflation. The Annual Rent will be set at 105% of the rent payable under the Head Lease Agreement which will range between \$120 and \$180 per hectare depending on the estimated productivity for each Property and its distance to the nearest port or pulp mill. 1998 Growers will pay Initial Rent of 150% of the Base Annual Rent which will be payable by 30 June 1998. The Initial Rent payable by 1999 Growers will be 50% Of the Base Annual Rent. The Initial Rent for 1999 Growers will be payable by 30 June 1998, or whenever the Lease Agreement is executed, whichever is the latest.
- **Plantation establishment:** Pursuant to the Plantation Management Agreement, the cost of establishing the Plantation will be \$4,700 plus \$1,680 for each hectare comprising the Leased Land leased by the Grower. This amount is payable by 30 June 1998, or when the Plantation Management Agreement is executed, whichever is the later.
- **Annual management of plantation:** Pursuant to the Plantation Management Agreement, the annual cost of maintaining the Plantation will be \$300 plus \$70 for each hectare of the Leased Land. This amount will be adjusted for inflation and will be payable annually in advance. For 1998 Growers, the first annual management fee will be due on 30 June 1998 and for 1999 Growers the first annual management fee will be due on 30 June 1999.

The Manager may recommend additional expenditure for enhanced silvicultural management. Such additional expenditure would be at the Grower's option (see Section 3.6 for further details).

- **Fire insurance:** Growers can elect to insure their Plantation against loss by fire and windstorm. The cost in the first year is likely to be approximately \$15 per hectare and will be borne by the Grower. Further details about insurance are contained in Section 3.19 of this Prospectus.
- **Harvest management fee:** All Growers will pay a Harvest Management Fee to the Manager equal to 5% of Harvest Proceeds which will be payable from Harvest Proceeds.

3.3 Minimum Subscriptions

The minimum area that a Grower can lease will depend upon Compartments available for lease at the time a Grower's Application Form is accepted by the Manager. No Compartments will be less than 10 hectares in area.

There is no minimum subscription which must be raised by this Prospectus.

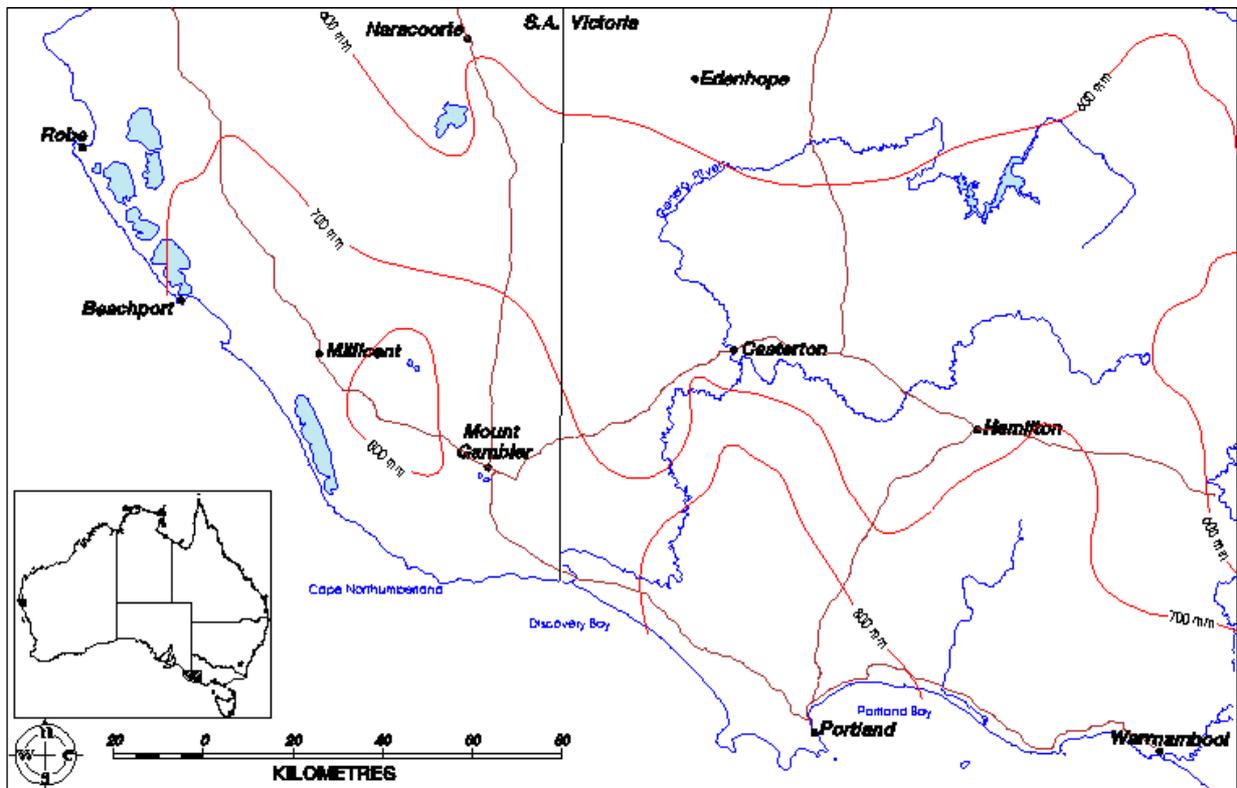
3.4 Lease Agreement

Growers will obtain their interest in an area of land assessed as being suitable for the establishment of a Tasmanian blue gum plantation by entering into a Lease Agreement for one or more Compartments. The parties to the Lease Agreement will be ITC and the Grower. Further details of the Lease Agreement are contained in Section 4.1 and Section 11.2 of this Prospectus.

3.5 Land Available

The land available for lease pursuant to this Prospectus is located in the Green Triangle region of western Victoria and south eastern South Australia within 150 kilometres of the port of Portland in Victoria or the pulp mill located at Millicent in South Australia. The location of the region is shown in the map below.

Land available for lease is expected to have a productivity of not less than 225 cubic metres per hectare. The Independent Forester has confirmed that the methodology adopted by ITC to assess the land is appropriate.



ITC has entered into or will enter into a Head Lease Agreement with various Landowners and ITC will then enter into a Lease Agreement with Growers to sub lease specific Compartments. The Compartments will vary in size to suit the Plantation Establishment Plan. Growers can select Compartments available from the schedule which appears on commencing on page 80. The schedule contains the information shown below.

Compartments will be allocated on a “first come first served” basis on receipt of a 20% deposit.

Information provided for each Property

- Identification
- Locality
- Local authority
- Planting Year
- Approximate Area of all Compartments
- Distance to Portland
- Distance to Millicent
- Estimated productivity at age 10 (cubic meters per hectare) – low, expected, high
- Initial Head Lease Rent
- Expected date of approval from local government
- Expected date of approval from Development Assessment Commission (SA only)
- Expected date of approval from Dept Environment, Heritage & Aboriginal Affairs (SA only)

Information provided for each Compartment

- Compartment number
- Compartment size
- Initial rent

3.6 Plantation Management Agreement

Growers will establish their Tasmanian blue gum plantation by entering into a Plantation Management Agreement. The parties to the Plantation Management Agreement will be the Manager and the Grower. A summary of the Plantation Management Agreement is contained in Section 11.3 of this Prospectus.

The Plantation Management Agreement provides for the Manager to establish a Tasmanian blue gum plantation on the Compartments leased by the Grower within thirteen months of the date of execution of the Plantation Management Agreement. The plantation will be established in accordance with the Tree Farm Management Plan that forms part of the Plantation Management Agreement to ensure that it complies with the relevant Code of Practice.

The Manager will replant any areas that do not survive the first growing season except in the event of loss by fire (for which Growers can insure) or losses that are due to an event of Force Majeure as defined in the Plantation Management Agreement.

The fees payable are an initial fee for plantation establishment, an annual management fee and a harvest fee as described in Section 4 of this Prospectus.

The Plantation Management Agreement contains provision for the Manager to recommend extra services where the Manager believes additional silvicultural management will improve the economic return from a Property. Growers will have the option to decide whether or not to accept any such recommendation and incur the additional expenditure. All Growers on a Property must accept the recommendation before the recommendation will be implemented on that Property. Examples of the additional silvicultural management contemplated by this provision could be pruning to produce higher value products or additional fertiliser application to enhance productivity.

3.7 The Manager

ITC Project Management Limited was incorporated on 17 February 1998 to act as the Manager of the ITC Eucalypt Project. It is a wholly owned subsidiary of Integrated Tree Cropping Pty Ltd (ITC).

The Directors of the Manager have experience in the establishment and management of Tasmanian blue gum plantations, promotion and management of collective forestry investments and relevant business experience. Directors' resumes are contained in Section 6 of this Prospectus.

3.8 Plantation Establishment and Management

The suitability of a Property for the establishment of a Tasmanian blue gum plantation is determined by ITC by methodology that is reviewed by the Independent Forester. The assessment includes locality, climatic factors, soil analysis and consideration of the general topographical features of the site. Only land that has been previously cleared and pastured will be used.

Once a property has been assessed as suitable for a plantation, ITC will prepare a Tree Farm Management Plan for the Property that will form part of the Plantation Management Agreement. This plan outlines the procedures to be followed to ensure the plantation will comply with the provisions of the relevant Code of Practice.

Site preparation includes ripping and mounding to break up the sub-soil and provide a bed in which the seedlings are planted. Grasses and weeds are sprayed with a combination of herbicides to reduce competition with seedlings.

Seedlings, grown by contract nurseries from seed provided by ITC, are planted at a density to suit the characteristics of the site. Fertiliser, tailored to the particular site is applied to the seedlings soon after planting.

Seedlings can be susceptible to attack from insects. Seedlings will be inspected regularly to monitor any insect attack that is likely to impede the growth of the seedlings. Suitable control measures will be applied where the Manager considers these measures will be effective.

After the trees are established, plantation management will include monitoring of the plantation, nutrient analysis to determine additional fertiliser requirements, weed control, fire control management, pest control, inventory measurement and regular reporting.

The establishment is provided pursuant to the Plantation Management Agreement (see Sections 3.6, 4.2, 4.3 and 11.3.)

3.9 Code of Practice

The plantation industry in Victoria has adopted Codes of Practice in relation to plantation establishment, management and harvesting (the South Australian Code is currently in draft form). The Manager has established procedures to ensure compliance with these Codes.

3.10 Contracting Agreement

The Manager has entered into a Contracting Agreement with ITC to establish and manage the Plantations comprising the Project on behalf of the Growers. The Manager will also engage ITC to assess the suitability of sites for the establishment of a Tasmanian blue gum plantation. The Manager believes that ITC has the experience in the business of site selection, planning, preparing, planting, developing and maintaining tree farms in Australia and has the technical expertise to support the Project.

3.11 Independent Forester's Reports

Growers will receive reports from an Independent Expert approved by the Trustee commenting on the extent to which the Manager is conducting the Project in a proper and efficient manner. The frequency of the reports will be:

- six months after commencement of expenditure in relation to the Project;
- thirteen months after commencement of expenditure in relation to the Project; and
- whenever the Trustee considers it is in the best interests of the Growers but at least annually.

3.12 Harvesting and Marketing the Plantation

It is expected that a Tasmanian blue gum plantation established in accordance with a Plantation Management Agreement will be ready to harvest approximately 10 years after establishment. At Harvest the Plantation will be clearfelled. The Plantation Management Agreement provides for the Manager to arrange for the Harvesting and marketing of the timber and for the Manager to be paid a fee equal to 5% of the Harvest Proceeds for this function.

The time of Harvest will be at the Manager's discretion unless all Growers on a Property approve an alternative time. At least 12 months prior to the proposed Harvest of the Plantation the Manager will contact all Growers on a Property to seek approval for the time of Harvest. At the same time the Manager will determine whether a Grower wishes to make his or her own arrangements to market the timber produced from a Compartment. If all Growers on a Property elect to make their own arrangements the Manager will arrange for the Harvesting of the Plantations in accordance with the Plantation Harvest Plan and the timber will be delivered to the destination nominated by the Growers at the cost of the Grower. In all other cases the Manager will arrange for the timber to be sold to the Purchaser. Growers who elect to make their own arrangements for marketing will still be liable to pay 5% of Harvest Proceeds to the Manager.

The amount payable by the Purchaser for the timber produced will be paid by the Purchaser to the Trustee. The Trustee will arrange for the payment of any appropriate harvesting, transport, processing and shiploading costs to arrive at the Harvest Proceeds. After payment to the Manager of the Manager's 5% harvest management and marketing fee the balance of the Harvest Proceeds will be paid by the Trustee to Growers.

Examples of the return that could be expected from the establishment, maintenance and harvesting of a plantation are contained in Section 5 of this Prospectus.

3.13 Pooling Concept for each Property

The timber produced on each Property will be harvested and marketed on a collective basis. Unless all Growers on a Property elect otherwise, the timber harvested from that Property will be pooled and the total Harvest Proceeds distributed to each Grower in the proportion that the area of each Grower's Leased Land on the Property bears to the total area of Leased Land on the Property. Timber harvested from different Properties will not be pooled.

The above concept is also applied in the event that the Manager recommends for additional services where the Manager believes additional silvicultural management will improve the economic return from a Property. All Growers on a Property must accept the recommendation before the recommendation will be implemented on that Property and the costs will then be shared by Growers on the Property in the proportion that the area of each Grower's Leased Land on the Property bears to the total area of Leased Land on the Property.

3.14 Taxation

It is expected that total payments made by Growers in respect of the Lease Agreement and the Plantation Management Agreement will constitute allowable deductions under Section 8-1 of the Income Tax Assessment Act, 1997 and will be allowable in the financial year in which the payments

are made. Interest charges and costs associated with funds borrowed by Growers to participate in the Project are also expected to constitute allowable deductions.

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

A report from KPMG on the taxation aspects of the Project appears in Section **Error! Reference source not found.** of this Prospectus. Applicants should read the report in full.

3.15 No Buy Back For Growers' Interests

Growers should note that the Manager has obtained exemptions from the Australian Securities Commission in relation to the buy-back provisions of the Corporations Law. As a result, neither the Manager nor the Trustee is obliged to offer the Growers a guaranteed secondary market for their interests.

3.16 Assignment of Lease Agreement and Plantation Management Agreement

Both the Lease Agreement and the Plantation Management Agreement have provisions for the Grower to assign his interest to a third party. The Dealer will assist, subject to the provisions of the Corporations Law, in establishing a secondary market for Growers' Interests by:

- maintaining a register of interested buyers and sellers, and
- making that register available for inspection by Growers and prospective buyers at no charge.

3.17 Risks

Forestry is an agricultural pursuit and is therefore exposed to risks. The Project is a long term venture and is speculative. Risk factors include:

- failure to obtain approval for the development of a plantation (see Section 3.18 below);
- fire, flood, drought, frost, wind storm, hail, disease and pests;
- below average rainfall;
- changes in technology;
- the development of products which substitute for wood pulp or the end products derived from wood pulp;
- failure to achieve the timber yields expected;
- failure to achieve the price anticipated because of adverse movements in the price for hardwood chips;
- failure to achieve the price anticipated because of adverse movements the cost of harvesting, transport, processing or shiploading;
- currency fluctuations;
- changes in government legislation;
- access to infrastructure;
- imposition of significant levies, taxes or other imposts;
- native title claims over the Leased Areas;
- the ability of the Manager and other parties to meet their obligations;
- events of Force Majeure as defined in the Plantation Management Agreement.

Insurance is available against loss by fire and windstorm (see Section 3.19) and if drought as defined in the Lease Agreement delays the growth of trees on the Leased Land there is provision for the term of the lease to be extended.

The Productivity for each Property is estimated by ITC using methodology that has been reviewed by the Independent Forester. The methodology includes assumptions that the long term average annual rainfall and annual rainfall distribution will be received at the Property for the term of the Project.

Sustained periods of below average rainfall could reduce the estimated Productivity or in extreme cases cause the death of trees.

Growers' Interests in the Plantations are likely to be illiquid and the Project Manager is not required to repurchase or buy-back Growers' Interests.

ITC has entered into or will enter into a Head Lease Agreement with various Landowners and ITC will then enter into a Lease Agreement with Growers to sub lease specific Compartments. There is a risk that should ITC default on the Head Lease Agreement the Lease Agreement could be jeopardised.

3.18 Approvals for a Plantation

The Manager may be required to obtain approval prior to establishing a Plantation on a Property from the local council and for properties in South Australia from the Development Assessment Commission and the Department of Environment, Heritage and Aboriginal Affairs. There is a risk that all these approvals may not be received by 30 June 1998. Applicants who apply for Compartments for which approval has not been received risk the possible refusal of the local council, the Development Assessment Commission or the Department of Environment, Heritage and Aboriginal Affairs to grant the relevant approval. In the event that the approvals are not received within a period of 6 months the Plantation Management Agreement provides for the Manager to procure for the Grower a lease over land that is similar and is on substantially the same terms, if the Applicant elects to take this option.

Applicants who are not prepared to proceed with their application because the approvals may not be subsequently received will receive a refund of their application moneys. If this option is taken the Grower will not receive a tax deduction at 30 June 1998.

3.19 Insurance

At the Grower's request the Manager will use its best endeavours to arrange on behalf of the Grower insurance against destruction or damage to the Plantation by fire and windstorm. The Manager will charge a fee equal to 10% of the premium paid by the Grower to arrange the insurance.

The cost of insurance and the nature of the cover available will be determined by the state of the insurance market at the time the cover is sought and will be borne by the Grower. Details of the insurance cover that is expected to be available can be obtained from the Manager.

The Manager will maintain public liability insurance cover over all Growers' Leased Areas in aggregate to a collective limit of \$10,000,000 for any one occurrence and unlimited during the period of insurance as to the number of occurrences. Such insurance will cover individual Grower's liability to third parties with respect to bodily injury (including death) and/or property damage claims arising from the business of growing and harvesting trees.

3.20 Dealers Licence

The Dealer holds a securities dealers licence which allows it to carry on a securities business in its capacity as agent for the Manager of the ITC Eucalypt Project.

Pursuant to a Dealing Agreement and as agent for and on behalf of the Manager, the Dealer will perform all activities that will be imposed on the Manager by the Deed which constitute dealing in securities. A summary of the Dealing Agreement appears in Section 11.5 of this Prospectus.

3.21 Trustee

The Trustee is responsible for the protection of the rights and interests of Growers to the extent provided in the Project Deed. A summary of the Deed appears in Section 11.1 of this Prospectus.

The Trustee's position may be changed by the proposed Managed Investments Bill 1997.

The Managed Investments Bill 1997 has been introduced into the Parliament of the Commonwealth of Australia, and if enacted, will amend the Corporations Law in such a way as to remove the separate roles of management company and trustee as set out in the Project Deed. The separate roles of management company and trustee will be merged into the role of a responsible entity.

The Trustee has indicated to the Manager that if the Managed Investments Bill becomes law, the Trustee will retire, resulting in the Manager becoming the single responsible entity.

Consequential amendments will be required to be made to the Project Deed in order to ensure that the Project complies with the requirements of the law as it exists at the relevant time.

It is possible that the Managed Investments Bill will become law as early as 1 July 1998 although, once enacted, it is anticipated that there will be a two year transitional period during which existing schemes must comply with the new law.

