

## Regulatory Story

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**Company** Phaunos Timber Fund Limited  
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**PHAUNOS TIMBER FUND LIMITED****AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010**

18 April 2011

*For immediate release*

Phaunos Timber Fund Limited ("**Phaunos**" or the "**Company**"), the Authorised Closed-ended investment scheme managed by FourWinds Capital Management ("FWCM") established to invest in timberland and timber related assets on a global basis, today issues its audited results for the year ended 31 December 2010.

**Highlights**

	<b>31 Dec 2010</b>	<b>31 Dec 2009</b>
Net Asset Value	US\$594.9 million	US\$575.0 million
NAV per Ordinary Share	US\$1.11	US\$1.07
Profit for the year	US\$20.7 million	US\$7.0 million
Earnings per Ordinary Share	3.98 cents	1.40 cents

- The Board is pleased to announce that the Company has now reached full investment and proposes, subject to Shareholder approval, to declare the Company's first dividend of US\$0.02 per Ordinary Share.
- The Company completed its programme of full investment by the year-end, and held a cash reserve for committed projects and working capital. The following transactions were completed during the year:
  - US\$117.6 million investment in Matariki Forestry Group in New Zealand;
  - US\$85.8 million acquisition of over 19,000 hectares of timberland in Minas Gerais; Brazil; and
  - US\$15.7 million investment in China's Jiangxi province.
- The resulting portfolio has achieved the objectives set out for the Company.
  - The Company has excellent geographic diversification with investments in North America, South America, Eastern Europe, Africa, Asia and New Zealand.
  - The Company is also well diversified in terms of species of wood, end market and maturity.
  - The combination of these elements and the state of the assets means that the portfolio today is well positioned for both capital appreciation and income growth going forward.
- Within the context of the current global economic recession, the Company's globally diversified portfolio continued to strengthen with the following net gains incurred through increased valuations and favourable currency shifts:
  - Net unrealised valuation gains on financial assets of US\$31.3 million.
  - Net realised and unrealised foreign exchange gains totalling US\$12.6 million.

Kimberly Tara, Chief Executive Officer of FourWinds Capital Management, commented on the results: "2010 was a transformational year for Phaunos and we are delighted with the results the Company is announcing today. During the year, Phaunos achieved full investment with an excellent portfolio positioning the group for capital appreciation and income growth going forward. As signalled in March, Phaunos also announced today that it will be recommending a maiden dividend of US\$0.02 per Ordinary Share to shareholders at the forthcoming Annual General Meeting. Looking ahead the outlook is positive, with timber prices recovering from the lows of 2008-2009. Management will continue to focus on achieving greater efficiencies within the portfolio, and we remain confident that this strategy will continue to deliver excellent long-term returns for investors".

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**Notes to Editors**

Phaunos is a Guernsey-domiciled closed-ended investment company authorised by the GFSC. Its ordinary shares are listed and traded on the Main Market of the London Stock Exchange. The Company's investment objective is to provide shareholders with attractive long term total returns, expected to be in the form of capital appreciation but with some income, through a diversified portfolio of timberland and timber-related investments.

The Company's investments are managed by FourWinds Capital Management.

The Company's portfolio consists of timberland and timber-related investments across 6 continents. As at 31 December 2010, the Company's audited NAV was US\$594.9 million (being US\$1.11 per ordinary share).

The Company intends to seek investments that meet or exceed the guidelines set out in the Sustainable Forestry Initiative and, wherever possible and practicable, to certify the lands under the Forest Stewardship Council guidelines.

The Company's ticker is PTF.

**Information on Phaunos Timber Fund Limited**

Phaunos Timber Fund Limited (the "Company" or "Phaunos") is a Guernsey domiciled authorised closed-ended investment scheme pursuant to section 8 of the Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended, and rule 6.02 of the Authorised Closed-ended Investment Scheme Rules 2008, and was incorporated in Guernsey on 28 September 2006 with an unlimited life.