4 DETAILS OF PROJECT COSTS

4.1 Lease Rent

ITC has entered or will enter into a Head Lease Agreement with the Landowner and ITC will enter into a Lease Agreement with each Grower for the Compartment(s) they choose. The rent for each Compartment will be calculated from the amount agreed between the Landowner and ITC. The terms of the Lease Agreement will be in substantially the same form as the Head Lease Agreement except that:

- the combined rental for all Compartments on a Property will be calculated to be 105% of the rental payable pursuant to the Head Lease Agreement for the Property;
- the rental for each compartment will be a proportion of 105% of the rental payable pursuant to the Head Lease Agreement for the Property calculated from the area that a Compartment bears to the total area of all Compartments on a Property (see formula below);
- the timing of the lease payments may be different in the Lease Agreement than in the Head Lease Agreement;
- the commencement date of the lease may be different in the Lease Agreement than in the Head Lease Agreement.

The rental for each Compartment will be calculated with reference to the Initial Head Lease Rent.

$$\text{Base Annual Rent} = 1.05 \times \frac{\text{Initial Head Lease Rent} \times \text{Compartment area}}{\text{Property area}}$$

where:

Base Annual Rent - is the annual rental for a Compartment before CPI adjustments.

Initial Head Lease Rent - is the rental pursuant to the Head Lease for the initial 12 month period of the Head Lease.

Compartment area - is the area of a Compartment to be planted to Tasmanian blue gum.

Property area - is the total area of all the Compartments on a Property to be planted to Tasmanian blue gum as part of the Project.

The Annual Rent will be payable annually in advance. The Annual Rent will be escalated to reflect movements in the CPI but cannot be increased by more than 7% in any year. The rent will not be reduced if the CPI movement for a year is negative. The formula for the escalation of the Annual Rent is as follows:

$$\text{New Annual Rent} = \text{Annual Rent} \times \frac{\text{NCPI}}{\text{CPI}}$$

where:

New Annual Rent - is the revised annual rental payable from the date of the review.

Annual Rent - is the annual rental payable immediately prior to the review. For the first review it will be the Base Annual Rent.

NCPI - is the greater of the Consumer Price Index published for the March quarter prior to the relevant review date and CPI.

CPI - is the Consumer Price Index published for the March quarter prior to the last review date or in the case of the first review the Consumer Price Index published for the March quarter 1998.

The Initial Rent for 1998 Growers will be calculated as 150% of the Base Annual Rent. The Initial Rent covers the period 1 July 1998 to 30 June 1999 and includes the costs of documentation and procuring the lease.

The Initial Rent for 1999 Growers will be calculated as 50% of the Base Annual Rent and includes the costs of documentation and procuring the lease.

The Initial Head Lease Rent will be in the range \$120 to \$180 per hectare and will be determined by the estimated Productivity and the distance to port or pulp mills.

4.2 Cost of Establishment

The cost of establishment will be \$4,700 plus \$1,680 for each hectare that comprises the Leased Land that is the subject of a Plantation Management Agreement.

Examples of the cost of establishment for different areas are shown in the following table.

Area of Leased Land (hectares)	Total cost of establishment	Average cost per hectare
10	\$ 21,500	\$2,150
20	\$ 38,300	\$1,915
50	\$ 88,700	\$1,774
100	\$172,700	\$1,727

Cost of establishment covers the services described as Initial Services in the Plantation Management Agreement and includes the following:

- control of vermin;
- weed and grass control;
- ripping and mounding in preparation for planting;
- supply and planting of sufficient *Eucalyptus globulus* seedlings;
- general management and supervision.

4.3 Annual Management

The cost of annual management of a Grower's Interest will be \$300 plus \$70 for each hectare comprising the Leased Land that is the subject of a Plantation Management Agreement. This fee is adjusted for changes in CPI and is payable annually in advance.

Examples of the annual management for different areas of Leased Land are shown in the following table.

Area of Leased Land (hectares)	Total cost of annual management	Average cost per hectare
10	\$1,000	\$100
20	\$1,700	\$85
50	\$3,800	\$76
100	\$7,300	\$73

The annual management fee will be escalated in accordance with the following formula:

$$\text{Revised Annual Management Fee} = \text{Annual Management Fee} \times \frac{\text{NCPI}}{\text{CPI}}$$

where:

Revised Annual Management Fee - is the revised annual fee payable from the date of the review.

Annual Management Fee - is the annual fee payable immediately prior to the review.

NCPI - is the greater of the Consumer Price Index published for the March quarter prior to the relevant review date

CPI - is the Consumer Price Index published for the March quarter prior to the last review date or in the case of the first review the Consumer Price Index published for the March quarter 1998.

The annual management fee will be payable in advance on 30 June each year commencing on 30 June 1998 in the case of 1998 Growers and commencing on 30 June 1999 in the case of 1999 Growers. Escalation of the Annual Management Fee will commence on 1 July 1999 for both 1998 Growers and 1999 Growers.

The services included in the annual management are described in the Plantation Management Agreement and include the general activities listed below:

- general monitoring of the plantation for nutrient status, pest and diseases;
- preparation and implementation of a fire management plan;
- nutrient analysis and fertilising in accordance with the Plantation Management Plan;
- weed control;
- establishment of timber inventory plots to monitor growth;
- preparation of reports.

The frequency and standard of the services will be as described in the Establishment and Management Plan which forms part of the Plantation Management Agreement.

The Manager may recommend expenditure in excess of the annual management fee where the Manager believes enhanced silvicultural management practices will improve the economic return from a Property as described in Section 3.6 of this Prospectus.

4.4 Distinction Between 1998 Growers and 1999 Growers

1999 Properties are not yet available but may become available before 30 June 1998.

Applicants who lodge an Application Form prior to 30 June 1998 may select Compartments for 1998 or 1999 establishment (if available) and become either 1998 Growers or 1999 Growers subject to the availability of Compartments at the time the Application Form is received by the Manager. No Compartments for establishment in 1998 will be available after 30 June 1998. Applicants who lodge an Application Form after 30 June 1998 will become 1999 Growers.

The following table shows the difference in the contracts for 1998 Growers and 1999 Growers.

	1998 Growers	1999 Growers
Initial Rent	150% of Base Annual Rent. commencing on 1 July 1998 Payable in full prior to 30 June 1998.	50% of Base Annual Rent. for the period to 30 June 1999 Payable in full prior to 30 June 1998 *
Establishment fee	Payable in full prior to 30 June 1998.	Payable in full prior to 30 June 1998 *.
Annual management fee	Commences 1 July 1998, first payment on 30 June 1998.	Commences 1 July 1999, first payment on 30 June 1999.
Anticipated year of harvest	2008	2009

* or on execution of Agreements if later than 30 June 1998

4.5 Total Cost of Participation

Examples of the cost of participation in the Project, based upon the assumptions listed are as follows:

Example 1 - 1998 Growers

Assumptions

Leased Area:	20 hectares
Year of establishment:	1998
Initial Head Lease Rent	\$140 per hectare
Rate of inflation:	3% per annum
Annual management:	No expenditure for enhanced silvicultural management
Insurance:	Rates for Tasmanian blue gum in Victoria in the Australian Forest Growers Plantation Insurance Scheme 1997/98

Year ending	30 June 1998	30 June 1999	June 30 2000	Subsequent years until harvest
Establishment	38,300			
Annual management fee	1,700	1,751	1,804	Escalated at CPI
Initial rent	4,410			
Annual rent		3,028	3,119	Escalated at CPI
Insurance		318	345	Determined by insurance market at the time
Cost for each year	\$44,410	\$5,097	\$5,268	

Example 2 – 1999 Growers (for a Grower who subscribes prior to 30 June 1998)

Assumptions:

Leased Area:	20 hectares
Year of establishment:	1999
Initial Head Lease Rent:	\$140 per hectare
Rate of inflation:	3% per annum
Annual management:	No expenditure for enhanced silvicultural management
Insurance:	Rates for Tasmanian blue gum in Victoria in the Australian Forest Growers Plantation Insurance Scheme 1997/98

Year ending	30 June 1998	30 June 1999	June 30 2000	Subsequent years until first harvest
Establishment	38,300			
Annual management fee		1,751	1,804	Escalated at CPI
Initial rent	1,470			
Annual rent		3,028	3,119	Escalated at CPI
Insurance			327	Determined by insurance market at the time
Cost for each year	\$39,770	\$4,779	\$5,250	

4.6 Expenditure forecast

Expenditure in relation to the first thirteen months of the Project is forecast to be as follows:

Lease rent: The Initial Rent will be expended as shown in the following example which is based upon a Leased Area of 20 hectares for which the Initial Head Lease Rent is \$140 per hectare.

	<u>1998 Growers</u>	<u>1999 Growers</u> for subscription prior to 30 June 1998
Initial Rent	\$4,410	\$1,470
Less: Payment to Landowner*	\$3,500 – 4,200	\$1,400
Retained by ITC for documentation and administrative costs	\$210 - 910	\$70

* The range of figures is due to the varying commencement dates of the Head Lease Agreements. ITC is required to pay rent under the Head Lease Agreements from the commencement date of the Head Lease Agreements.

Cost of establishment: The establishment fee of \$4,700 plus \$1,680 per hectare will be expended by the Manager and ITC in the following manner:

Payment to ITC pursuant to the Contracting Agreement to provide the Initial Services as required by the Plantation Management Agreement (see detail below)	\$1,485 per hectare
The balance including the fixed charge of \$4,700	Retained by Manager for payment of site suitability investigation, commissions, administrative costs and Manager's profit.

Examples of the expenditure forecast for the cost of establishment for Leased Areas of 20 hectares and 50 hectares are as follows:

	<u>20 hectares</u> \$	<u>50 hectares</u> \$
Amount paid by Grower for cost of establishment	38,300	88,700
Less Payment to ITC pursuant to Contracting Agreement	29,700	74,250
Manager's Gross Margin	8,600	14,450
Less Manager's costs		
Suitability investigation	2,300	2,750
Commissions	3,830	8,870
Administration	1,000	1,000
Manager's profit	1,470	1,830

The payment of \$1,485 per hectare to ITC pursuant to the Contracting Agreement will be expended in the following manner:

	\$
Vermin control:	50
Deep ripping, mounding:	200
Weed control:	200
Supply and planting of seedlings:	300
Supply and application of fertiliser:	100
Pest control:	50
Firebreak maintenance:	50
Administration and supervision:	400
Contractor's profit:	135
Total:	1,485

Cost of annual management: The annual management fee of \$300 plus \$70 per hectare will be expended in the following manner:

Payment to ITC pursuant to the Contracting Agreement to provide the Annual Services as required by the Plantation Management Agreement	\$50 per hectare
The balance including the fixed charge of \$300	Retained by Manager for administrative costs and Manager's profit.

Examples of the expenditure forecast for the cost of annual management for Leased Areas of 20 hectares and 50 hectares for 1998 Growers are as follows:

	<u>20 hectares</u>	<u>50 hectares</u>
	\$	\$
Amount paid by Grower for annual management	1,700	3,800
Less Payment to ITC pursuant to Contracting Agreement	1,000	2,500
Manager's Gross Margin	700	1,300
Less Administration	600	1,050
Manager's profit	100	250

The first annual management fee for 1999 Growers is not paid until 30 June 1999. It will be expended in a the same way as shown in the examples above after adjustment for inflation.

5 PROJECTIONS

The projections that follow give an example of the returns that may be achieved from participation in the Project based upon the specific assumptions listed. If the assumptions are changed the projections will change. Examples of the sensitivity of the projections to various factors follow each example below.

Some of the assumptions will not be known until closer to the time of harvest in approximately 10 years time. No guarantee is or can be given in respect of the accuracy of the assumptions and material differences may occur.

The projections should also be read in conjunction with Section 3.17 of this Prospectus which lists the general risks to the Project.

Applicants should view the projections that follow with the above comments in mind.

Assumptions used in the projections:

- The rate of inflation will be 3% per annum for the life of the Project.
- Productivity of 250 cubic metres per hectare will be achieved when the plantation is 10 years old and the plantation will be harvested when it is 10 years old.
- The Initial Head Lease rent will be \$140 per hectare per year. The Annual Rent will increase at the assumed rate of inflation.
- The property will be located 100 km from the port of Portland.
- The timber harvested from the plantation will be sold to the Purchaser as woodchips loaded onto a boat at Portland. Growers proceeds will be the FOB price for woodchips less the costs of harvesting, transport, processing and loading onto ship.
- The price for Tasmanian blue gum woodchips will be equivalent to A\$80 per cubic metre FOB Portland, for the volume of timber harvested from the plantation, (in 1998 dollars) and will increase at the assumed rate of inflation.
- The cost of harvesting, transport, chipping and loading onto ship will be \$45 per cubic metre, net of production losses, (in 1998 dollars) and will increase at the assumed rate of inflation.
- Growers will pay 5% of their Harvest Proceeds to the Manager for management of the harvest and marketing the timber harvested.
- The payments made by each Grower to enter into a Lease Agreement and the Plantation Management Agreement will be fully deductible for taxation purposes in the year in which such payments are incurred. The Grower's marginal tax rate is 48.5%.
- The Grower will elect to insure and the cost of insurance will be based on the Victorian Blue Gum Rates published by the Australian Forest Growers Plantation Insurance Scheme for 1997/98.
- In determining the Compound After Tax Rate of Return in the following tables, the internal rate of return has been calculated for the projected after-tax cash flows on a yearly basis over the life of the project; that is, after allowing for tax deductions on the outflows and tax paid on any income.
- In determining the Compound Pre-Tax Rate of Return in the following tables, the internal rate of return has been calculated for the projected cash flows on a yearly basis over the life of the project after allowing for tax deductions on the outflows but before any tax is paid on any income.

Example 1 – Net Profit for 10 hectare Tree Farm

	1998 Growers	1999 Growers who subscribe before 30 June 1998
Net Pulpwood Sales	\$117,590	\$121,120
Less Costs		
Establishment Costs	\$21,500	\$21,500
Annual Maintenance Costs	\$12,810	\$13,190
Lease Costs	\$19,560	\$20,130
Insurance Costs (optional)	\$2,310	\$2,380
Harvesting Fee	\$5,880	\$6,060
Total Costs	\$62,060	\$63,260
Net Profit to Growers	\$55,530	\$57,860

Compound After Tax Rate of Return	9.8%	9.4%		
Equivalent Compound Pre-Tax Return	19.5%	18.3%		
Change to After Tax Return from:				
+/- 10% change in Wood Price:	+1.3%	-1.5%	+1.2%	-1.4%
+/- 10% variation in Wood Volume:	+1.3%	-1.5%	+1.2%	-1.4%
+/- 50 km change in Haul Distance:	-1.7%	+1.5%	-1.6%	+1.4%
+/- \$20 change in Initial Head Lease:	-0.6%	+0.6%	-0.5%	+0.5%

Example 2 – Net Profit for 20 hectare Tree Farm

	1998 Growers	1999 Growers who subscribe before 30 June 1998
Net Pulpwood Sales	\$235,190	\$242,240
Less Costs		
Establishment Costs	\$38,300	\$38,300
Annual Maintenance Costs	\$21,770	\$22,430
Lease Costs	\$39,120	\$40,250
Insurance Costs (optional)	\$4,620	\$4,760
Harvesting Fee	\$11,760	\$12,110
Total Costs	\$115,570	\$117,850
Net Profit to Growers	\$119,620	\$124,390

Compound After Tax Rate of Return	11.0%	10.5%		
Equivalent Compound Pre-Tax Return	20.7%	19.5%		
Change to After Tax Return from:				
+/- 10% change in Wood Price:	+1.3%	-1.5%	+1.2%	-1.4%
+/- 10% variation in Wood Volume:	+1.3%	-1.5%	+1.2%	-1.4%
+/- 50 km change in Haul Distance:	-1.7%	+1.5%	-1.6%	+1.4%
+/- \$20 change in Initial Head Lease:	-0.6%	+0.6%	-0.6%	+0.6%

Example 3 – Net Profit for 100 hectare Tree Farm

	1998 Growers	1999 Growers who subscribe before 30 June 1998
Net Pulpwood Sales	\$1,175,930	\$1,211,200
Less Costs		
Establishment Costs	\$172,700	\$172,700
Annual Maintenance Costs	\$93,500	\$96,300
Lease Costs	\$195,620	\$201,270
Insurance Costs (optional)	\$23,110	\$23,800
Harvesting Fee	\$58,800	\$60,560
Total Costs	\$543,730	\$554,630
Net Profit to Growers	\$632,200	\$656,570

Compound After Tax Rate of Return	12.1%	11.5%		
Equivalent Pre-Tax Compound Return	21.9%	20.5%		
Change to After Tax Return from:				
+/- 10% change in Wood Price:	+1.4%	-1.5%	+1.3%	-1.4%
+/- 10% variation in Wood Volume:	+1.4%	-1.5%	+1.3%	-1.4%
+/- 50 km change in Haul Distance:	-1.7%	+1.5%	-1.6%	+1.4%
+/- \$20 change in Initial Head Lease:	-0.7%	+0.7%	-0.6%	+0.6%

6 MANAGEMENT

6.1 Directors of the Manager

The Directors of the Manager at the date of this Prospectus are as follows:

Robert G Bunning

BE MIEAust FAICD (Chairman)
Age 58
Appointed 17 February 1998

Mr Bunning has been involved in a professional capacity within the forest industry for more than 35 years. His experience includes various management roles with Bunnings Ltd (which was a major Western Australian based forest products company listed on the Australian Stock Exchange) culminating as Managing Director of Bunning Forest Products Pty Ltd. He was a director of Bunnings Ltd from 1974 to 1992 and a director of a number of subsidiary and associated companies including the WA Chip & Pulp Co Pty Ltd, which pioneered the Tasmanian blue gum plantation industry in Western Australia.

He has also had involvement with Whittakers Limited (another listed Western Australian Forest Products company) as a director, Managing Director and Chairman from 1992 to 1995.

He has been a member of many forest industry and other commercial associations and councils, including twice Chairman of the Forest Industries Association of WA and Chairman of the Australian Timber Producer's Council.

Mr Bunning is currently Chairman of Innerhadden Ltd, Metex Resources NL, Aileendonan Investments Pty Ltd, Deputy Chairman of Integrated Tree Cropping Pty Ltd and a Director of Florigene Ltd.

Aileendonan Investments Pty Ltd, a Bunning family company, has invested in over 2,000 hectares of Tasmanian blue gum plantations in Western Australia and is a major shareholder of Integrated Tree Cropping Pty Ltd.

Antony P Jack

BSc MBA (Managing Director)
Age 39
Appointed 17 February 1998

Mr Jack became involved in the forest industry in 1992 when as a consultant to Whittakers Limited he was responsible for strategic planning and business development.

In 1995 he was appointed Managing Director of Integrated Tree Cropping Pty Ltd and has specific responsibility for overall corporate management and business development.

Prior to 1992 Mr Jack worked in the oil and gas industry in Europe and in corporate positions in the mining industry in Australia.

Mr Jack has invested in Tasmanian blue gum plantations in the Albany and Esperance regions of Western Australia since 1995.

Bruce C Mattinson

BSc Agric (Hons) (Executive Director)
Age 37
Appointed 17 February 1998

Mr Mattinson has been involved for a period of 12 years in the development of forestry and agro-forestry systems while working for the Department of Conservation and Land Management, the University of Western Australia and the Department of Agriculture. In 1990 he founded his own tree plantation business which was acquired by ITC in 1995.

Mr Mattinson is a full time Executive Director of ITC with responsibility for land evaluation, plantation planning and development of silvicultural techniques.

Mr Mattinson has invested in Tasmanian blue gum plantations in the Albany and Esperance regions of Western Australia since 1995.

Ian D Wildy

BE BEc MIEAust AMIFA (Executive Director)
Age 54
Appointed 17 February 1998

Mr Wildy has been involved in plantation forestry since 1989 when he was responsible for the establishment of a Tasmanian blue gum plantation for Heytesbury Holdings Limited.

From 1992 to 1997 Mr Wildy was the Managing Director of the companies that comprised the Australian Eucalypt Project which during that period established more than 4,000 hectares of Tasmanian blue gum plantations in Western Australia.

Prior to 1992 Mr Wildy was employed by the Bell Group of companies and Heytesbury Holdings Limited for a period of 18 years.

Mr Wildy maintains a private Tasmanian blue gum plantation. He is a State and National Councillor of the Australian Forest Growers.

6.2 Directors of ITC

The Manager is a wholly owned subsidiary of Integrated Tree Cropping Pty Ltd (ITC). The Manager has entered into a contract with ITC for the establishment and management of the plantations in the Project. The Directors of ITC at the date of this Prospectus are Robert G Bunning, Antony P Jack, Bruce C Mattinson (whose details appear above) and David J Young FCA, FCPA, FAIM, FAICD. Mr Young who is Chairman of ITC is a Chartered Accountant and was the Managing Partner of KPMG in Western Australia until his retirement in 1992. Mr Young is a director of Burswood Limited, SGIO Insurance Limited, Rural Traders Company Limited, Atkins Carlyle Limited, United Group Limited and Tanami Gold NL. He is President of the Institute of Company Directors in Western Australia.

7 THE MARKET FOR TASMANIAN BLUE GUM

The wood produced from the ITC Eucalypt Project is expected to be sold as hardwood woodchips and become raw material for the world paper industry. World consumption of paper and paperboard products in 1996 was approximately 280 million tonnes and required about 440 million tonnes of wood fibre. The major consumers are USA (85 million tonnes), Japan (31 mt), China (30 mt) and Germany (15 mt).

7.1 Asian Markets

The target market for woodchips derived from the plantations in the Project is likely to be Asia.

Japan currently dominates the Asian market for internationally traded woodchips, and in 1996 imported approximately 26.3 million tonnes. The Japanese Ministry for International Trade and Industry predicts an increase of 2.2% per annum in paper use in Japan between 1996 and 2015. The use of recycled waste paper in the manufacture of new paper is approaching the maximum technical level and Japan's domestic supply of hardwood chips is declining. As a result Japanese woodchip imports are predicted to increase by 50% to around 40 million tonnes by 2015 to satisfy demand.

Historically, the increased use of paper for cultural, commercial, industrial and hygiene applications has been associated with economic growth and improved living standards. This trend is expected to continue as countries adopt political and economic policies leading to improved growth and incomes.

The market for woodchips in Asian is expected to grow to satisfy rising demand for paper products as a number of countries with large populations become more affluent and per capita consumption of paper rises. As an example, in the period from 1980 to 1996, the use of paper in China increased from 6 kg per head to 25 kg (compared with 245 kg per head in Japan and 319 kg per head in USA). If the existing rate of increase continues, by 2015 Chinese consumption will reach 279 million tonnes of paper, which is an amount equivalent to the current total world consumption.

7.2 Supply to the Asian Market

Other than Japan, most of the current demand for pulpwood in Asia is supplied from local native forests. This resource is finite and production levels are expected to decline in the near future. Some of the future demand is expected to be met from plantations being developed in Asia, however, imports from outside Asia will be necessary.

Currently, Australia and the USA dominate the supply of hardwood woodchips to Japan, each accounting for approximately one third of Japan's imports. Other exporters include Chile, South Africa and China. Supply from the USA is expected to stabilise or decline as a result of increased environmental pressure. Supplies from Chile and South Africa are not expected to increase and could decrease because of limited new planting of plantations and rising internal consumption in these countries. This would leave Australia in a position to capitalise on growth in both the Japanese and other Asian markets. As well as the good growth rates being achieved by Australian plantations, the shipping times to the Asian markets are less than from other potential sources of supply.

7.3 Price

The price of internationally traded pulpwood, and in particular hardwood woodchips, has been stable for the last 25 years. Since 1972 the price received for Australian hardwood woodchips in Australian dollars has increased at an average rate of 0.16% above inflation in Australia. Because of the increasing demand and tightening of supply it can be reasonably expected that real prices for woodchips will be maintained in the future.

Recent price negotiations in Australia have confirmed that Tasmanian blue gum woodchips from plantations attract a premium over native forest wood because of their more consistent quality, the

higher pulp yield and the lower pulping costs. This premium is currently approximately \$10 per green tonne for woodchips delivered onto a ship.

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24 April 1998

The Directors
ITC Project Management Limited
Unit 7, 24 Leura Street
NEDLANDS WA 6009

INTRODUCTION

This report has been prepared for inclusion in a prospectus to be issued by ITC Project Management Limited which offers investors the opportunity to subscribe to the ITC Eucalypt Project (Project) to establish plantations of Tasmanian blue gum (*Eucalyptus globulus*).

The plantations will be established in south-western Victoria and south eastern South Australia, and grown to produce woodchips to be used in the production of short fibre pulp for manufacturing paper products.

ITC Project Management Limited has entered into a Contracting Agreement with Integrated Tree Cropping Pty Ltd (ITC). ITC will be responsible for site selection, assessment of the suitability of the site for a Tasmanian blue gum plantation, establishment and management of the plantation.

The purpose of this report is to comment upon the methodology that ITC adopts in assessing the suitability of a site for a plantation and the capability of ITC to successfully establish and manage large scale Tasmanian blue gum plantations.

My assessment of the systematic approach that ITC adopts to all facets of plantation establishment and management, indicates that plantations that will comprise the Project should produce yields that will be economically viable and that the risks that can reduce returns will be minimised.

ITC'S GENERAL CAPABILITY

ITC has demonstrated in Western Australia that it is capable of successfully establishing and managing large scale Tasmanian blue gum plantations. The operations are managed and supervised by qualified staff experienced in the plantation industry. ITC is involved in research and development relevant to the establishment and management of plantations both in its own right and as a contributing member to industry projects.

The particular procedures adopted by ITC are discussed in more detail later in this report.

PROPOSED LAND

The plantations in the Project will be in a region of Victoria and South Australia where there is currently more than 150,000 hectares of plantation. The majority of this area is softwood plantation but more recently Tasmanian blue gum plantations have been established.

The region is serviced by a port at Portland in Victoria which currently exports softwood chips. At Millicent, in South Australia, Kimberley Clark operate a pulp mill that purchases eucalyptus species to provide hardwood pulp for the manufacture of tissue paper.

LAND SUITABILITY

ITC has developed a systematic approach to assess the suitability of land on which plantations can be successfully established based on consideration of the following criteria:

Climate

The climate in which Tasmanian blue gum produces an economically viable timber yield is annual rainfall of more than 625 mm, good distribution of rainfall, mild temperatures and limited periods of drought.

By taking account of these climatic factors in assessing the suitability of a site, the ITC methodology will enable suitable sites to be identified and unsuitable sites excluded from the project.

The climate in the proposed area of Victoria and South Australia is similar to the areas of Western Australia where Tasmanian blue gum grows successfully.

Land capability units

The best growth of Tasmanian blue gum is achieved on well drained fertile sands and sandy loams with adequate depth. ITC conducts a systematic soil survey of potential properties to identify the different land capability units. Pits are dug with a backhoe to a depth of at least two and a half metres to determine the rooting depth, fertility and moisture retention characteristics.

The project intends to plant properties in south western Victoria and south eastern South Australia where land capability units are similar to the those in the Great Southern Region of Western Australia where Tasmanian blue gum has been successfully established.

The system developed and systematically followed by ITC to assess land will ensure that the better sites can be reliably identified and unsuitable sites excluded from the project.

YIELD PROJECTIONS

ITC estimates a range of timber volumes that each identified land capability unit can produce. These estimates are then used to calculate a weighted average yield for each property. The estimates are based on the experience of yields on similar land capability units together with influence of climatic factors.

Whilst further data is required within the industry to refine the accuracy of estimates of the potential productivity of each land capability unit, the systematic approach adopted by ITC makes it possible to predict the approximate range in which timber yields can be expected.

FINANCIAL PROJECTIONS

The Prospectus contains projections prepared by the Manager that give examples of the returns that may be achieved from participation in the Project. The projections are based upon specific assumptions for productivity, price for woodchips, costs for harvesting, transport, chipping and loading onto ship which are considered to be reasonable.

ESTABLISHMENT AND MANAGEMENT

To achieve the estimated harvest yield it will be necessary to apply the proven management practices that ITC have developed to produce rapid early growth of Tasmanian blue gum plantations. There are several aspects which require attention for success.

Seed selection and propagation of seedlings

The genetic characteristics of seed are important as the growth rate of different provenances of this species varies markedly. ITC has established trials to determine the characteristics of various provenances. ITC is a member of the Southern Tree Breeding Association (STBA) whose aim is to improve yields through tree breeding. By utilizing the information from its own trials and STBA advice, ITC is able to select seed from superior genetic material.

The use of select genetic material which is becoming available from open pollinated seed orchards is expected to increase productivity by 20% over that currently projected.

Seedlings are propagated in a number of contract nurseries to ITC's specification and are growing vigorously at the time of planting.

Site preparation and plantation establishment

ITC has developed site preparation techniques which involve deep ripping and mounding to produce a cultivated seedling bed to ensure rapid growth is maintained after the seedlings are planted.

Control of weed competition

Control of weeds to reduce competition for moisture and nutrients is critical in the first few years to ensure early rapid growth. Herbicides to suit specific site conditions are applied at critical times during the first two years of the life of the plantation. ITC has demonstrated the ability to achieve the weed control necessary in plantations established in recent years.

Nutrition

An adequate source of nutrition in the first few years is critical to achieve rapid growth. The ITC management procedure provides for fertiliser containing a mixture of nitrogen, phosphorous and potassium as well as trace elements to be applied shortly after planting. Samples of foliage are analysed when the trees are approximately one year old to detect any deficiencies and a second application of fertiliser made in the light of this analysis.

The approach to nutrition proposed by ITC will ensure vigorous early growth.

Ongoing management

ITC has systems in place for the ongoing management of plantations that include fire management strategies, inventory measurement and regular monitoring and reporting. ITC has demonstrated its capacity to provide effective ongoing management for plantations in Western Australia.

CONCLUSION

The methodology adopted by ITC makes it possible to select sites that are expected to produce an economic timber yield and to predict the approximate range in which timber yields can be expected.

ITC adopts a systematic approach to establishment and management of its plantations that should produce yields within ranges that are economically viable and that should minimise the risks that can reduce yields.

The consistent performance of ITC plantations in Western Australia indicates that the systems do work and therefore there are grounds for confidence that this approach will produce similar outcomes with plantations established in the regions proposed in Victoria and South Australia.

for ForestWest Pty Ltd
A R Gobby
B.Sc(For)Hons M.Sc(For)
Director

KPMG

Chartered Accountants

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Telephone:(09) 2637128
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24 April 1998

Private & confidential

The Directors
ITC Project Management Limited
Unit 7, 24 Leura Street
Nedlands WA 6009

Dear Directors

INCOME TAX OPINION - ITC Eucalypt Project

1 SCOPE OF OPINION

1.1 PURPOSE OF OPINION

This opinion has been prepared for inclusion in the Prospectus to be dated 24 April 1998 and issued by ITC Project Management Limited (the Manager) inviting persons (Growers) to participate in a commercial silviculture project known as the ITC Eucalypt Project (the Project).

Our opinion is based upon existing legislation, cases, rulings and administrative practice, all of which may be subject to change. The opinion is general in nature and persons intending to participate in the Project as Growers should seek further independent professional advice regarding their individual circumstances.

1.2 TAXATION LAWS IMPROVEMENT PROJECT

The Taxation Laws Improvement Project (TLIP) involves re-writing progressively in plain language the *Income Tax Assessment Act 1936* (the old Act) so that ultimately the entire old Act will be replaced by the *Income Tax Assessment Act 1997* (the new Act). The provisions of the new Act are designed to convey the same meaning as the provisions of the old Act. Comments concerning provisions of the new Act are necessarily founded on cases, rulings and our experience regarding the corresponding provisions of the old Act.

1.3 PROJECT DOCUMENTATION

This opinion is based on documentation provided, including the ITC Eucalypt Project Deed (the Deed) dated 18 March 1998. The Deed contains a pro forma copy of a Lease Agreement (the Lease Agreement) and a Plantation Management Agreement (the Plantation Management Agreement) to be entered into by each Grower.

We have also been provided with a copy of the glossary in the Prospectus and have incorporated the glossary words and definitions into our opinion.

1.4 RESIDENCY OF GROWER

We have assumed that Growers are residents of Australia for Australian taxation purposes. Non-residents should seek separate independent advice on the taxation consequences affecting them.

2 OUTLINE OF THE PROJECT

2.1 EXECUTION OF LEASE AND MANAGEMENT AGREEMENT

A Grower appoints the Manager to execute the Lease Agreement and the Plantation Management Agreement. We understand that:

- For applications received up to 30 June 1998, the Manager will either execute the Lease Agreements and the Plantation Management Agreements for Growers as 1998 Growers or as 1999 Growers. Execution of the agreements will occur between 1 June 1998 and 30 June 1998.
- For applications received after 30 June 1998, the Manager will execute the Lease Agreements and the Plantation Management Agreements for Growers as 1999 Growers. Execution of the agreements will occur at the time of receipt of the application.

Where a Grower's Lease Agreement and the Plantation Management Agreement is not executed before 30 June 1998, the Grower is unable to claim a deduction for the year ended 30 June 1998.

2.2 LEASE OF LAND

A Grower leases one or more Compartments (the Leased Land) from Integrated Tree Cropping Pty Ltd (the Lessor) for use in the Project. The minimum size of a Compartment is ten hectares.

For 1998 Growers, the Initial Rent for the Leased Land is for the 12 month period from 1 July 1998 to 30 June 1999. For 1999 Growers, the Initial Rent for the Leased Land is for the period to 30 June 1999.

For Lease Agreements executed on or before 30 June 1998, the Initial Rent is payable at 30 June 1998. For Lease Agreements executed after 30 June 1998, the Initial Rent is payable upon execution of the Lease Agreement.

Annual Rent is payable yearly in advance to the Lessor at 30 June every year from 30 June 1999 onwards for the term of the Project.

2.3 APPOINTMENT OF MANAGER

A Grower appoints the Manager to establish a plantation on the Leased Land and to maintain the Tasmanian blue gum plantation on the Grower's behalf.

Establishing the plantation involves control of vermin, weed and grass control, ripping and mounding in preparation for planting, supplying and planting of sufficient Tasmanian blue gum seedlings, general management and supervision and preparation of reports.

After maintaining the plantation for the term of the Project (approximately 10 years), the Manager arranges for a once only harvest by clear felling of the Tasmanian blue gum timber on the Grower's behalf.

For Plantation Management Agreements executed on or before 30 June 1998, the fee for establishing the plantation is payable on 30 June 1998. For Plantation Management Agreements executed after 30 June 1998, the fee for establishing the plantation is payable upon execution of the Plantation Management Agreement.

The Annual Management fee is payable yearly in advance to the Manager. For 1998 Growers, the first payment is due on 30 June 1998 and then on 30 June yearly for the term of the Project. For 1999 Growers, the first payment is due on 30 June 1999 and then on 30 June yearly for the term of the project.

The fee for arranging the harvest is payable to the Manager from the gross proceeds of sale of the timber.

2.4 INSURANCE

A Grower may choose to insure the Leased Land against damage by fire. A premium will be payable to an independent insurance company for this insurance.

2.5 SALE OF TASMANIAN BLUE GUM TIMBER

A Grower owns the harvested Tasmanian blue gum timber. Unless all Growers on a Property unanimously elect not to conduct a joint harvest and marketing of timber, the Manager sells the timber on the Grower's behalf. The Harvest Proceeds from the sale of timber will be paid to Growers in proportion to their respective interest in the sale proceeds from that Property.

3 EXECUTIVE SUMMARY OF TAX IMPLICATIONS

The following is a summary only. For a more detailed explanation of the conclusions, reference should be made to the paragraphs following the summary.

3.1 PROJECT EXPENDITURES AND PROCEEDS

Provided the Project is conducted to its conclusion in the manner outlined in the documents provided to us (specifically that all prepayments are for periods of 13 months or less) and in accordance with normal commercial silvicultural practice, we consider that:

₪ A Grower will be carrying on a business of silviculture, commencing on execution of the Lease Agreement and the Plantation Management Agreement.

₪ If the necessary approvals for establishing a Plantation are not obtained by 30 June 1998 **and** the Grower elects to have the Initial Rent and the fee for establishing the Plantation refunded, no deduction is available to the Grower.

₪ Rent paid in relation to the Leased Land will constitute allowable deductions to the Grower, generally in the year of payment.

₪ Management fees paid for the services outlined in item 2 of the schedule to the Plantation Management Agreement will constitute allowable deductions, generally in the year of payment.

₪ The Harvesting Fee payable to the Manager will constitute an allowable deduction to the Grower in the year of payment.

₪ Premiums paid for insurance against damage to the Leased Land by fire will constitute allowable deductions, generally in the year of payment.

₪ Net proceeds arising from the sale of Tasmanian blue gum timber from the Leased Land will constitute assessable income of a Grower in the year of disposal.

3.2 FINANCING

Where a Grower borrows funds in order to incur expenditure on rent, the management fee or insurance premiums, any interest charges on the borrowings should constitute allowable deductions in the year of income in which the interest is incurred.

3.3 ASSIGNMENT OF GROWER'S INTEREST

An assignment of the Grower's interest under the Lease Agreement or the Plantation Management Agreement may result in a capital gain or loss to the Grower.

4 DEDUCTIBILITY OF EXPENSES

4.1 THE GENERAL DEDUCTION PROVISION: SECTION 8-1

The basic tests for deductibility of expenditure are contained in section 8-1 of the new Act. Expenditure:

- n incurred in gaining or producing assessable income (refer to 4.2); or
- n necessarily incurred in carrying on a business for that purpose (refer to 4.3).

is deductible, unless it is capital, private or domestic in nature (refer to 4.4).

A Section 8-1 deduction may also be denied on other grounds (refer to 4.5).