The Company has one class of shares in issue: US Dollar denominated ordinary shares ("Ordinary Shares"). The Ordinary Shares are admitted to the Official List of the UK Listing Authority ("Official List"), to trading on the Main Market of the London Stock Exchange plc ("LSE") and to listing and trading on the Channel Islands Stock Exchange ("CISX").

On 8 June 2010, 43,510,000 issued C shares of the Company ("C Shares") were converted into 38,815,271 Ordinary Shares and were admitted to the Official List, to trading on the Main Market of the LSE and to listing on the CISX. The C Shares were converted to Ordinary Shares at a conversion ratio of 0.8921 Ordinary Share to 1C Share, based on the net asset value ("NAV") of the respective share classes at 31 December 2009 and in accordance with the Company's Articles of Incorporation. Following the conversion of the C Shares, the issued share capital of the Company comprised 537,149,832 Ordinary Shares and 4,065,045 Ordinary Shares held in treasury ("Treasury Shares").

**GLOSSARY OF CURRENCY TERMS**

US\$ - US Dollar  
€ - Euro  
£ - British Pound Sterling  
NZ\$ - New Zealand Dollar  
NOK - Norwegian Krone  
R\$ - Brazilian Real  
RMB - Chinese Renminbi

**Chairman's Statement**

I am pleased to update our shareholders on Phaunos' progress during 2010. Some significant milestones were achieved during the year.

**Phaunos attains full investment**

In 2010, the Company achieved full investment. In February 2010, we completed our largest single transaction to date with our investment in Matariki Forestry Group in New Zealand. In April 2010, the Company successfully closed the purchase of our second largest investment, Mata Mineira in Minas Gerais, Brazil. Both of these investments are already generating harvest revenues and should continue to do so into the future as the younger timber mature. During 2010 the Company also completed its initial investment programmes in Southern Uruguay and East Africa and made two investments in China's Jiangxi Province. Phaunos is one of the few timber investment management organisations investing in China, although there is increasing interest being shown among other players in the industry.

The Investment Manager has developed an international team, based in Boston, with strong experience and expertise in the industry. We have every confidence the team will continue to identify and develop strategic investments for the Company.

Our investment strategy has been to build a globally diversified portfolio split between 100% ownership of estates and joint ventures. The joint ownership allows greater diversification in the portfolio. As an example, the Matariki investment allows for ownership to be diversified across six plantations totalling 183,000 hectares geographically spread across New Zealand. In other cases, such as Mata Mineira in Minas Gerais, Brazil, we own 100% of the projects.

The siting of investments is based around an analysis of anticipated growth markets for wood products. Using this perspective, the Investment Manager then identifies where to grow wood to address the end markets. Within each targeted market, the Investment Manager formulates defensible and scalable market strategies that enable projects to grow with the Company as additional capital is identified for investment.

**Phaunos Net Asset Value Increases**

The NAV per Ordinary Share increased to US\$1.11 at 31 December 2010, from US\$1.07 at 31 December 2009, and from US\$1.04 at 30 June 2010. The increase in NAV is largely attributable to an increase in investment valuations and favourable foreign exchange movements primarily associated with our investments in New Zealand, the Northwest United States and Minas Gerais, Brazil. The impact of foreign exchange on NAV was net gains of US\$12.6 million as the US Dollar weakened against foreign currencies towards the end of 2010. Please refer to the financial results table for the performance of each investment relative to the NAV.

Phaunos does not currently hedge its currency exposure. Phaunos holds assets in a number of global currencies and its investors have different currency considerations. Therefore, the Directors do not believe it is appropriate to hedge the Company's currency exposure.

**Conversion of C Shares**

On 8 June 2010, 43,510,000 C Shares were converted into 38,815,271 Ordinary Shares and were admitted to the Official List, to trading on the Main Market of the LSE and to listing on the CISX. The C Shares were converted to Ordinary Shares at a conversion ratio of 0.8921 Ordinary Share to 1 C Share, based on the NAV of the respective share classes at 31 December 2009 and in accordance with the Company's Articles of Incorporation. Following the conversion of the C Shares, the issued share capital of the Company comprised 537,149,832 Ordinary Shares and 4,065,045 Ordinary Shares held in treasury.