4.2 INCURRED IN GAINING OR PRODUCING ASSESSABLE INCOME

4.2.1 TEST OF DEDUCTIBILITY

The High Court reviewed the operation of the first limb of section 51(1) of the old Act in *Fletcher v FCT* 91 ATC 4950 and repeated the following test of deductibility from *Ronpibon Tin NL v FCT* (1949) 78 CLR 47:

“it is both sufficient and necessary that the occasion of the loss or outgoing should be found in whatever is productive of the assessable income or, if none be produced, would be expected to produce assessable income”

Project expenditure is clearly incurred by a Grower in order to undertake silvicultural activities and receive assessable income from the sale of timber. Therefore, we believe that the basic test of deductibility under the first limb of section 8-1 of the new Act is satisfied.

4.2.2 WHEN INCURRED

In *FCT v Brand* 95 ATC 4633, the Full Federal Court considered the operation of the first limb of section 51(1) of the old Act in the context of a prawn farming project. The court concluded that a deduction was allowable for a payment made on 4 June 1987 in return for the provision of certain services in relation to prawn farming activities which were to be completed within twelve months of the date of payment. It was reasoned that:

“...when the taxpayer paid the sum...there was an irrevocable commitment by the taxpayer and also by (the recipient of the payment) to income producing activity (prawn farming) which was bound to commence by 4 June 1988 at the latest and which they all expected would commence much earlier than that date”.

Further:

“...this contractual commitment to the project...provides sufficient connection between the expenditure and the operations, which it was expected would gain or produce the assessable income, to make the payment deductible under Section 51(1)”.

Under the Project, a Grower and the Manager are both irrevocably committed upon execution of the Lease Agreement and the Plantation Management Agreement. Rent and management fees payable under the Lease Agreement and the Plantation Management Agreement are incurred pursuant to this commitment to the Project. We consider that the rent and management fees have a sufficient nexus with assessable income and have not been incurred before commencement of the income producing activity.

4.3 INCURRED IN CARRYING ON A BUSINESS FOR THE PURPOSE OF GAINING OR PRODUCING ASSESSABLE INCOME

4.3.1 RULINGS

The Commissioner of Taxation (the Commissioner) has issued a number of Taxation Rulings and a Draft Taxation Ruling relevant to the topic of carrying on a business of primary production. The relevant rulings are Taxation Rulings IT 360, IT 2195, TR 97/11 and Draft Taxation Ruling TR 97/D17.

We consider that Draft Taxation Ruling TR 97/D17 is essentially a restatement of IT 360 and IT 2195 in relation to the issue of whether an investor carries on a business of primary production. Therefore, for ease and clarity, specific reference will only be made to TR 97/11 and TR 97/D17.

It should be noted that IT 360 and IT 2195 will be withdrawn when TR 97/D17 is issued in final. Draft Taxation rulings represent the Commissioner’s preliminary, though considered views and can be subject to change. The Commissioner is currently considering industry submissions in relation to TR 97/D17 before issuing a final Taxation Ruling. Whilst a Draft Taxation Ruling should not be relied on, we do not believe that there will be any changes to TR 97/D17 which will adversely effect Growers.

4.3.2 CARRYING ON A BUSINESS OF PRIMARY PRODUCTION: TR 97/11

The definition of “primary production business” in Section 995-1 of the new Act provides that:

“you carry on a primary production business if you carry on a business of...planting or tending trees in a plantation or forest that are intended to be felled”.

TR 97/11 outlines the following indicators to determine whether you carry on a business:

- n Whether the activity has a significant commercial purpose or character (this indicator comprises many aspects of the other indicators);
- n Whether the activity is preparatory or preliminary to the ultimate activity;
- n Whether there is an intention to make a profit;
- n Whether the activity is better described as a hobby or the pursuit of a recreational or sporting activity;
- n Whether there is repetition and regularity of the activity;
- n Whether the activity is of the same kind and carried on in a similar manner to that of the ordinary trade in that line of business;
- n Whether the activity is planned, organised and carried on in a businesslike manner such that it is directed at making a profit;
- n The size, scale and permanency of the activity.

The Project involves the establishment and maintenance of Tasmanian blue gum trees for harvesting and sale of timber with the object of deriving profit from these activities. The appointment of the Manager for the duration of the Project and the services outlined in item 2 of the schedule to the Plantation Management Agreement are indicative of the businesslike manner in which the Project is to be organised and the repetitive nature of the related activities. Each Grower has, at minimum, Leased Land of ten hectares and the Project as a whole represents a large scale silvicultural project.

The Integrated Tree Cropping group has considerable experience in long term agricultural projects. In our opinion, this strengthens our conclusion that participating in the Project is a business undertaking.

4.3.3 AFFORESTATION SCHEMES: TR 97/D17

TR 97/D17 deals specifically with the taxation consequences of investing in an afforestation scheme. The application of the principles contained in the draft ruling are outlined in 4.3.4 and 4.3.5.

4.3.4 INDICATORS THAT A GROWER CARRIES ON BUSINESS ACTIVITIES

In TR 97/D17, the Commissioner considers that the following are general indicators that a Grower is carrying on business activities:

- n the Grower has an interest in specific growing trees.
- n the Grower has the right to harvest and sell the timber.

n the activities are carried on by the Manager on the Grower's behalf.

n the Grower has "de jure" control over the Manager.

The Leased Land will be identified as separate Compartments in the schedule to the Lease Agreement, with each Grower having full title to the timber on the Leased Land (see Lease Agreement clauses 7.1(i) and 18.3). The Grower also has the option to have timber produced from the Leased Land delivered to a destination nominated by the Grower, or to have it sold on the Grower's behalf by the Manager.

It is anticipated that the Grower's timber will be harvested and sold collectively with the timber from other Growers' Compartments on the same Property. This method of sale will result in a proportionate share of income based on the Grower's Compartments within the Property. We consider that the pooling of timber is consistent with the notion that a Grower has an identifiable interest in specific Tasmanian blue gum trees.

Item 2 of the schedule to the Plantation Management Agreement provides that the Manager carries on the silvicultural activities on behalf of the Grower. However, Growers should keep copies of project documentation, any professional legal, financial or tax advice they have received in relation to the Project, and any other records concerning the Project.

We understand that Growers have the right to give directions to the Manager, the right to receive regular progress reports, and the right, collectively, to terminate the Manager's contract under certain circumstances.

Accordingly, it is our view that the Project satisfies all of the above indicators.

4.3.5 UNACCEPTABLE FEATURES

TR 97/D17 also sets out features which the Commissioner considers unacceptable:

n guaranteed returns.

n mechanisms designed to limit the payment of management fees to the extent of revenues produced by the Project.

n non-recourse or limited recourse finance.

n sale methods which ignore the Grower's actual interest in the timber sold.

n the promoters giving undertakings to reverse the transactions if tax deductions are not allowed by the Commissioner.

n inflated management fees.

n an intention by the Grower, Manager or Lessor to exit the scheme once the claimed tax deductions have been allowed and before the income commences to flow.

The financial returns from the Project depend on commercial factors, such as the demand for Tasmanian blue gum, climate, pest and disease, and other usual risks attaching to long-term agricultural projects. The fees are payable irrespective of the eventual proceeds derived from the Project. Therefore the Grower has no guaranteed return.

Growers investing in the Project will either fund their contributions personally or arrange finance themselves, as there is no financing provided under the Project.

In preparing this opinion, we have not become aware of any intention for the project transactions to be reversed in the event that deductions are not allowed by the Commissioner. We have been advised that neither the Manager nor the Lessor intends to exit the scheme once tax deductions have been claimed, or before income commences to flow to the Grower.

Based on our understanding, we do not believe that the Project displays any of the above unacceptable features.

4.3.6 CONCLUSION ON RULINGS

Based on our understanding of the Project and the above analysis, we believe that a Grower will be carrying on a silvicultural business on the Leased Land. Example 1 of TR 97/D17 outlines what the Commissioner considers to be an acceptable arrangement. It is our view that the Project is consistent with this example.

4.3.7 COMMENCEMENT OF BUSINESS

As noted at 4.2, a Grower is irrevocably committed to the Project upon execution of the Lease Agreement and the Plantation Management Agreement. At the time of execution, the Grower enters into a lease and appoints the Manager to provide silvicultural services. Suitable land has been obtained. The seedlings have been sourced and the Manager has the expertise to undertake the Project.

We are aware that there may be situations where all the necessary approvals for a Plantation on a Property have not been attained by 30 June 1998. The application form allows the Grower to elect one of the following:

1. The Grower continues with the chosen Compartment and, in the event of the approval being refused, agrees to lease similar compartments on another Property for which the necessary approvals have been obtained.
2. The Grower has the payments for Initial Rent and the fee for establishing the Plantation refunded.

Where, as expected, all the necessary approvals are subsequently obtained, the Grower should be entitled to a deduction for the lease rental and management fees based on the irrevocable commitment referred to above.

In the unlikely event that the necessary approvals are refused, Growers choosing option 1 have definitely committed themselves to the expenditure and the expenditure is incurred upon execution of the Lease Agreement and Plantation Management Agreement. On this basis, a Grower should be entitled to a deduction for these

expenditures under the first limb of section 8-1, consistent with the decision in *FCT v Lau* 84 ATC 4929.

Growers choosing option 2 will have all their application moneys refunded and therefore are not entitled to any deductions.

4.4 CAPITAL, PRIVATE OR DOMESTIC IN NATURE

4.4.1 CAPITAL

In *Sun Newspapers Ltd and Associated Newspapers Ltd v FCT* (1938) 61 CLR 337, the following factors were considered to determine whether expenditure was of a capital nature:

- n The character of the advantage sought.
- n The manner in which the advantage is to be used, relied upon or enjoyed.
- n The means adopted to obtain the advantage.

We consider that rent and management fees payable under the Lease Agreement and Plantation Management Agreement are not capital in nature (refer to 5.1 and 5.2).

4.4.2 PRIVATE OR DOMESTIC

We do not believe that any of the expenditure in relation to the Project is of a private or domestic nature.

4.5 OTHER GROUNDS FOR DENIAL OF DEDUCTIONS

4.5.1 THE TAXPAYER'S INTENTION: FLETCHER AND TR 95/33

As a result of the decision in *Fletcher v FCT* 91 ATC 4950, a deduction may be denied where expenditure is incurred without the taxpayer intending to derive any assessable income. *Fletcher* concerned the deductibility of a complex annuity investment where the contractual arrangements were intended and expected to be terminated before income was to be derived.

The Commissioner issued Taxation Ruling TR 95/33 in response to *Fletcher*, outlining circumstances in which deductions may be denied. The ruling states that deductions may be denied:

“where there is no obvious commercial connection between the loss or outgoing and the carrying on of the taxpayer’s business, or where the expenditure did not achieve its intended result”.

In particular, the ruling indicates the following approach by the Commissioner:

- n Where an outgoing produces a larger amount of assessable income, it is not necessary to refer to a taxpayer's subjective motives to determine the deductibility of the outgoing.
- n Where an outgoing produces a lesser amount of assessable income, it may be necessary to examine all the circumstances, including the taxpayer's subjective purpose, motive or intention in making the outgoing.
- n If, after a common sense or practical weighing of the circumstances, it is concluded that the disproportion between the outgoing and the assessable income is to be explained by the independent pursuit of some other objective other than the production of assessable income, then apportionment of the outgoing will be necessary.

It is our view, based on our understanding of the Project, that the Project is to be conducted on a commercial basis. In forming our opinion, we have not discovered anything which indicates that the Project is intended to be terminated prior to the derivation of income. The projected return outlined in section 5 of the prospectus indicates that, over the life of the Project, the expected assessable income is greater than the expected outgoings. In those circumstances, we consider that there is a strong prima-facie argument that *Fletcher* will not apply to deny deductions for project expenditure.

However, no guarantees can be given, because intent is not something which can be imputed from the Prospectus, the Lease Agreement or the Plantation Management Agreement. It is something that can only be determined with reference to each Grower's personal circumstances.

4.5.2 INTEREST CHARGES ON THE ACQUISITION OF A CAPITAL ASSET: STEELE AND TR 97/D18

Since the decision in *Steele v FCT* 97 ATC 4239 the deductibility of interest charges on borrowed funds has been subject to considerable uncertainty. The Commissioner has issued a Draft Taxation Ruling TR 97/D18 in response to the decision. The decision is currently subject to a High Court appeal.

In *Steele*, the taxpayer purchased a property, intending to construct a motel. The taxpayer assigned a half share of the property to a developer and various building approvals were obtained. Ultimately, the property was sold undeveloped. The taxpayer claimed deductions for holding costs (primarily interest) over a six year period.

The interest deductions were disallowed on the basis that the dominant purpose of the borrowing, being the acquisition or creation of a capital asset later to be utilised in income-producing activities, was of a capital nature.

It is our view that the major issue arising from *Steele* hinges on whether or not the business of silviculture has commenced. Given our earlier conclusion that the business commences upon execution of the Lease Agreement and the Plantation

Management Agreement, we do not believe that the decision in *Steele* adversely affects the deductibility of interest charges in relation to funds borrowed by Growers to pay for rent, management fees and insurance in relation to the Project.

However, Growers are referred to section 4.5.1 of this opinion regarding their intention to participate in the Project for its full term. It is recommended that Growers seek specific independent taxation advice in relation to the deductibility of interest charges.

4.5.3 PREPAID EXPENDITURE: SUBDIVISION H OF DIVISION 3 OF PART III OF THE OLD ACT

Where expenditure is incurred for services which are not wholly provided within 13 months of the expenditure being incurred, section 82KZM of the old Act applies. If section 82KZM applies, deductions under section 8-1 of the new Act are pro rated over the period during which the services will be provided or over a ten year period, whichever is less.

Project expenditures other than for Initial Rent and the fee for establishing the Plantation are prepaid on an annual basis. We have reviewed the cost of participation by the Growers in the Project as outlined in Sections 3 and 4 of the Prospectus and have concluded that no project expenditure will be incurred more than 13 months before all the services related to the expenditure are to be performed.

4.5.4 PREPAID EXPENDITURE: COLES MYER FINANCE LTD, TR 94/25 AND TR 94/26

We consider that the principle from *Coles Myer Finance Ltd v FCT* 93 ATC 4214 that an outgoing should be allocated over the period to which it is properly referable does not apply to expenditure incurred in relation to the Project. TR 94/25 confirms that this principle does not apply to prepayments.

4.5.5 RECOUPMENT OF EXPENDITURE: SECTION 82KL

Section 82KL denies a deduction, in the context of a tax avoidance agreement, for expenditure which is effectively recouped by a taxpayer obtaining an additional benefit as a result of the expenditure. A deduction is denied where the value of the additional benefit, when added to the tax savings resulting from the deduction, is equal to or greater than the amount of the expenditure.

We understand that all amounts paid by the Grower to the Manager are used to establish, operate, manage and maintain the Project. No relevant additional benefit can be obtained by the Grower or any associate of the Grower. Therefore, we believe that section 82KL will not apply to project expenditures.

5 DEDUCTIBILITY OF ACTUAL EXPENDITURE

5.1 RENT

Rental in relation to the Leased Land is a recurrent expense not of a capital nature. The expense is incurred in producing assessable income and represents a necessary expense of the Grower's silviculture business. Therefore, rent payable under the Lease Agreement should be deductible under section 8-1 of the new Act (refer to 4.1).

5.2 MANAGEMENT FEE

On the basis of the details contained in the Plantation Management Agreement and particularly item 2 of the schedule to that agreement, we believe that management fees represent a recurring expense not of a capital nature. The expense is incurred in producing assessable income and represents a necessary expense of the Grower's silviculture business. Therefore, management fees payable under the Plantation Management Agreement should be deductible under section 8-1 of the new Act (refer to 4.1).

5.2.1 INITIAL AND SUBSEQUENT MANAGEMENT FEES

The nature of the business requires that the fee for establishing the Plantation is higher than the Annual Management fee. We have been advised by the Manager that the allocation of costs between the fee for establishing the Plantation and the Annual Management fee is based on commercial projections of actual costs incurred.

5.2.2 SEEDLING COSTS

We have been advised by the Manager that it is likely to be more commercially viable to replant the Compartments rather than attempt a second harvest from the coppice. Clause 7(i) of the Lease Agreement provides that the Lessor (not the Grower) will be legally entitled to the coppice at the conclusion of the Lease Agreement. On that basis, there will not be more than one harvest for the benefit of the Grower. TR 97/D17 and TR 95/6 confirm our view that the portion of the management fee attributable to seedling costs is not of a capital nature.

5.2.3 SITE PREPARATION COSTS

The Manager has advised that, as the Properties were previously used for general agricultural activities, the Grower leases a cleared site. As a consequence, the only site preparation costs paid by the Grower as part of the management fee are non-capital site preparation costs such as deep ripping, mound ploughing, generally tidying, and pest, vermin and weed control. TR 95/6 confirms our view that these preparation costs are part of seedling planting operations and are not preliminary expenses.

5.3 INSURANCE PREMIUMS

Ordinarily, premiums paid for insurance against damage by fire represent a recurring expense not of a capital nature. The expense is incurred in producing assessable income and represents a necessary expense of the Grower's silviculture business. Therefore, insurance premiums are deductible under section 8-1 of the new Act (refer to 4.1).

5.4 INTEREST CHARGES

Interest charges on funds borrowed to pay for rent, management fees and insurance represent a recurring expense not of a capital nature. The expense is incurred in producing assessable income and represents a necessary expense of the Grower's silviculture business. Therefore, interest will generally be deductible under section 8-1 of the new Act (refer to 4.1 and 4.5.2), provided the borrowing is on a commercial basis.

6 ASSESSABILITY OF INCOME

6.1 HARVEST OF TIMBER: TRADING STOCK

Once harvested, a Grower's timber will in most circumstances be trading stock of the Grower. As a consequence, if timber is on hand at the end of an income year, the Grower will need to account for that trading stock in accordance with the trading stock provisions contained in Part 2-25 of the new Act.

6.2 SALE OF TIMBER: ORDINARY INCOME

The sale of a Grower's timber will result in ordinary business income and will be included in a Grower's assessable income in accordance with section 6-5 of the new Act.

7 CAPITAL GAINS TAX (CGT)

7.1 OVERVIEW

Part IIIA of the old Act operates to subject to tax any capital gain arising from the disposal by a taxpayer of an asset acquired by the taxpayer after 19 September 1985.

7.2 ASSIGNMENT OF INTEREST

Acquisition by the Grower of the lease interest in the land and associated contractual rights, together with the acquisition of other property by the Grower under the various

agreements entered into by the Grower, will constitute the acquisition of assets to which Part IIIA may apply.

Consequently, Growers intending to assign or otherwise dispose of any interest, right or asset owned as a result of the agreements, should seek independent professional advice regarding possible CGT or other taxation consequences of that assignment.

8 PART IVA OF THE OLD ACT: GENERAL ANTI-AVOIDANCE PROVISIONS

Part IVA of the old Act operates to disallow deductions otherwise allowable under section 8-1 of the new Act where a scheme is entered into or carried out with the sole or dominant purpose of obtaining a tax benefit.

The overall commercial objectives and substance of the project as set out in the prospectus and the project documentation provides objective evidence as to the commercial nature of the Project. On the basis that a Grower enters into the Project for the dominant commercial purpose of deriving a profit and that the silvicultural activities are carried out to their conclusion in accordance with the Lease and Management Agreement, we do not believe that Part IVA would apply to the Project.

9 OTHER MATTERS

Persons proposing to participate in the project as Growers should note that:

- The involvement of KPMG in the preparation of this prospectus is limited to the preparation of this opinion for which normal professional fees will be received.
- KPMG Corporate Finance will be paid its usual professional fee based on time involvement, for the preparation of the independent accountant's report.
- Neither the undersigned nor any of the partners of KPMG have any interest in the promotion of the ITC Eucalypt Project.
- The giving of its consent to the inclusion of this opinion in the prospectus should not be taken as an endorsement of the project or a recommendation by KPMG of participation in the project by any person.
- KPMG gives no assurance or guarantee in respect of either the successful operation or performance of the project.

Yours faithfully
KPMG

Tony Taylor
Partner - Taxation

KPMG

The Directors
ITC Project Management Limited
Unit 7
24 Leura Street
NEDLANDS WA 6009

24 April 1998

Dear Sirs

**ITC Eucalypt Project 1998
Independent Accountant's Report**

1 Introduction

- 1.1 This report has been prepared for inclusion in a Prospectus to be issued by ITC Project Management Limited ("ITCPM" or "the Manager") dated on or about 24 April 1998 in relation to an offer to the public to participate as a Grower in the ITC Eucalypt Project 1998 ("the Project").
- 1.2 The amount required to be contributed by Growers, upon application, will be dependent upon whether properties leased by individual Growers are established to plantation in 1998 ("1998 Growers") or 1999 ("1999 Growers"). This distinction is explained further by way of example in Section 4 of the Prospectus.
- 1.3 Each 1998 Grower is required to contribute, upon application;
- an initial amount of \$4,700 plus \$1,680 per hectare leased by the Grower being the cost of establishment of the 1998 plantation;
 - an initial rent amount of 150% of the Base Annual Rent as defined in Section 14 of the Prospectus which is variable upon location and productivity of the land; and
 - the first annual management fee of \$300 plus \$70 for each hectare leased by the Grower.
- 1.4 Each 1999 Grower is required to contribute, upon application;
- an initial amount of \$4,700 plus \$1,680 per hectare being the cost of establishment of the 1999 plantation; and
 - an initial rent amount of 50% of the Base Annual Rent which is variable upon location and productivity of the land.
- 1.5 The area that a Grower can lease will depend upon the area of land available for lease at the time a Grower's application is accepted by the Manager. No individual area ("Compartment") will be less than 10 hectares.
- 1.6 There is no minimum subscription which must be raised by this Prospectus.

1.7 The financial information contained in this report has been prepared in accordance with historical cost accounting principles applicable to a going concern and without assuming the support of any other corporation or unrelated entity. Terms and expressions defined in the Prospectus have the same meaning in this report.

2 The Offer

2.1 By subscribing to the Offer investors apply to ITCPM and grant Power of Attorney to ITCPM, to enter into on their behalf:

- a) a lease, for the duration of the Project, over an identifiable Compartment from Integrated Tree Cropping Pty Ltd (“ITC”)(“Growers Lease”); and
- b) a contract to establish and carry on the future management and maintenance of each Grower’s Compartment(s) for the duration of the Project (“Project Management Agreement”).

2.2 ITC has entered into or will enter into a Head Lease Agreement with various land owners over a parcel of land located in the Green Triangle region of western Victoria and south eastern South Australia within 150 kilometres of the port of Portland in Victoria or the pulp mill located at Millicent in South Australia. ITC will then sub lease specific Compartment(s) to applicants as detailed in paragraph 2.1(a) above. At the end of the Project the Growers will have no further interest in the land.

2.3 The estimated expenditure in relation to the first thirteen months of the project is set out in detail in Section 4 of the Prospectus.

2.4 Growers will be responsible for paying annual management and leasing costs (which will vary dependent upon the area leased by each grower) for the duration of the Project, as well a Harvest Management fee equal to 5% of proceeds realised from the harvest of trees on each Grower’s individual Compartment(s). The details of the costs to participate in the Project are detailed in Section 4 of the Prospectus.

3 Scope of examination

3.1 You have requested KPMG Corporate Finance (WA) Pty Ltd (“KPMG Corporate Finance”) to prepare an Independent Accountant’s Report on the assets and liabilities and profits and losses of the Manager and the Project as at 31 March 1998.

3.2 KPMG Corporate Finance is wholly owned by the partners of KPMG and holds an Investment Adviser’s Licence issued under Section 781 of the Corporations Law.

3.3 In preparing this Independent Accountant’s Report, we have made such enquiries and undertaken such procedures as we considered necessary for the purposes of this report. Our examination was carried out in accordance with AUS 902 “Review of Financial Reports” and Australian Auditing Standards applicable to review engagements and was of a lesser scope than a full statutory audit.

3.4 Our review was limited primarily to inquiries of management of ITCPM and ITC and analytical procedures applied to the financial data. These procedures do not provide all of the evidence that would be required in an audit, thus the level of assurance

provided is less than that provided by an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

- 3.5 Our limited scope review was undertaken with a view to ensuring that nothing has come to our attention to indicate that the financial information is not fairly presented and has been prepared in accordance with historical cost accounting principles applicable to a going concern. In particular, our examination included a review of:
- n the ITC Project Deed entered into between the Manager and the Trustee dated 18 March 1998;
 - n the Contracting Agreement entered into between ITCPM and ITC;
 - n Pro forma Lease and Management Agreements;
 - Pro forma Head Lease Agreement;
 - Financial statements of ITCPM as at 31 March 1998; and
 - n the statutory records of the ITCPM and ITC.
- 3.6 In addition we have had discussions with management and directors of ITCPM and ITC.

4 Profile of the Manager

Background

- 4.1 The Manager was incorporated on 17 February 1998, and has not traded since that date. During the period from incorporation to 31 March 1998, ITC has incurred various costs and expenses associated with the formation of the company and potential issue of prescribed interests in the Project.
- 4.2 The Manager has agreed to reimburse ITC in respect of these costs from funds raised pursuant to the Prospectus. The costs incurred by ITC for which they will be entitled to reimbursement totalled \$17,607 as at 31 March 1998.
- 4.3 The principal activity of the Manager will be the management and supervision of the Project.
- 4.4 The authorised capital of the Manager comprises \$10 million divided into 10 million ordinary fully paid shares of \$1 each. At the date of this report, the issued capital of the Manager totalled \$5 comprising 5 ordinary fully paid shares issued at \$1.
- 4.5 Sharyn Long, Chartered Accountant, was appointed auditor of the Manager effective from the date of incorporation.
- 4.6 ITC Securities Pty Ltd has been granted subject to the satisfaction of certain conditions, including the lodgement of a \$20,000 performance bond with the Australian Securities Commission (“ASC”), a Dealer’s Licence by the ASC and has agreed to perform all activities in relation to the Project that would constitute dealing in securities imposed on the Manager by the Deed.

Assets and liabilities of the Manager

4.7 As at 31 March 1998, the assets and liabilities of the Manager comprised:

	Unaudited 31 March 1998
	\$
Current assets	
Cash	5
Total assets	5
Total Liabilities	<u>-</u>
Net assets	5
Shareholders' equity	
Issued share capital	<u>5</u>
Total shareholders' equity	5

4.8 As discussed at paragraph 4.2 above, the Manager has a contingent liability of \$17,607 in respect of costs incurred on behalf of the Manager, which will become due to ITC in the event the issue of prescribed interests in the Project is successful.

4.9 No dividends have been declared or paid by the Manager from the date of incorporation to the date of this report.

4.10 The current directors of the ITCPM are set out in Section 6 of this Prospectus and their relevant interests in the company are set out in Section 12 of this Prospectus.

5 Profile of ITC

Background

5.1 ITC was incorporated on 9 June 1995. The principal activity of ITC is the development and management of Tasmanian blue gum plantations in Australia.

5.2 ITC holds a 100% interest in ITCPM.

5.3 ITC will enter into Head Lease Agreements with the land owners and sub lease agreements with the Growers.

5.4 ITC has entered into a Contracting Agreement with the Manager to establish and manage the Plantations comprising the Project on behalf of the Growers. ITC will also be engaged by the Manager to assess the suitability of sites for the establishment of the Tasmanian blue gum plantation.

6 Profile of the Project

Background

- 6.1 The Project was formed pursuant to a trust deed dated 18 March 1998. No financial statements have been prepared for the Project from the date of its formation to the date of this report.
- 6.2 Sharyn Long, Chartered Accountant, was appointed auditor of the Project effective from the date of formation.
- 6.3 We have made inquiries of the directors and management of both the Manager and ITC. Based on these inquiries, we understand that as at the date of this report, the Project has no assets and has not incurred any liabilities. The Project has not earned any profits or incurred losses from the date of its formation to the date of this report.

7 Statement

- 7.1 As a result of our review, nothing has come to our attention that causes us to believe that the historical financial information included in this report is not properly drawn up so as to present fairly:
- n the results, if any, of the Manager and the Project for the period from incorporation to 31 March 1998; and
 - n the financial position of the Manager as at 31 March 1998.

8 Subsequent events

- 8.1 To the best of our knowledge and belief, after making due inquiry, there have been no material items, transactions or events in relation to the Manager or the Project subsequent to 31 March 1998 (“the relevant date”) which:
- n relate to conditions existing at the relevant date, which require comment or necessitate adjustment to the figures included in this report; or
 - n although they did not relate to conditions existing at the relevant date, would cause reliance on the figures included in this report to be misleading.

9 Declaration

- 9.1 KPMG Corporate Finance have been requested to report on the assets and liabilities and profit and losses of the Manager and the Project. We have not been requested to consider the prospects of the Growers’ Leases and the Project Management Agreements which enable investors to operate their own silviculture business and have not done so.
- 9.2 The prospects for the financial success of the Project will depend upon, inter alia, operational, managerial, financial, taxation, agricultural, legislative, market forces and

other variables which are outside the scope of this report. We have not been requested to consider or evaluate these matters and have not done so.

- 9.3 KPMG Corporate Finance will be paid its usual professional fee based on time involvement, for the preparation of this report at our normal professional rates.
- 9.4 KPMG will be paid its usual professional fee based on time involvement for preparing the Income Tax Opinion in relation to the Project as set out in section 9 of this Prospectus.
- 9.5 Apart from the aforementioned fees, neither KPMG, KPMG Corporate Finance, nor any of their associates will receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 9.6 Neither KPMG Corporate Finance or KPMG, nor any of their partners, directors or employees have any interest in either the Manager or ITC, or in the promotion of the Project and none of them guarantee the performance of the Project which has, by its nature, many risks.
- 9.7 A condition of KPMG Corporate Finance's agreement to prepare this report was that the Manager and ITC indemnify KPMG Corporate Finance, KPMG, our affiliated companies and their respective officers and employees against any and all losses, claims, damages and liabilities arising out of or related to reliance on the information presented in this report.
- 9.8 Unless specifically referred to in this report, or elsewhere in the prospectus, we were not involved in the preparation of any other part of the prospectus and did not cause the issue of any other part of the prospectus. Accordingly, KPMG Corporate Finance makes no representations or warranties as to the completeness or accuracy of the information contained in any other part of the prospectus.
- 9.9 KPMG Corporate Finance has consented to the inclusion of this report in the Prospectus in the form and context in which it appears. The inclusion of this report should not be taken as an endorsement of the Project or a recommendation by KPMG Corporate Finance of any participation in the Project by an intending Grower.

Yours faithfully

Steve Scudamore
Director

11 DETAILS OF PROJECT AGREEMENTS

The following pages contain summaries of the principal terms of the material agreements which relate to the establishment of the ITC Eucalypt Project:

1. Project Deed
2. Lease
3. Plantation Management Agreement
4. Head Lease
5. Dealing Agreement

The whole of the provisions of these documents are not repeated in this Prospectus and any intending applicant who wishes to gain a full knowledge of the contents of any document should inspect the same.

Copies of these agreements are available for inspection at the registered office of the Manager. Prospective applicants should seek independent professional advice on these agreements if necessary.

11.1 PROJECT DEED

The Project Deed constituting the ITC Eucalypt Project Trust is dated 18 March 1998 and the parties to it are the Manager and the Trustee.

The Project Deed contains provisions relating to the:-

- duties and obligations of the Manager (other than those that are imposed under the Plantation Management Agreement);
- duties and obligations of the Trustee and in particular, the Trustee's obligation to watch over and protect the interests of Growers;
- raising of funds from applicants;
- establishment of an Application Fund, and a Proceeds Fund;
- performance of administrative functions in relation to the Project.

The Project Deed is deemed to include certain provisions required to be in the Deed by the Corporations Law and Corporations Regulations.

The Australian Securities Commission has granted exemption from, or modified the application of sections 1069(1)(c), (d), 1069(1)(e)(ii), 1069(1)(f)(ii), 216F and 1070(2) of the Corporations Law and Corporations Regulation 7.12.15(6)(a).

Some information in this Prospectus is based on provisions of the Project Deed. Information provided is only that which is considered to be relevant to an investment decision or that specifically required to be included by the Corporations Law. The information presented does not therefore constitute a detailed summary of the entire Project Deed. Any Applicant wishing to gain a full knowledge of the contents of the Project Deed or the Corporations Law and Corporations Regulations, should inspect the same. The Project Deed is available for inspection at the office of the Manager during normal business hours. The Corporations Law and Corporations Regulations are available from appropriate publishers.

11.1.1 Duties and obligations of the Trustee

The duties and obligations imposed on the Trustee include the following:

- (a) to exercise all due diligence and vigilance in carrying out its functions and duties and in protecting the rights and interests of the Growers.
- (b) to make arrangements for the custody of the Application Fund and the proceeds fund and hold each as Trustee.
- (c) when the Trustee is satisfied that the following events have occurred, namely:

- 1) each Plantation Management Agreement and Lease are in proper form and have been completed and executed by all parties;
- 2) the Lessor has the capacity to grant the leases to be granted under the Leases;
- 3) all necessary consents to the grant of the Lease and entry into the Plantation Management Agreement have been obtained;
- 4) the property the subject of the Lease is not subject to any encumbrance or restriction which is detrimental to the interests of Applicants;
- 5) any other matter required to be attended to has been attended to;
- 6) there are no material breaches of the Project Deed detrimental to the interests of Applicants,

to release the application moneys to the Manager in payment of the fees then payable under the Plantation Management Agreements and Leases in exchange for executed Plantation Management Agreements and Leases.

- (d) to keep or cause to be kept proper books of account in relation to the Project and the prescribed interests of the Applicants or Growers and will cause the accounts of the Project to be audited by the auditor yearly.
- (e) to send by post to each Applicant or Grower of the relevant Project audited yearly Accounts within ninety (90) days of 30 June in each year.
- (f) not to accept a payment or other benefit in relation to retirement from office that has not been approved by the votes of holders of 50% or more of the value of the Grower's Interests.
- (g) to perform its functions and exercise its powers under the Project Deed in the best interests of the Growers.
- (h) to send the Growers expert's reports relating to the Manager's conduct of the Project 6 and 13 months after commencement of expenditure in relation to the Project, and at least once every year thereafter.
- (i) to retain money received from Growers until each Compartment is vested in the relevant Grower or the Trustee or is able to be vested on a timely basis in the Trustee such that each Grower's Interest cannot be adversely affected by a mortgagee or similar secured creditor.

11.1.2 Appointment, retirement, removal and replacement of the Trustee

The Project Deed contains provisions relating to the appointment, retirement, removal and replacement of the Trustee.

The Trustee covenants that it will retire if and when requested so to do by the Manager in the circumstances set out in the Project Deed which are those events required by the Corporations Regulations. These events include if the Applicants and Growers of the Project holding 50% or more of the value of the Grower's Interests resolve at a duly convened joint meeting of those Applicants and Growers that the Trustee should be removed.

On the compulsory retirement of the Trustee:-

- (a) the Manager is entitled to appoint in writing some other person (approved under section 1067 of the Corporations Law) to be Trustee; and
- (b) in the meantime the Manager may act as trustee itself.

On the retirement of the Trustee, the Trustee must vest the assets of the Project in the new trustee and the new Trustee will undertake to the Manager and the Applicants and Growers jointly and severally to perform all of the obligations of the retiring trustee in relation to the Project.

The Trustee may retire upon giving three (3) months' (or such shorter period as the Manager accepts) notice to the Manager of its desire so to do.

11.1.3 Duties and obligations of the Manager

The role of the Manager under the Project Deed is to manage the business and affairs of the Project and to manage all investments forming part of the Project and to carry out other functions under the Project Deed diligently and in the best interests of the Growers.

The Manager must ensure that all services reasonably required by Growers under a Plantation Management Agreement, other than those required to be performed by the Trustee are performed in a proper and efficient manner, and all goods and services required to be provided or performed under a Lease and a Plantation Management Agreement and other material agreements are provided or performed in accordance with the relevant agreement and the Project Deed.

The Manager covenants that it will, amongst other things:

- (a) strive to carry on and conduct its business in a proper and efficient manner and ensure that the Project is carried on and conducted in a proper and efficient manner;
- (b) exercise its powers and perform its functions under the Project Deed diligently;
- (c) within 21 days after an application by not fewer than 50 or one tenth in number of the Applicants and Growers, convene a meeting for the purpose of considering the accounts and balance sheet and for the purpose of giving directions to the Manager or Trustee;
- (d) not accept a payment or other benefit in relation to retirement from office that has not been approved by the votes of holders of 50% or more of the value of the Grower's Interests entered into.
- (e) ensure that each Compartment is vested in the relevant Grower or Trustee such that each Grower's Interest cannot be adversely affected by a mortgagee or similar secured creditor.

Subject to the Manager's obligation to perform its functions diligently and in the best interests of Applicants and Growers, the Manager is entitled to act as manager for other trusts and manage other investments.

11.1.4 Appointment, retirement, removal and replacement of the Manager

The Project Deed contains provisions relating to the retirement, removal and replacement of the Manager.

The Manager covenants that it will retire if and when requested so to do by the Trustee in the circumstances set out in the Project Deed which are those events required by the Corporations Regulations. These events include:

- (a) if the Applicants and Growers of the Project holding 50% or more of the value of the Grower's Interests at a duly convened meeting resolve that the Manager should be removed;
- (b) if:
 - 1) the Manager has contravened its obligations to the Growers or Applicants concerned that, in the reasonable opinion of the Trustee, adversely affects those Growers or Applicants, as the case may be; and
 - 2) within such period as is specified by the Trustee in a written notice to the Manager, the contravention has not been remedied.

On the compulsory retirement of the Manager:

- (a) the Trustee is entitled to appoint in writing some other public company for the purposes of the Corporations Law to be the Manager;
- (b) until the appointment is complete the Trustee may act as Manager with all the powers and duties conferred upon and to be observed by the Manager under the Project Deed provided that if the Trustee is to make an appointment under this provision it must do so within six (6) months of the retirement of the Manager.

On the retirement of the Manager the new manager will undertake to the Trustee and the Applicants or Growers jointly and severally to perform all obligations of the retiring manager in relation to the Project.

The Manager may retire upon giving to the Trustee three (3) months' notice (or such shorter time as the Trustee shall accept).

11.1.5 Auditor

The Trustee must keep or cause to be kept proper books of account in relation to each Project and the Grower's Interests of the Applicants or Growers (as the case requires) of each Project and will cause the accounts of each Project to be audited by the Auditor at the end of each Financial Year.