**Proposed payment of first dividend and Dividend Policy**

The Company has indicated that on full investment it should have the ability to pay a dividend. We are pleased to have announced that the Board proposes (subject to Shareholder approval at the forthcoming annual general meeting of the Company) to declare the Company's first dividend of US\$0.02 per Ordinary Share.

Phaunos has now reached full investment. In its original Prospectus it had stated that dividends would not be paid before this point was reached.

Phaunos has developed a mixed age portfolio so that, as the standing inventory matures to harvestable timber, the portfolio can continue to generate both growth in biological asset values and cash flow. As we harvest, we replant. Less cash will be generated in the early stages of the Company's greenfield plantations as the younger plantations grow to marketable age. However, at all stages the trees in our plantations grow and continue to add volume or tonnage. Moreover, as they increase in size, they can grow into new and more valuable product categories e.g. from pulp and chip uses to saw log uses. So there is not only more wood, but each unit of wood can be more valuable.

The Board is therefore now in a position to confirm its Dividend Policy. The Board believes that although the Company is primarily designed for shareholders to benefit from long term capital gain, there are also good reasons to pay income to shareholders through dividends. This is partly because Phaunos receives income from the felling operations it owns and manages under highly sustainable and environmentally protective standards. There are also dividends received from the companies where Phaunos has a minority stake.

In addition, the Phaunos timberlands provide increases in the value of the Company's biological assets throughout the year which is reflected in the NAV calculation and this too will eventually provide realised felling income and cash. All these factors taken together justify paying a dividend.

The Dividend Policy adopted by the Board aims to provide shareholders with the security of a sustained dividend payment into the foreseeable future and under normal circumstances. If necessary this will be achieved by raising cash through disposals where these are economic and appropriate.

At the EGM held on 24 March 2011, the Articles of Incorporation of the Company were revised to enable dividends to be declared from any account as long as the Board considers that, following the payment of such dividend, the Company will be able to pass a statutory solvency test. The Board will also consider offering a scrip dividend alternative to cash dividends once the discount to NAV per Ordinary Share has narrowed.

**Phaunos Board of Directors and Brokers**

The Board has made three new appointments that have strengthened the Board as the Company moves from initial to full investment and on to the operational phase, where ensuring the expected growth in shareholder returns becomes paramount.

The Company is pleased to announce that Sir Henry Studholme and Mr. Martin Ricketts joined the Board as independent non-executive directors with effect from 5 January 2011.

Sir Henry Studholme assumed the Chair of the Audit Committee and became a member of the Management Engagement Committee with effect from 5 January 2011. Martin Ricketts assumed the Chair of the Management Engagement Committee and became a member of the Audit Committee with effect from 5 January 2011.

In addition, the Company announced the appointment of Mr. Ian Burns as an independent non-executive director with effect from 1 March 2011. Mr. Burns also became a member of the Audit and Management Engagement Committees of the Company.

For details on these new Directors, please refer to the Directors section. The Board thanks Sarah Evans and Peter Niven, each of whom resigned as Directors on 5 January 2011, for their work on behalf of the Company.

On 5 January 2011, the Board also announced the engagement of two new brokers who will work together as joint brokers to the Company and assist the Company in communicating with existing shareholders and identifying new investors in the UK and on the Continent. They are VSA Capital Limited and Winterflood Investment Trusts, both based in London.

**Environmental Policy and Carbon Credits**

Wherever possible and practicable, Phaunos manages sustainable plantation forestry to the standards of the Forest Stewardship Council (FSC). Currently 33% of the portfolio is certified. We continue to drive to certification; it is our intention to certify all timberlands overtime, however this process takes several years. The Investment Manager is currently preparing for the certification on its South American and Chinese properties.