The auditor of the Project is appointed by and may be removed by the Trustee and must be a registered auditor. The auditor may be the auditor of the Manager or of the Trustee but may not be a Director, officer or servant (or a partner of an officer or servant) of the Manager or Trustee.

The Auditor may retire upon giving one (1) month's notice and may be removed by an ordinary resolution passed at a meeting of Growers or Applicants.

11.1.6 Funds to be established

Under the Project Deed, an applications fund and a proceeds fund will be established in relation to the Project.

Applications Fund

All moneys payable at the time of application in order to enter into a Plantation Management Agreement and a Lease must be paid by applicants directly to the Trustee who shall hold the moneys in the application fund.

The Trustee must release the moneys to the Manager in payment of the fees payable in respect of the first 13 months under the Plantation Management Agreement and the Lease when the minimum subscription is reached (if any) and the Trustee is reasonably satisfied that:

- the Plantation Management Agreements and Leases are in the form required by the Project Deed and have been duly completed and executed by all parties;
- the Lessor has the capacity to grant the Leases;
- all necessary consents to the grant of the Leases and entry into the Plantation Management Agreements have been obtained;
- the property the subject of the Leases are not subject to any encumbrances or restrictions which detrimentally affects the interests of the Applicant and which are not disclosed in the relevant Prospectus;
- any other matter required to be attended to, which is necessary for the creation of the Leases and the effective vesting in the Growers of the Plantation Management Agreements and Leases whether by reason of the Project Deed or otherwise has been attended to; and
- there are no outstanding material breaches of any of the provisions of the Project Deed which are detrimental to the interests of the Applicants whose Application Moneys are to be released.

Notwithstanding the third bullet point above, the Trustee has indicated that with the consent of the relevant Grower, it will release the moneys to the Manager if the only outstanding consents are local government and planning consents which are conditions subsequent to the Leases.

If the moneys are not released within 12 months the Trustee must refund those moneys to the applicant and the Plantation Management Agreement and Lease will be extinguished.

The application fund includes all cash and investments and other property or relevant assets forming part of the Project and held by the Trustee, any further application moneys paid by the Manager to the Trustee, the investments for the time being representing these sums and the proceeds of the sale, redemption, repayment or realisation of any of the investments.

An Applicant shall have an interest in the application fund equal to the proportion that the amount of the applicant's application price bears to the total of the application fund but shall not have any interest in any particular part of the application fund or in any investment.

The Trustee must pay the income in respect of the capital of the application fund to the Manager as agreed between the Manager and the Trustee.

Proceeds Fund

To form a proceeds fund in relation to a Property the Manager must lodge with the Trustee the first moneys received by the Manager that are to be placed in the proceeds fund. The proceeds fund comprises any moneys payable to the Trustee pursuant to a Plantation Management Agreement or a sale agreement negotiated on the Grower's behalf by the Manager in accordance with its obligations under a Plantation Management Agreement representing the gross proceeds of sale and any further moneys which the Manager may pay to the Trustee pursuant to a Plantation Management Agreement or a Lease, the investment representing these sums, and the proceeds of the sale, redemption, repayment or realisation of any of these investments.

A Grower will have an interest in the proceeds fund in proportion to the area leased by the Grower but will not have any interest in any particular part of that proceeds fund.

11.1.7 Authorised investment of funds

On occasions there may be funds in the application fund or proceeds fund awaiting release to the Manager and in the proceeds fund awaiting distribution to Growers. The Project Deed allows for these funds to be invested in authorised investments at the discretion of the Manager but only as specified in its investment policy. The Manager must inform the Trustee and the Growers about any proposal to vary the investment policy so that Growers have an opportunity to dispose of their Plantation Management Agreements and Leases. The range of investments authorised by the Project Deed include the following:

- (a) Bills of exchange drawn, endorsed or accepted by an approved bank, government agency or authorised short term money market dealer;
- (b) Debentures, bonds, debenture stock or certificates of mortgage debenture stock of a corporation, bank building society or financial institution;
- (c) Deposits or loans at interest with or without security;
- (d) Government and semi-Government securities issued by any government body or authority, or of any other public authority or instrumentality or agency.
- (e) Negotiable certificates of deposit issued by an approved bank
- (f) Deposits with an authorised short term money market dealer.

The application fund and proceeds fund may only be invested in the forms of investment authorised by the Project Deed summarised above.

11.1.8 Duration of the Project

Perpetuity Period of the Trust

The trust commenced on 18 March 1998 and continues in operation until the expiry of the period of eighty (80) years from that date. The ITC Eucalypt Project 1998 commences on the date on which the Trustee receives any cash in relation to that Project under clause 3 of the Project Deed. For the purposes of the Property Law Act 1969, the period of eighty (80) years is the perpetuity period of the Trust.

Prior Termination

- (a) If the Manager goes into liquidation or, in the opinion of the Trustee, ceases to carry on business or has, to the prejudice of the Applicants or Growers, failed to carry out its duties under the Project Deed the Trustee shall summon a joint meeting of Applicants and Growers in accordance with section 1074 of the Corporations Law and if the Court referred to therein confirms the resolution of Applicants and Growers pursuant to such section the Project shall be deemed to be terminated.
- (b) If a receiver is appointed of the undertaking of the Manager, the Trustee may, if it considers it to be in the interests of the Applicants or Growers so to do, terminate the Project.
- (c) If:
 - 1) the duties and obligations on the part of the Trustee, the Manager and the Growers under the Plantation Management Agreements and Leases have been completed, the Manager shall advise the Trustee by notice in writing of the same; or
 - 2) any legislation is enacted, or any event occurs, which adversely affects the rights of Growers under the Plantation Management Agreements and Leases or in the opinion of

- the Trustee and the Manager has the effect of materially diminishing the amount of income derived from the Project and available for distribution to Growers; or
- 3) the Properties or a majority of the areas covered by the Properties that relate to each Project are destroyed so as to render replacement or continuance impractical or uneconomical;

then the Manager and the Trustee may agree that the Trust or Project (as applicable) shall terminate.

Termination by Special Resolution

If by special resolution passed at a joint meeting the Applicants or Growers resolve that the Trust or Project shall be terminated, the Trustee shall terminate it accordingly.

Termination if no Trustee or Manager for more than 90 days

If the office of the Trustee or Manager of the Trust or Project becomes vacant and a new Trustee is not appointed within ninety (90) days of the vacancy occurring the Trust or Project (as applicable) shall terminate.

Notice of termination

Notice of any such termination shall commence by the Trustee serving on the relevant Applicants or Growers a notice stating the Trust and Plantation Management Agreements and Leases are to be terminated and the reason therefor.

Continuation

The Trust and the Project may be continued in operation or existence if it appears to be in the interests of the relevant Applicants or Growers, during such period or periods as may be agreed between the Manager and the Trustee.

Procedures on Termination

On termination of the Trust or Project, the Trustee shall as soon as practicable realise the Investments and property constituting the Project and divide the balance of the Project and the proceeds of such realisation less all proper costs and disbursements commissions brokerage fees and other outgoings and all proper provisions for liabilities among the Applicants or Growers (as the case requires) of the Project according to their proportional interests. The Trustee can retain part of the Investments to meet outgoings and liabilities, and any balance remaining will be distributed once it is established that it is no longer required.

11.1.9 Remuneration of Trustee and Manager

Manager

The Manager is not to receive any fee by way of remuneration for its services other than as provided in the Plantation Management Agreements. Further information regarding the remuneration of the Manager is contained in the summary of that document.

Trustee

The Trustee was paid an acceptance fee of \$7,500 on the execution of the Project Deed and reimbursement of legal and other external costs incurred in connection with the Project Deed, any Prospectus and ancillary matters. The Trustee is entitled to a fee of .25% of all Application Moneys in relation to a Project.

The Trustee is entitled to be paid as remuneration for its services as Trustee of the Project an annual fee of \$4,000, and an additional maximum hourly fee of \$150 for administrative services provided by employees of the Trustee relating to meetings of Growers, litigation, arbitration takeover schemes, checking of legal documents relating to the Trust, reconstruction, and winding up of the Trust. The annual and hourly fees are to be increased each 30 June after 30 June 1998 by any increase in the consumer price index over the previous year ended on 31 March before the review date.

11.1.10 Expenses

The Manager is responsible for payment or re-imbursing the Trustee for certain expenses incurred in relation to the Project (other than those payable by a Grower or which are the responsibility of the Manager under a Plantation Management Agreement). If the Manager does not re-imburse the

Trustee, the Trustee is entitled to be indemnified by the Manager or out of the proceeds fund. Examples of such expenses are:

- (a) administration and management expenses payable in respect of the Investments including expenses properly incurred by the Trustee on behalf of the relevant Fund in respect of the Investments;
- (b) the costs relating to the preparation, execution, stamping and approval of any deed supplemental to the Project Deed;
- (c) reasonable fees and expenses of the Auditor;
- (d) costs and expenses reasonably incurred or paid by the Trustee in connection with any rearrangement of the capital structure of the Project;
- (e) costs in respect of the convening or holding of any meeting of Growers and/or Applicants;
- (f) costs incurred in keeping the accounting records;
- (g) costs reasonably incurred in keeping the registers of Applicants and Growers (including the remuneration of any of the Trustee's or Manager's employees or independent contractors who maintain the registers);
- (h) costs and disbursements of consultants, advisers, lawyers or other professionals properly engaged by the Manager or Trustee;
- (i) the Trustee's remuneration;
- (j) any fees payable in respect of the Application Fund; and
- (k) any costs reasonably incurred in connection with the inspection of the Project.

The Manager shall also pay or reimburse to the Trustee as part of its remuneration and in addition to the amounts specified above, all disbursements, outgoings, charges and expenses which it may incur including:

- (a) costs of postage in respect of all cheques, accounts, distribution statements, notices, reports and other documents posted by the Trustee to all or any Applicants or Growers;
- (b) stamp duty on all cheques drawn by the Trustee in favour of Applicants or Growers;
- (c) costs of preparing and printing accounts, distribution statements, cheques and other documents required to be prepared by the Trustee for dispatch to Applicants or Growers;
- (d) costs, charges and expenses in connection with the obtaining, preparation, printing and postage of all financial and other reports which the Trustee wishes to forward to all or any of the Applicants or Growers;
- (e) expenses in connection with the Register including expenses incurred in calculating the distributions to Growers;
- (f) expenses in connection with the establishment and maintenance of accounting records and systems including in calculating the value of the Growers' Interests;
- (g) costs of convening and holding any meeting of Applicants or Growers;
- (h) fees and expenses of any auditor, valuer, actuary, attorney, banker, lawyer, manager, accountant, independent expert, computer expert or other expert;
- (i) disbursements in connection with the acquisition, registration, custody, disposal of or other dealing with or attempted or proposed acquisition, registration, custody, disposal of or other dealing with any investment including stamp duty, valuation fees, agent's commission, survey fees, registration fees, insurance premiums and legal costs and disbursements;
- (j) the costs and expenses incidental to the vesting of property in a new trustee;
- (k) costs of preparation and lodgement of returns pursuant to the Corporations Law;
- (l) the reasonable fees and expenses of any auditor;
- (m) travel and accommodation expenses in connection with the performance or exercise by the Trustee of its duties and powers under the Project Deed, the Leases or the Plantation Management Agreements;
- (n) any income tax or other tax or duty payable under the Income Tax Act or any other fiscal legislation in respect of the Funds or the Investments;
- (o) fees payable to any regulatory authority; and
- (p) all other reasonable and proper fees, costs and expenses incurred in connection with the Trust or Project incurred by the Trustee and fees, costs or expenses which relate to the performance of the functions by the Trustee which would fall outside the normal expertise of a trustee.

11.1.11 Distribution of income

The provisions relating to the distribution of proceeds of sale, income and profits to Growers are contained in Clause 37 of the Project Deed.

Distribution of proceeds fund

On or before 28 September in each year the Trustee shall distribute among the Growers who held Plantation Management Agreements and Leases on 30 June of that year each Grower's proportional interest in the proceeds fund for each Property that relates to the last accounting period (1 July to 30 June prior). The amount of each distribution is to be based on the area that a Grower's compartment or compartments bears to the total area of the Property on which the relevant compartments are located.

Accounts to be Prepared

For the purpose of ascertaining the amount (if any) to be distributed to Growers the Manager shall, before any such distribution date, prepare accounts of the income and expenditure and financial position of the proceeds fund, in accordance with generally accepted accounting practice, standards, methods and principles unless the Manager and Trustee agree otherwise.

Present Entitlement

At 30 June in each year each Grower shall be presently entitled to his proportional interest in the proceeds fund.

11.1.12 Commission

The Manager may pay commission to any person from its own funds who procures a person to subscribe to or procure subscription for a Grower's Interest. However, commissions cannot be paid to any person who is an Australian resident unless that person holds a dealers licence, a proper authority or is an exempt dealer under the Corporations Law, is an Applicant and the payment is by way of rebate, is the holder of an investment adviser's licence or an accountant or solicitor whose principal business is not the giving of advice about securities and the commission is rebated in full or is a person who engages in dealing in a prescribed interest where an approved deed is not in force. The Manager is obliged to keep a separate account of any amounts applied directly or indirectly in paying any commission.

More information regarding commissions is set out in Section 12.5 of this Prospectus.

11.1.13 Repurchase

The Manager is not obliged to buy-back or repurchase any Grower's Interest from a Grower. An exemption from the requirement that the Project Deed contain a buy-back covenant was granted by the ASC prior to approval of the Project Deed.

11.1.14 Register

The register of Growers will be kept at the registered office of the Manager at Unit 7 24 Leura Street, Nedlands Western Australia and will be open for inspection from 9.00 am to 5.00 pm on business days.

In order to protect Growers' privacy, the right to inspect and obtain copies of the register is restricted. Growers may obtain details in relation to their own Plantation Management Agreement and Lease but they, or members of the public, must give a signed undertaking to the Manager not to inspect or copy other parts of the register, and the inspection must be for a purpose permitted by the Project Deed.

Clause 34 of the Project Deed contains full information regarding the register and the inspection and copying thereof.

11.1.15 Transfer of Grower's interests

Assignment of Leases and Plantation Management Agreements is governed by Clause 9 of the Lease and Clause 12 of the Plantation Management Agreement (see Section 11.3 of this Prospectus). Clause 25 of the Project Deed contains details of certain administrative and procedural matters relating to assignment. Clause 27 of the Project Deed deals with transmission of Growers' Interests

and provides that the legal personal representative of a deceased Grower will be the only person recognised by the Manager and Trustee as having any title to or interest in the Grower's Interest registered in the name of the deceased Grower.

11.1.16 Meetings of Growers

The Trustee or the Manager may at any time and the Trustee shall on receipt of an application from Applicants and Growers in special circumstances or a requisition from Growers, convene a joint meeting of Growers and Applicants.

Meetings shall be convened by written notice to Growers at least 10 business days before the meeting specifying the place, day and hour of the meeting, the general nature of business to be transacted and containing such further information as the party convening the meeting may think fit and the terms of resolutions to be proposed.

The value of the vote of a Grower at a meeting of Growers is based on the amount of that Growers proportional interest, which is determined by reference to the amount of rent paid or payable by the Grower each year in proportion to the rent paid or payable by all of the Growers.

11.1.17 Modification of the Project Deed

The provisions of the Project Deed may be altered, modified, added to, or cancelled, by the Trustee and the Manager by way of a supplemental deed made between the Manager and the Trustee. If the Trustee is not satisfied that the proposed change to the Project Deed does not adversely affect the interests of participants in the Project, the change must first be approved at a meeting of those participants. Further information regarding modifications of the Project Deed is contained in clause 44 of the Project Deed.

11.1.18 Limitation of liability

The Manager and the Trustee will not be liable for the failure of any Grower to obtain a tax deduction in respect of Plantation Management Agreement or a Lease. Liability of Growers is limited by the Project Deed so that Growers have no liability to the Trustee, Manager or any creditor of the Trustee, Manager beyond the amounts that they have paid to enter into a Plantation Management Agreement or a Lease in respect of one or more Compartments. However, the law in relation to liability is uncertain so that the extent of a Grower's liability (if any) in addition to amounts paid to enter into a Plantation Management Agreement and a Lease cannot be determined conclusively.

11.2 LEASE

11.2.1 Parties

The parties to the Lease are the Lessor (Integrated Tree Cropping Pty Ltd) and the Grower.

11.2.2 Operation

The Lease is conditional upon the grant by all relevant authorities of the necessary approvals for the proposed tree farming on the Leased Land within six months after the date of execution of the Lease. If approval is not obtained the Lease is at an end and the Lessor shall repay all moneys already paid by the Grower.

From the Commencement Date the Lessor grants to the Grower and the Grower takes from the Lessor a Lease of the Leased Land.

11.2.3 Use of the land

The Lessor reserves the right to use the fixtures located on the Leased Land and to pass over the Leased Land at any time for the purpose of gaining access to land adjoining the Leased Land without notice to the Grower but causing as little disruption, inconvenience or damage to the Grower and the Leased Land as is reasonably possible in the circumstances.

The Grower shall plant, establish, cultivate and manage trees on the Leased Land, shall harvest and sell these trees and the products derived from them, and do all things which may be usual or necessary for carrying on the business of running a tree farming business or which may be necessary or convenient in connection with the performance of the Grower's obligations under the Lease but may not use the Leased Land for any other purpose.

The Grower shall comply with sound silvicultural and environment practices adopted within the forestry industry, all laws and regulations relating to the use and occupancy of the Leased Land, promptly repair any damage caused by the Grower or its servants, agents or contractors to any roads, tracks or fences on the Lessor's neighbouring land, cause as little interference to the Lessor or other occupier of the Lessor's neighbouring land as is reasonably practicable, not use or store any chemical, inflammable, noxious or dangerous substances in a manner likely to result in damage to vegetation, livestock, crops or water reserves on the Lessor's neighbouring land, not erect any buildings on the Leased Land except to the extent reasonably required by the Grower in connection with its use of the Leased Land, and remove any such buildings as soon as no longer reasonably required by the Grower.

11.2.4 Insurance

The Grower shall keep current with a reputable insurer a public risk insurance policy to cover the liability of the Lessee in respect of its interests in the Leased Area in which the limit of public risk will be not less than \$10,000,000 and the policy will include all provisions as are normally contained in insurance policies for public risk.

11.2.5 Lessor's covenants

The Lessor agrees not to interfere with the Grower's quiet enjoyment of the Leased Land, to erect and maintain fencing before the Commencement Date, to comply with legislative requirements to control declared plants and animals on or about the Leased Land until one year after the Commencement date, to pay rates, taxes and all other charges payable with respect to the Leased Land, to allow the Grower and its contractors full and free access to the Leased Land, to control fires on the Lessor's neighbouring land, to notify the Grower of fires in the vicinity, and not to store or use chemical, inflammable, noxious or dangerous substances on the Lessor's neighbouring land in a manner which may be likely to result in damage to the Leased Land.

11.2.6 Mutual covenants

The Grower may construct roads to access the Leased Land, may implement security measures on and around the Leased Land, must pay the costs of the execution and stamping of the Lease and only use the Leased Land for the planting, growing, maintenance, harvesting, production, extraction and removal of Products, and that the trees on the Leased Land remain the property of the Grower until the end of the Term.