In September 2010 Green Resources, Phaunos' East African associate company in which the Company holds a significant minority interest, sold the world's first carbon credits generated by a forestry project into the voluntary carbon credit market when it sold US\$800,000 in voluntary credits from its Tanzanian plantations to the London-based firm Carbon Neutral. Qualifying for carbon sales involves rigorous environmental compliance and reporting, which demonstrates the commitment of the Company's portfolio investments to the highest levels of stewardship and transparency.

**Wood markets outlook**

Wood market prices are recovering from the lows experienced in 2008-2009. There is a strong correlation between inflation and wood prices historically. Some markets, most notably the Asian markets, are reporting prices in some sectors at pre-crisis levels, or higher. Prices in the US seem at least to have bottomed out and be poised for recovery. The Company's ability to delay harvesting at the low prices of the crisis has resulted in a very favourable level of harvestable inventory in the portfolio at present. This harvestable inventory translates into revenues going forward.

We continue to review how the discount of the Ordinary Share price to the NAV can be reduced.

With its portfolio in place and the resources it needs, I believe the Company is well positioned to deliver shareholder value into the future.

Keith Oates  
Chairman

15 April 2011

**Financial Results**

At 31 December 2010

At 31 December 2010, the Company held a total of twelve investments in timber and timber-related investments globally (investments collectively known as the "Portfolio"). Five investments represent minority positions, one is a loan and the remaining seven are investments where Phaunos is the majority or sole investor.

In accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, minority owned investments are classified as financial assets at fair value through profit or loss ("financial assets"). Majority owned investments ("operating subsidiaries") are consolidated on a line by line basis.

The effect of the different accounting treatments for financial assets and operating subsidiaries on the consolidated financial statements can be summarised as follows:

	Financial Assets	Operating Subsidiaries
<b>Consolidated Statement of Comprehensive Income</b>		
Effect of revaluations of 'growing timber'	Included in 'operating profit/(loss) before taxation' as 'net gain/(loss) on financial assets designated at fair value through profit or loss'. Included in 'earnings per share'.	Included in 'operating profit/(loss) before taxation' as 'revaluation of biological assets'. Included in 'earnings per share'.
Effect of revaluations of land	Included in 'operating profit/(loss) before taxation' as 'net gain/(loss) on financial assets designated at fair value through profit or loss'. Included in 'earnings per share'.	Included in 'other comprehensive income' as 'revaluation of land'. Not included in 'earnings per share'. Any revaluation below cost would be included in 'operating profit/(loss) before taxation' and 'earnings per share'.
Foreign exchange differences arising from the translation of net assets	Included in 'operating profit/(loss) before taxation' as part of net gains on financial assets designated at fair value through profit or loss'. Included in 'earnings per share'.	Included in 'other comprehensive income' as 'exchange differences on translation of operating subsidiaries'. Not included in 'earnings per share'.
<b>Consolidated Statement of Financial Position</b>		
Classification	Investment shown as 'financial assets designated at fair value through profit or loss'.	Assets at fair value and liabilities consolidated on a line by line basis.
<b>Schedule of Investments</b>		
Classification	Included at fair value.	Operating subsidiary value not reported separately.

These differences in accounting treatments lead to a lack of comparability between the two classes of investments. For this reason, the Directors are of the opinion that a clearer view of the investments is provided by the Financial Results table below which shows the valuation of each investment together with an analysis of the NAV movement for the year.

The total NAV of the Company at 31 December 2010 was US\$594.9 million (2009: US\$575.0 million). This equates to a NAV of US\$1.11 per Ordinary Share (2009: US\$1.07 per Ordinary Share and US\$0.96 per C Share).