11.2.7 Rent

The initial rent is payable on a per hectare basis and is equal to a percentage of the Annual Rent for the first year as defined in the Schedule as follows:

- 150% for leases that commence on 1 July 1998;
- 50% for leases that commence between 1 January 1999 and 1 July 1999.

The Annual Rent is payable on a per hectare basis and is equal to 105% of the rent payable (on a per hectare basis) by the Lessor as head lessee under the Head Lease of the Property on which the Leased Land is located.

The annual rent will be reviewed on 30 June 1999 and each 30 June thereafter during the Term.

The rent payable from any review date will not be less than the annual rent in the immediately preceding year and will not be greater than 107% of the annual rent payable immediately prior to that review date.

11.2.8 Assignment

The Grower shall not during the Term assign, sub-let or part with possession of or grant any licence affecting the Leased Land or by any act or deed procure any of the foregoing.

An assignment or transfer shall be acceptable and shall release the Grower from liability if the Grower has proved to the Lessor that the proposed assignee or transferee is a respectable, responsible and solvent person who has entered into a covenant with the Lessor to perform and observe the Grower's covenants under the Lease

11.2.9 Damage to trees

If during the Term of the Lease more than 40% of the trees are destroyed or materially damaged by fire, lightning, hail or windstorm then the Grower may notify the Lessor and between 1 to 3 months after notification give notice to terminate the Lease in whole or part. If the Grower terminates the Lease the Grower shall not be entitled to reimbursement from the Lessor for any rent previously paid by the Grower.

If the Lease is terminated in part the annual rent will be adjusted from the date on which termination takes effect

11.2.10 Delay

If within the last 12 months of the then existing term the Grower is delayed from harvesting the trees by any cause whatsoever beyond the reasonable control of the Grower the Grower shall give written notice to the Lessor stating the revised expected date of completion. Thereupon, the Lessor shall be deemed to have granted a further lease to the Grower for the period from the date of expiry of the Term until the extended termination date and the terms of this Lease shall apply to that further lease (with the necessary changes).

11.2.11 Mining and petroleum operations

The Lessor warrants to the Grower that at the commencement date of the Lease the Lessor has no knowledge that consent or approval under relevant mining and petroleum legislation or otherwise has been granted to any person to explore for, mine or conduct operations for the recovery of minerals or petroleum on the Leased Land or the Lessor's neighbouring land or any part thereof and shall notify the Grower as soon as the Lessor becomes aware of any application for a mining or petroleum tenement over the Leased Land or the Lessor's Neighbouring Land.

Neither the Lessor nor the Grower without the prior written consent of the other of them shall consent to any person entering onto the Leased Land or the Lessor's Neighbouring Land to explore for, mine or conduct operations for the recovery of minerals or petroleum or settle any claim or agree upon the amount of any compensation payable in respect of any exploration, mining or operations for the recovery of minerals or petroleum.

11.2.12 Default and termination

The Lessor or Grower may terminate its obligations under the Lease if the other is in default of any obligation which has continued for 2 months after receipt by the defaulting party of written notice from the non-defaulting party requesting that the default be remedied. Upon termination the Grower's right, title and interest in the plant life situated upon the Leased Land shall be deemed to be assigned and transferred to the Lessor.

11.2.13 Dispute resolution

Any umpire appointed under the Lease shall be deemed to act as an expert, before reaching any decision he/she shall be obliged to hear reasonable argument from both of the parties, his/her decision as to any matter in dispute shall be final and binding on the parties; and his/her fees shall be paid equally by the parties.

11.3 PLANTATION MANAGEMENT AGREEMENT

11.3.1 Parties

The parties to the Plantation Management Agreement are the Manager and the Grower.

11.3.2 Operation

The Manager shall pay stamp duties, registration fees and legal costs payable in respect of the Plantation Management Agreement unless the parties agree otherwise.

11.3.3 Appointment, removal and retirement

The Grower appoints the Manager with effect from the date of commencement.

If there is a written Report evidencing the Managers failure to perform its duties or a breach of the Plantation Management Agreement by the Manager the Growers may pass an ordinary resolution to remove the Manager.

The Manager may retire upon giving three months notice provided that it has nominated a replacement approved by the Growers.

On the removal or retirement of a Manager the Growers may pass an ordinary resolution appointing a new Manager who will be bound to the obligations and agreements in the Agreement. Alternatively the Trustee may perform the Manager's duties.

11.3.4 Manager's obligations and services

The Manager will be appointed to carry out plantation services on the Leased Land and covenants that it and its staff shall perform its services in a proper and efficient manner.

If the Lease terminates as a result of any approvals for the proposed tree farming not being given, the Manager will procure that a new Lease over a similar Compartment on substantially the same terms is made available to the Grower, and the Grower must enter into that Lease.

Generally, the Manager shall, in consideration for payment of specified fees, supervise and manage all commercial silvicultural activities to be carried on by the Grower on the Leased Land. The services shall be performed according to good silvicultural and environmental practices adopted by the forestry industry and shall comply with the requirements of the relevant code of practice for timber plantations. The Manager must carry out both Initial and Annual Services (which are listed in the schedule to the Plantation Management Agreement). In particular, the Manager must, at the Grower's expense, harvest the tree crop, use its reasonable endeavours to find a purchaser for the tree crop and enter into a purchase agreement as an agent for the Grower.

11.3.5 Fees

The Manager will be paid by the Grower fees for Initial Services payable at \$4,700 plus \$1,680 for each hectare of the Land and fees for Annual Services payable at \$300 plus \$70 for each hectare of Land.

If the payment of fees by the Grower to the Manager are late, the Manager is entitled to interest and having notified the Grower of its intentions may cease work until it is paid.

The fee for the Annual Services shall be reviewed on each 30 June of the term, commencing on 30 June 1999. The fee payable for the Annual Services from each review shall be the amount of the previous year's fee as adjusted with reference to the Consumer Price Index.

11.3.6 Delegation

The Manager may engage third parties for the performance of its obligations. However, the Manager shall still be liable for the acts of its delegates unless both the Manager and Grower have agreed to receive advice from experts.

11.3.7 Assignment and transfer

The Grower may assign or transfer rights or interests under the Plantation Management Agreement provided there is no default and the Grower has proved to the Manager that the proposed assignee is respectable and that the assignee has entered into a covenant with the Manager that it will duly perform the obligations and covenants of the Grower in the Plantation Management Agreement.

11.3.8 Nature of relationship

Nothing in the Plantation Management Agreement shall be construed as creating any association or partnership between the Grower, the Manager and the other persons having interests as growers.

11.3.9 Delay

The Manager shall be excused from performance of any of its duties and obligations under the Plantation Management Agreement whenever and to the extent that such performance is prevented or interrupted or delayed by reason of any cause beyond the control of the Manager, but the Manager shall at all times use all reasonable endeavours to overcome or alleviate the effect of any such events.

11.3.10 Termination

Either party may terminate the Plantation Management Agreement if the other party breaches its obligations and has not remedied the breach within 28 days of notification, the other party has become bankrupt or the Manager has been removed under the Trust Deed.

11.3.11 Dispute resolution

Any umpire appointed under the Lease shall be deemed to act as an expert, before reaching any decision he/she shall be obliged to hear reasonable argument from both of the parties, his/her decision as to any matter in dispute shall be final and binding on the parties; and his/her fees shall be paid equally by the parties.

11.4 HEAD LEASE

11.4.1 Parties

The parties to the Head Lease are the Landowner, the Manager and the Lessee (Integrated Tree Cropping Pty Ltd). Under each Head Lease, the Lessee will lease a Property, all or part of which it will sub-lease to the Growers under Leases to carry on a long term afforestation business.

11.4.2 Details

The Head Lease is similar in all material respects to the Lease described in Section 11.2 as if the Landowner was the Lessor and the Lessee was the Grower except that:

- the Lessee may or may allow the Growers to plant, establish, cultivate and manage a crop of trees on each Property.
- the Lessee shall pay the annual rent quarterly and it will be reviewed on 30 June 1999 and each 30 June thereafter during the term of the Head Lease.
- the Lessee may sub-let or grant any licence affecting the Property without having to obtain the consent of the Landowner.
- the Lessee may transfer or assign the Property provided the Lessee obtains the Landowner's written consent, which may not be unreasonably withheld and the Lessee shall be released from the Lessee's liability under the Head Lease by reason of any transfer or assignment of the Head Lease.
- provided that the Lessee is not in default of any of its obligations under the Head Lease, the Lessee shall have the right to require the Landowner to renew the Head Lease for a further term until the latest of 30 June 2023 and the date of completion of the second harvest. Prior to the commencement of the further term the Lessee shall give to the Landowner not less than 3 month's notice in writing of the Lessee's intention to exercise the right of renewal; and

- the termination date is, unless the Lease is renewed, the latest of 30 June 2010 (or 2011 for Head Leases commencing after 1 July 1998), and the date of completion of the first harvest unless terminated earlier, and
- the Landowner will ensure that the Property will not be dealt with so that the interests of the Lessee or any Grower will be adversely affected by a mortgagee or similar secured creditor. The Landowner grants a charge to the Manager as agent for the Growers as security for any loss or damage suffered by the Growers as a consequence of dealings that are not permitted, and the Manager must lodge a caveat over the Property to restrict any such dealings.

11.5 DEALING AGREEMENT

11.5.1 Parties

The parties to the Dealing Agreement (“the Deed”) are the Manager and ITC Securities Pty Ltd (“ITC Securities”).

11.5.2 Operation

Under the Project Deed the Manager is required to deal in securities issued under the Project Deed. ITC Securities has been granted a Dealers Licence by the Australian Securities Commission to allow it to deal in respect of securities in Forestry Schemes in accordance with an approved deed. ITC Securities will act as an agent for the Manager and perform all activities that will be imposed on the Manager by the Project Deed which constitute dealing in securities.

11.5.3 Appointment

From the date of the Project Deed the Manager appoints ITC Securities to act as the agent of the Manager in relation to dealing under the Project Deed.

11.5.4 Termination

The Deed will, without the notification of either party, terminate on the termination date which is the earlier of:

- the Manager advises ITC Securities that, in the opinion of the Manager, all activities under the ITC Eucalypt Project which would constitute dealing in securities have been completed;
- when ITC Securities ceases to hold a Dealers Licence;
- when a party is in breach of its material obligations under the Deed which it has failed to remedy within 20 Business Days of receipt of notice from the non-defaulting party; or
- when the Manager retires or is removed.

11.5.5 Covenants by ITC Securities

ITC Securities will perform its duties in a manner to ensure that the Manager complies with its obligations under the Project Deed.

ITC Securities will comply with the Corporations Law in respect of Dealer’s Licence.

ITC Securities will act according to the Manager’s instructions.

11.5.6 Delay

ITC Securities shall be excused from performance of any of its duties and obligations under the Deed whenever and to the extent that such performance is prevented or interrupted or delayed by reason of any cause beyond the control of ITC Securities, but ITC Securities shall at all times use all reasonable endeavours to overcome or alleviate the effect of any such events.

11.5.7 Assignment and transfer

The obligations and benefits on the parties under the Deed may only be assigned or transferred with the written consent of the other party.

11.5.8 Indemnity

The Manager indemnifies ITC Securities from liabilities that arise from the performance by ITC Securities of its functions under the Deed, except for those liabilities that arise due to the negligence, fraud or breach of its obligations under the Deed or the Corporations Law.

12 ADDITIONAL INFORMATION

12.1 No previous issues to the public by the manager

The Manager has not previously been engaged in any undertaking, scheme, enterprise, or investment contract involving the issue of prescribed interests.

12.2 Undertakings

Subject to the terms of the Deed the Dealer, as agent for and on behalf of the Manager has the discretion as to whether applications for Plantation Management Agreements and Lease Agreements shall be accepted. Applications and application moneys are to be sent or paid by applicants to the Manager. Until the Manager executes Plantation Management Agreements and ITC executes Lease Agreements, the Trustee will hold all the application moneys which relate to the Plantation Management Agreements and Leases on trust for the applicants.

The Manager will comply with the provisions of the Corporations Law in relation to its activities as Manager pursuant to the Deed.

12.3 Interests of directors of the manager

The following relevant interests are disclosed:

The Manager is a wholly owned subsidiary of ITC and Directors do not hold any shares in the Manager directly.

Mr R G Bunning who is a director has a controlling interest in Aileendonan Investments Pty Ltd which holds 30% of the issued capital of ITC.

Mr A P Jack who is a director controls 50% of the issued capital of the trustee of a trust which holds 30% of the issued capital of ITC.

Mr B C Mattinson who is a director controls all of the issued capital of the trustee of a trust which holds 30% of the issued capital of ITC.

The Directors of the Manager may receive Director's fees from the Manager's own funds.

12.4 No guarantee

The Manager does not guarantee the amount or timing of any tax deduction or item and advises that any policies of the Directors of the Manager may be subject to change in the event of any economic, financial or other changes subject to the limitations expressly provided in the Project Deed.

12.5 Commissions for subscriptions

No amounts have been paid within the 2 years preceding the date of this Prospectus as commission for subscribing, agreeing to subscribe, procuring or agreeing to procure applications to enter into Plantation Management Agreements and Leases.

The Manager may pay brokerage or commission of up to 10% of the amount paid in respect of Establishment Fees to successful applicants, holders of a dealer's licence or persons to whom a proper authority has been issued

12.6 Formation and issue expenses

All expenses of the issue inclusive of commissions detailed in this Prospectus including all legal, accounting and experts' fees together with all commissions, duties, advertising and charges associated with registration are to be paid by the Manager out of its own Funds.

12.7 Particulars of interests

Except as set out below and elsewhere in this Prospectus, neither the Trustee or Manager nor any Director or proposed Director of the Trustee or Manager or any promoter or expert has any interest now, or which existed in the period of 2 years before lodgement of this Prospectus with the ASC, in the promotion, or in any property proposed to be acquired for the purposes of the Project and no Director or proposed Director, promoter or expert is a partner in any firm with such an interest and no sums have been paid or agreed to be paid now or in the last 2 years to any Director or proposed Director, promoter or expert or to the Manager or Trustee or to any such firm in cash or shares or otherwise by any persons, in the case of a Director or proposed Director, either to induce him to become, or to qualify him as, a Director or otherwise for services rendered by him or his firm in connection with the promotion or formation of the Project or, in the case of an expert, for services rendered by him or the firm in connection with the promotion or formation of the Project, or, in the case of the Trustee, to induce the Trustee to act or for services rendered, or, in the case of the Manager, to procure subscriptions for, or purchases of, prescribed interests, for services rendered in connection with the promotion or inception of the Project or for other services rendered in accordance with the Project Deed.

- (i) The Manager will be paid a fee of \$4,700 plus \$1,680 per hectare pursuant to the Plantation Management Agreement for the first thirteen months of operation.
- (ii) The Manager will be paid a fee of \$300 plus \$70 per hectare adjusted for inflation pursuant to the Plantation Management Agreement for annual management.
- (iii) ITC will be paid an amount equal to 105% of the Head Lease Rent pursuant to the Lease Agreement.
- (iv) ITC will be paid an amount up to 50% of the Base Annual Rent for procuring the lease.
- (v) ITC will be paid by the Manager \$1,485 per hectare for establishment services and \$50 per hectare for annual management pursuant to the Contracting Agreement.
- (vi) The Manager is to be paid an amount equal to 5% of net harvest proceeds upon harvest of the established plantation.
- (vii) The Manager will not receive a commission to procure subscriptions.
- (viii) The Directors of the Manager will receive normal fees and salaries from the Manager for appropriately managing their affairs.
- (ix) The Trustee will receive the Trustee's fees described in Section 11.1.9 of this Prospectus.
- (x) KPMG Corporate Finance (WA) Pty Ltd have prepared an Independent Accountant's Report for inclusion in the Prospectus. In respect of this work, the Manager estimates that it will pay amounts totalling approximately \$3,500 to KPMG Corporate Finance (WA) Pty Ltd.
- (xi) Forest West Pty Ltd has prepared an independent forester's report for inclusion in the Prospectus. In respect of this work the Manager estimates that it will pay amounts totalling approximately \$2,000 to Forest West Pty Ltd

(xii) KPMG have prepared a taxation opinion for inclusion in the Prospectus. In respect of this work, the Manager estimates that it will pay amounts totalling approximately \$6,500 to KPMG.

(xiii) ITC Securities Pty Ltd will not be paid any amount in relation to its activities under the Dealing Agreement referred to in Section 11.5.

As the ITC Eucalypt Project was established in April 1998, no fees have been paid in the two years prior to the lodgement of this Prospectus with the ASC other than the fees set out above.

12.8 No other circumstances

The Directors of the Manager report after having made due inquiry in relation to the interval between 31 March 1998 (being the date to which the accounts used in the preparation of the Independent Accountant's Report were made up) and 24 April 1998 (being a date not earlier than 14 days before the issue of this Prospectus) that they have not become aware of:

(a) any circumstances which in their opinion materially have affected or will affect the trading or profitability of the Manager or of the value of the assets of the Manager;

(b) any contingent liabilities of the Manager, additional to those contingent liabilities appearing in the Prospectus; and

(c) any circumstances which may affect the assets or liabilities, financial position or profits and losses of the Manager or the ITC Eucalypt Project 1998.

12.9 Experts' consents

KPMG Corporate Finance (WA) Pty Ltd have given and not before lodgement of this Prospectus withdrawn their consent to the issue of the Prospectus with their Independent Accountant's Report dated 24 April 1998 included in the form and context in which it is included.

KPMG have given and not before lodgement of this Prospectus withdrawn their consent to the issue of the Prospectus with their Income Tax Opinion dated 24 April 1998 included in the form and context in which it is included.

Sharyn Long has given and not before lodgement of this Prospectus withdrawn her consent to be named in the Prospectus and to the reference in the Independent Accountant's Report dated 24 April 1998

Forest West Pty Ltd have given and not before lodgement of this Prospectus withdrawn his consent to the issue of the Prospectus with the Independent Forester's Report dated 23 April 1998 in the form and context in which it is included.

True copies (verified by a statement in writing) of the consents and of every material contract referred to in this Prospectus are available for inspection without charge at the registered office of the Manager until twelve months after the date of lodgement of this Prospectus with the ASC.

12.10 Litigation

There is no litigation of a material nature pending or threatened which may significantly affect the Manager or the Project.

12.11 No certificates to be issued

No certificates will be issued in respect of Grower's Interests. Growers will receive a copy of their Lease Agreement and Plantation Management Agreement when executed.

12.12 Managers Investment policy

Any money in the Application Fund or the Proceeds Fund that is available for investment will be invested in authorised investments as defined by the Deed

12.13 Trustee's Disclaimer

Professional Funds Management Pty Ltd have had no involvement in the preparation of any part of this prospectus, and their name appears for information purposes only.

12.14 Freehill Hollingdale & Page

Freehill Hollingdale & Page has consented to being named as solicitor to the Manager. Freehill Hollingdale & Page were involved only in the preparation of Section 11 of the Prospectus entitled "Details of Project Agreement " and have authorised or caused the issue of that part only.

13 EXECUTION BY THE DIRECTORS

This Prospectus was signed on 24 April 1998 by the Directors of the Manager.