A summary of the Company's major drivers in the NAV for the year are as follows:

*Major drivers in the NAV*

1. Unrealised gains on the revaluation of financial assets, excluding foreign exchange, for Matariki of US\$17.2 million and for Green Resources of US\$7.8 million. Unrealised gains on the revaluation of land and biological assets, excluding foreign exchange, for GreenWood Tree Farm Fund of US\$5.1 million and for Mata Mineira of US\$4.3 million. Aurora Forestal, Pradera Roja and Green China also had modest valuation gains. However, unrealised losses on revaluation of such assets, excluding foreign exchange, were incurred for Eucateca of US\$13.3 million due to the discovery that some hectares previously believed to be plantable were not, as well as high planting costs on other parts of the properties.
2. Total foreign exchange gains, both realised and unrealised, of US\$12.6 million for the period were attributable to:
  - a) Unrealised foreign exchange gains totalling US\$19.3 million due to the weakening of the US Dollar against the Norwegian Krone, the New Zealand Dollar and the Brazilian Real, which positively affected the valuation of investments in Green Resources, Matariki, Eucateca and Mata Mineira. These gains are a reversal of unrealised exchange losses, totalling US\$18.2 million recognised in the unaudited results reported at 30 June 2010.
  - b) Net realised foreign exchange losses totalling US\$6.6 million, where total losses of US\$8.4 million were incurred on the conversion of Euro to US Dollars and the payment of New Zealand Dollars for the Matariki deal during Q1 2010 when the US Dollar had strengthened against these currencies. These losses were offset by realised gains of US\$1.8 million on the maturity of Euro and New Zealand Dollar fixed deposits during January 2010.
3. Operating expenses totalling US\$34.2 million are in line with expectations given the different stages of the plantations' development and life cycle and the absence of significant harvesting income.

**Financial Results**  
at 31 December 2010

The following table presents a summary of the movement in NAV during the year:

Company	NAV Ordinary Shares 31 Dec 2009 US\$'000	Acquisitions/ (Return of funds) US\$'000	Unrealised Gain/(Loss)				Foreign Exchange Translation Differences US\$'000	Realised Foreign Exchange US\$'000	Net Income/ (Expenses) US\$'000	NAV Ordinary Shares 31 Dec 2010 US\$'000	% of NAV 31 Dec 2010	
			Valuation US\$'000	Land US\$'000	Biological Assets US\$'000	Foreign Exchange US\$'000						
Phaunos Timber Fund Limited	257,274	(203,172)	-	-	-	-	(433)	(6,918)	(6,576)	40,175	6.75	
<b>Total Phaunos Timber Fund Ltd</b>										<b>40,175</b>	<b>6.75</b>	
Matariki Forestry Group	-	117,551	17,182	-	-	12,409	-	-	-	147,142	24.73	
Green Resources AS	73,492	13,975	7,847	-	-	-	744	-	-	96,058	16.15	
GreenWood Tree Farm Fund LP	30,921	(182)	5,104	-	-	-	-	-	-	35,843	6.02	
Aurora Forestal Limited	27,815	4,950	1,065	-	-	-	-	-	-	33,830	5.69	
NTP Timber Plus+ Fund I, LP	10,736	-	71	-	-	-	-	-	-	10,807	1.82	
<b>Total Minority-owned investments</b>										<b>323,680</b>	<b>54.41</b>	
Masarang Foundation (1)	-	-	-	-	-	-	-	-	-	-	-	
<b>Total Loans and Deposits</b>	-	-	-	-	-	-	-	-	-	-	-	
Mata Mineira Investimentos Florestais Ltda	49,406	37,000	-	48	4,235	-	5,337	-	409	96,435	16.21	
Eucateca SA	63,063	17,700	-	(7,843)	(5,461)	-	3,084	-	(5,017)	65,526	11.01	
Pradera Roja SA	28,321	1,050	-	111	2,097	-	-	(11)	(518)	31,050	5.22	
Green China Forestry Company Ltd	12,347	10,113	-	-	64	-	-	4	(2,599)	19,929	3.35	
Other operating subsidiaries (2)	21,663	1,015	-	-	-	-	(1,876)	285	(2,959)	18,128	3.05	
<b>Total Operating Subsidiaries</b>										<b>231,068</b>	<b>38.84</b>	
<b>NAV of Ordinary Shares</b>	<b>575,038</b>	<b>-</b>	<b>31,269</b>	<b>(7,684)</b>	<b>935</b>	<b>12,409</b>	<b>6,856</b>	<b>(6,640)</b>	<b>(17,260)</b>	<b>594,923</b>	<b>100.00</b>	
<b>Total Foreign Exchange Gains</b>								<b>12,625</b>				

(1) The Board has reviewed the loan to Masarang Foundation ("Masarang") and concluded it prudent to keep the provision against the full value, given the uncertainty surrounding the ability of Masarang to repay. As a result, the investment in Masarang is valued at nil at 31 December 2010 and 31 December 2009.