Robert George Bunning

Antony Philip Jack

Bruce Colin Mattinson
by his agent authorised in writing I D Wildy

Ian David Wildy

14 GLOSSARY

In this Prospectus the following words have the following meaning, unless the context requires otherwise:

Annual Management fee	The annual fee payable for the management of the Plantation pursuant to the Plantation Management Agreement.
Annual Rent	The annual lease rental payable in respect of a Compartment. The Annual Rent will be 105% of the rent payable pursuant to the Head Lease Agreement which provides for escalation for changes in the CPI.
Applicant	A person or other entity who submits a valid Application Form pursuant to this Prospectus.
Application Form	The application form attached to this Prospectus pursuant to which an Applicant applies to enter into a Lease Agreement and a Plantation Management Agreement.
Base Annual Rent	The Annual Rent for a Compartment before any escalation for changes in the CPI.
Code of Practice	Means the relevant Code of Practice for plantation establishment, management and harvesting in Victoria or South Australia as the case may be
Compartment	An identified area of land which may be leased to a Grower pursuant to a Lease Agreement.
CPI	The Consumer Price Index (All Groups, All Capital Cities) compiled by the Australian Bureau of Statistics as defined in the Lease Agreement and the Plantation Management Agreement.
Deed and Project Deed	The trust deed dated 18 March 1998 between the Manager and the Trustee establishing the ITC Eucalypt Project. A summary of the principle provisions of the Project Deed is set out in Section 11.
Grower	A person or corporate entity who enters into a Lease Agreement and a Plantation Management Agreement in respect of an area of Leased Land.
1998 Grower	A Grower whose Leased Area is to be established in 1998.
1999 Grower	A Grower whose Leased Area is to be established in 1999.
Grower's Interest	The interest of a Grower in the Leased Land, a Lease Agreement, a Management Agreement and any other right or interest conferred on a Grower by the Deed.
Harvest Proceeds	The amount paid by the Purchaser for the timber harvested from a Compartment less the costs of harvesting, delivery and processing.
Head Lease Agreement	The agreement between Landowner and ITC pursuant to which ITC leases the Property.
Initial Head Lease Rent	The lease rental for the Property for the first twelve month term of the Head Lease Agreement.

Initial Rent	The lease rental for a Compartment for the 12 month period from 1 July 1998 to 30 June 1999 for Compartments to be established in 1998 or for the period up to 30 June 1999 for Compartments to be established in 1999.
ITC	Integrated Tree Cropping Pty Ltd (ACN 069 762 634)
ITC Group	Integrated Tree Cropping Pty Ltd, its wholly owned subsidiaries ITC Project Management Limited (ACN 081 643 147) and ITC Securities Pty Ltd(ACN 081 643 129), and E Globulus Pty Ltd (ACN 073 502 968) as Trustee of the ITC Management Services Trust.
Landowner	The owner of the land on which ITC has entered or will enter into a Head Lease Agreement.
Lease Agreement	The agreement between the ITC and the Grower pursuant to which the Grower leases land for the establishment of a Tasmanian blue gum plantation.
Leased Land	The Compartment or Compartments the subject of a Lease Agreement and Plantation Management Agreement.
Plantation	The crop of Tasmanian blue gum trees established on the Leased Land.
Plantation Establishment Plan	The detailed management plan adopted by the Manager for the establishment of the Plantation on each Property
Plantation Harvest Plan	The detailed harvest plan produced by the Manager prior to the Harvest of the Plantation and to be adopted by the Manager in Harvesting the Plantation.
Plantation Management Agreement	The agreement between the Manager and the Grower pursuant to which the Manager undertakes to establish and manage a Tasmanian blue gum plantation on the Leased Land and market the timber produced from the Leased Land.
Property	The Compartment or Compartments that are the subject of a Head Lease Agreement with a Landowner and on which a Plantation is established in a single year.
Plantation Tending Plan	The detailed management plan adopted by the Manager for the maintenance of the Plantation on each Property
Productivity	The volume of timber expected to be harvested when the plantation is 10 years old. Productivity is expressed as cubic metres per hectare.
Project	ITC Eucalypt Project 1998.
Prospectus	This prospectus.
Purchaser	The party or parties with whom the Manager contracts to sell the timber produced from the Leased Land.
Tasmanian blue gum	The species <i>Eucalyptus globulus</i> .

15 HOW TO APPLY

1. Read the Prospectus dated 24 April 1998 before completing the Application Form.
2. The Application Form which is part of this Prospectus dated 24 April 1998 cannot be used after 23 April 1999 and must not be circulated separately from the Prospectus.
3. Complete and sign the Applicant's details on page 75 to 77 of this Prospectus.
4. Select the Compartments for which you wish to apply from the Schedules on pages 80 to 82 of this Prospectus.
5. Complete the Application for Compartments on page 76 and calculate the amount payable.
6. Sign the Power of Attorney on page 78 and 79 in the presence of an adult witness who must also sign the Power of Attorney.
7. Enclose a cheque for the amount being paid now.
8. Cheques should be made payable to "Professional Funds Management – ITC Eucalypt Project 1998" and lodged with:

The Manager
ITC Eucalypt Project 1998
Unit 7, 24 Leura Street
NEDLANDS WA 6005
9. To ensure that applications received prior to 30 June 1998 can be executed before 30 June 1998 the Trustee must have cleared funds for the application moneys by 12 noon Perth time on 29 June 1998.

16 APPLICATION FORM

TO: ITC PROJECT MANAGEMENT LIMITED
Unit 7, 24 Leura Street
NEDLANDS WA 6009

The Applicant, whose full name and address appears on this Application Form hereby applies to ITC Project Management Limited pursuant to the Prospectus dated 24 April 1998 to enter into a Lease Agreement and Plantation Management Agreement in respect of the Compartments listed below.

If the Applicant is a person (ALL BLOCK LETTERS PLEASE)

Name	[Redacted]		
	[Redacted]		
	Title	Surname	Given names

Mailing address	[Redacted]		
	[Redacted] Post Code:		

Contact telephone number	[Redacted]
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If the Applicant is a company (ALL BLOCK LETTERS PLEASE)

Company name	[Redacted]
ACN	[Redacted]

Mailing address	[Redacted]		
	[Redacted] Post Code:		

Contact person	[Redacted]
Contact telephone number	[Redacted]

APPLICATION FOR COMPARTMENTS

Compartments to be leased Complete the information required in the shaded boxes from the Schedule of Compartments available for lease.

Insert details from Schedule of Compartments available for lease on pages 79 & 80			
From Col 1	From Col 2	From Col 3	From Col 4
Compartment Number	Initial rent \$	Establishment cost \$	Annual Management \$
		4,700	300*
TOTAL	\$	\$	\$
	Transfer to Item 1	Transfer to Item 2	Transfer to Item 3

*No annual management for 1999 compartments payable at 30 June 1998.

Amount payable at 30 June 1998*

1	Total initial rent	\$	
2	Total cost of establishment	\$	
3	Cost of annual management	\$	
Amount to be paid at 30 June 1998*		\$	
Amount paid with application		\$	
Balance due on 30 June 1998*		\$	

* or on date of execution of the Lease Agreement and Plantation Management Agreement for applications received after 30 June 1998.

Applicants for Compartments for which approvals have not been received by 30 June 1998 acknowledge the risk described in Section 3.18 of this Prospectus in respect of Compartments for which approval to establish a plantation (where required) has not been received by 30 June 1998 and elects to take either Option 1 or Option 2 below:

OPTION 1	I/we consent to the Trustee releasing funds in respect of the Lease Agreement and the Plantation Management Agreement where relevant approvals from local government, Development Assessment Commission and Dept of Environment, Heritage and Aboriginal Affairs (where required) have not been received by 30 June 1998. I/we acknowledge that if the approvals are not subsequently received the Manager will procure a lease over land that is similar and on substantially the same terms and for which approvals have been obtained	Signed
OPTION 2	I/we request that my/our application be withdrawn and the amount paid with the application be returned.	Signed

I/we apply in terms of this Prospectus dated 24 April 1998 to lease the Compartments shown above pursuant to a Lease Agreement and to enter into a Plantation Management Agreement in respect of those Compartments. I/we agree to be bound by the provisions of the Project Deed constituting the ITC Eucalypt Project 1998 as amended from time to time. I/we acknowledge and agree that this application will be accepted by the Manager executing as my/our attorney the Lease Agreement and the Plantation Management Agreement and that the Manager may, in its absolute discretion accept or reject this application in whole or in part.

If either part of this application is signed by an attorney, the attorney states that he has no notice of revocation of the power of attorney under authority of which this application is signed.

Joint applicants who wish to be registered as tenants in common must complete the box below. If the box is not completed joint applications will be registered as joint tenants.

INDIVIDUALS

Signed by Applicant: _____
(Please print name of Applicant): _____

Signed by Applicant: _____
(Please print name of Applicant): _____

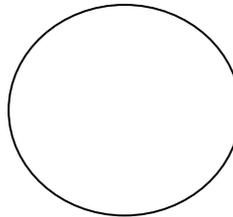
Tenants in Common only Please insert each persons percentage interest
_____ %
_____ %

Dated this _____ day of _____ 1998

CORPORATIONS

The Common Seal of

ACN
is affixed in accordance with its Articles
of Association in the presence of:



Director

Director/Secretary

Name (please print)

Name (please print)

THIS APPLICATION FORM EXPIRES ON 23 April 1999

17 POWER OF ATTORNEY

TO: ITC Project Management Limited and Professional Funds Management Pty Ltd

The Applicant acknowledges that:

- the return to be derived from the prepayment of plantation establishment expenses upon entering into a Lease Agreement and a Plantation Management Agreement will depend in part on the Applicant's capacity to obtain a taxation benefit by participation in a business to be carried on by each Applicant as a Grower and accordingly, the Applicant has received advice from a tax agent or investment adviser that he or she is a person to whom a deduction pursuant to Section 8-1 of the Income Tax Assessment Act 1997 as amended is applicable and can be utilised;
- the Applicant hereby offers to enter into a Lease Agreement and a Plantation Management Agreement to be administered under the ITC Eucalypt Project 1998 and acknowledges that the Applicant has inspected or is aware of and agrees to be bound by the terms and conditions of the Project Deed;
- The Applicant authorises you to register the Applicant as a Grower having entered into a Lease Agreement and a Plantation Management Agreement in respect of the number of Compartments indicated on the application form .

The Applicant also hereby appoints ITC Project Management Limited to be Attorney for the Applicant, in the Applicant's name, on the Applicant's behalf and as the Applicant's act and deed to exercise the powers granted by this document.

- 1) The Applicant grants the Attorney the powers listed in paragraphs (a) to (f) inclusive:
 - a) to enter into and execute on my/our behalf a Lease Agreement and a Plantation Management Agreement which I/we have offered to enter into;
 - b) to date the Lease Agreement and/or the Plantation Management Agreement and complete blank spaces in the schedules thereto;
 - c) to make and initial any necessary alterations to the Lease Agreement and/or the Plantation Management Agreement which are not prejudicial to my/our interests in the considered opinion of the Attorney;
 - d) to make, do and sign all acts, deeds and things as may be necessary to procure the stamping of the Lease Agreement and/or the Plantation Management Agreement with the power to instruct my/our Attorney's solicitors to assist them in this regard;
 - e) to vary the provisions of the Lease Agreement and/or the Plantation Management Agreement provided that the variation:
 - i) in the opinion of the Trustee is not likely to be to the detriment of my/our interests therein;
 - ii) will in the opinion of my/our Attorney enable the Lease Agreement and/or the Plantation Management Agreement to be better administered and managed in the interests of the ITC Eucalypt Project 1998;
 - iii) is in the opinion of the Trustee required as a matter of continuing compliance with relevant statutory requirements;
 - iv) is in the opinion of the Trustee required to correct a factual error in the documents; or
 - v) is agreed between myself/us the Manager and the Trustee.
 - f) to enter into and execute on my/our behalf an agreement to sell the timber produce on such terms as the Manager considers appropriate unless I/we advise that I/we intend to make my/our own arrangements to sell the timber produce;
- 2) In the case of any variation to be effected which, in the opinion of the Trustee, may adversely affect my/our interests such variations may only be effected if it has first been approved by an ordinary resolution at a formal meeting of Growers.
- 3) I/we agree to at all times keep the Attorney indemnified against all claims, demands, costs, expenses, damages and losses of any type arising as a result of exercise of this Power of Attorney.
- 4) I/we undertake to ratify all that the Attorney lawfully does or causes to be done under this Power of Attorney.
- 5) This Power of Attorney will remain in full force and effect until notice of the death of the Applicant or the revocation of the Power of Attorney is received by the Attorney.

EXECUTED BY THE APPLICANT AS A DEED

INDIVIDUALS

Signed by Applicant: _____

(Please print name of Applicant): _____

Signed by Applicant: _____

(Please print name of Applicant): _____

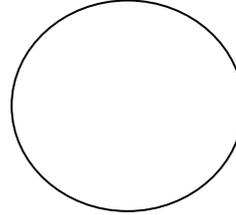
Witness to signature(s): _____

Dated this _____ day of _____ 1998

CORPORATIONS

The Common Seal of

ACN
is affixed in accordance with its Articles
of Association in the presence of:



Director

Director/Secretary

Name (please print)

Name (please print)

ITC Eucalypt Project 1998

Compartments available for lease.

Application to lease Compartments listed below can only be made on the application form attached to the prospectus for the ITC Eucalypt Project 1998 dated 24 April 1998.

This schedule was current when printed. Applicants are advised to check with the Manager or their advisors that Compartments are available when the application is lodged.

PROPERTY DETAILS

Identification: GRO
 Locality: Mageppa, Victoria
 Local authority: West Wimmera
 Planting year: 1998
 Approx area of all compartments: 203.9 hectares
 Approx distance to Millicent: 100 kilometres
 Approx distance to Portland: 160 kilometres
 Initial Head Lease Rent: \$120 per ha per year
 Expected date of approval

Local authority: May-98

Estimated productivity at age 10 (cubic metres per hectare):	Low	Expected	High
	235	270	300

COMPARTMENT DETAILS

Compartment Identification (1)	Compartment Area (ha)	Initial Rent (2)	Cost of Establishment * (3)	Cost of Annual Management * (4)	Total Initial Cost *
GRO 1	15.0	\$2,835	\$25,200	\$1,050	\$29,085
GRO 2	12.2	\$2,306	\$20,496	\$854	\$23,656
GRO 3	13.7	\$2,589	\$23,016	\$959	\$26,564
GRO 4	13.5	\$2,552	\$22,680	\$945	\$26,177
GRO 5	13.5	\$2,552	\$22,680	\$945	\$26,177
GRO 6	10.3	\$1,947	\$17,304	\$721	\$19,972
GRO 7	11.3	\$2,136	\$18,984	\$791	\$21,911
GRO 8	11.3	\$2,136	\$18,984	\$791	\$21,911
GRO 9	17.8	\$3,364	\$29,904	\$1,246	\$34,514
GRO 10	12.0	\$2,268	\$20,160	\$840	\$23,268
GRO 11	14.0	\$2,646	\$23,520	\$980	\$27,146
GRO 12	11.0	\$2,079	\$18,480	\$770	\$21,329
GRO 13	12.1	\$2,287	\$20,328	\$847	\$23,462
GRO 14	13.5	\$2,552	\$22,680	\$945	\$26,177
GRO 15	10.7	\$2,022	\$17,976	\$749	\$20,747
GRO 16	12.0	\$2,268	\$20,160	\$840	\$23,268
Total area	203.9				

* Note that in addition to the amounts shown above for the individual compartments, each Grower is required to pay a fixed component of \$4,700 for establishment and \$300 for annual management, regardless of the number of compartments or their areas – see Section 4 and Application for Compartments form.

ITC Eucalypt Project 1998

Compartments available for lease.

Application to lease Compartments listed below can only be made on the application form attached to the prospectus for the ITC Eucalypt Project 1998 dated 24 April 1998.

This schedule was current when printed. Applicants are advised to check with the Manager or their advisors that Compartments are available when the application is lodged.

PROPERTY DETAILS

Identification: FER
 Locality: Poolaijelo, Victoria
 Local authority: West Wimmera
 Planting year: 1998
 Approx area of all compartments: 107.9 hectares
 Approx distance to Millicent: 91 kilometres
 Approx distance to Portland: 152 kilometres
 Initial Head Lease Rent: \$120 per ha per year
 Expected date of approval:
 Local authority: May-98
 Estimated productivity at age 10
 (cubic metres per hectare):

	Low	Expected	High
	240	275	310

COMPARTMENT DETAILS

Compartment Identification (1)	Compartment Area (ha)	Initial Rent (2)	Cost of Establishment * (3)	Cost of Annual Management * (4)	Total Initial Cost *
FER 1	19.2	\$3,629	\$32,256	\$1,344	\$37,229
FER 2	17.2	\$3,251	\$28,896	\$1,204	\$33,351
FER 3	10.0	\$1,890	\$16,800	\$700	\$19,390
FER 4	12.0	\$2,268	\$20,160	\$840	\$23,268
FER 5	12.1	\$2,287	\$20,328	\$847	\$23,462
FER 6	12.4	\$2,344	\$20,832	\$868	\$24,044
FER 7	12.5	\$2,363	\$21,000	\$875	\$24,238
FER 8	12.5	\$2,363	\$21,000	\$875	\$24,238
Total area	107.9				

* Note that in addition to the amounts shown above for the individual compartments, each Grower is required to pay a fixed component of \$4,700 for establishment and \$300 for annual management, regardless of the number of compartments or their areas – see Section 4 and the Application for Compartments form.

ITC Eucalypt Project 1998

Compartments available for lease.

Application to lease Compartments listed below can only be made on the application form attached to the prospectus for the ITC Eucalypt Project 1998 dated 24 April 1998.

This schedule was current when printed. Applicants are advised to check with the Manager or their advisors that Compartments are available when the application is lodged.

PROPERTY DETAILS

Identification: KIN
 Locality: Dewrang, Victoria
 Local authority: Coojar
 Planting year: 1998
 Approx area of all compartments: 60.5 hectares
 Approx distance to Millicent: 121 kilometres
 Approx distance to Portland: 126 kilometres
 Initial Head Lease Rent: \$138 per ha per year
 Expected date of approval:
 Local authority: May-98

Estimated productivity at age 10 (cubic metres per hectare):	Low 250	Expected 290	High 315
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COMPARTMENT DETAILS

Compartment Identification (1)	Compartment Area (ha)	Initial Rent (2)	Cost of Establishment * (3)	Cost of Annual Management * (4)	Total Initial Cost *
KIN 1	15.0	\$3,260	\$25,200	\$1,050	\$29,510
KIN 2	14.9	\$3,239	\$25,032	\$1,043	\$29,314
KIN 3	15.0	\$3,260	\$25,200	\$1,050	\$29,510
KIN 4	15.6	\$3,391	\$26,208	\$1,092	\$30,691
Total area	60.5				

* Note that in addition to the amounts shown above for the individual compartments, each Grower is required to pay a fixed component of \$4,700 for establishment and \$300 for annual management, regardless of the number of compartments or their areas – see Section 4 and the Application for Compartments form.