(2) Includes the financial results for Caldrey SA, Forest Enterprises doo, SC Romfor Timber SRL and BallFor Timber OU for the year.

## Investment Objective and Policy

The Company's investment objective is to provide shareholders with attractive long term total returns, predominantly expected to be in the form of capital appreciation but with some income, through a diversified portfolio of timberland and timber-related investments.

### Diversification and Asset Allocation

The Company's portfolio is, and will continue to be, diversified through investment in a broad range of investment strategies and vehicles including, but not limited to, investment in a variety of tree species, tree age classes and a diversified range of geographic timberland markets and timber-related investments in order to provide sustainable returns, control volatility and manage risk.

In order to maintain flexibility, there are no predetermined geographic limits on investments made by the Company. The investment focus of the Company includes both investments in well established markets and investments in less developed timberland markets or countries where the Investment Manager believes the benefits of the timberland and timber-related investments outweigh any country risk. The Company will invest in at least four different regions of the world. No single country (or region of the US) will represent more than 40% of the gross assets of the Company and no continent more than 60% of its gross assets.

The Investment Manager seeks to accomplish this investment objective by (i) seeking exposure to timberland and timber-related investments on a global basis; (ii) seeking to control risk through portfolio diversification, investment vehicle selection and implementation of risk control strategies and (iii) seeking portfolio diversification by tree species, age classes and geographic timberland markets.

Generally, the Company will not invest in securities carrying unlimited liability and no single investment or investment in the securities of one company may, at the time of acquisition, exceed 30% of the gross assets of the Company. For these purposes, where the Company invests in a portfolio of assets, each underlying individual asset shall be treated as a single investment and where the Company invests by means of a holding company, joint venture or similar investment or investment vehicle, each underlying property or similar asset shall be treated as a single investment.

Where the above restriction is breached subsequent to the acquisition of an investment as a result of an event outside of the control of the Investment Manager or the Board, no further relevant assets may be acquired by the Company until it can comply with the restriction.

It is the intention of the Company to seek investments that meet or exceed the guidelines set out in the Sustainable Forestry Initiative and, wherever possible and practicable, to certify the lands under the Forest Stewardship Council guidelines.

### Hedging

In order to hedge against interest rate risks or currency risk, the Company may, where appropriate, also enter into forward interest rate agreements, spot or forward currency agreements, interest rates and bond futures contracts and interest rate swaps and, in addition, purchase and enter into put or call options on interest rates or currency rates and put or call options on futures of interest rates or currency rates.

Although the intention is to remain substantially invested, the Investment Manager may exercise its discretion to hold cash or cash equivalent instruments (including but not limited to bank deposits, bonds or government issued treasury securities) for the purpose of protecting the capital value of the Company's cash assets.

### Gearing

The Company's Articles of Incorporation permit maximum borrowings of up to 25% of the Company's NAV. The Directors do not intend to borrow, save for short term liquidity and working capital requirements, to facilitate the Company's over-commitment policy and to fund share buybacks. However, if the Directors deem it prudent, the Company may borrow for longer term purposes.

The Company may also use timber-related instruments such as financial futures, options, warrants and swaps, the return on which is linked to timber-related indices or other timber-related instruments or vehicles. Such timber-related instruments may be used either for cash management purposes or as part of the Company's investment structures.

Since not all of the Company's investments are income generating the Company may also retain a proportion of the Company's assets in cash or near-cash investments for working capital purposes.

### General

The Company will comply with certain investment restrictions for so long as they remain requirements of the UK Listing Authority as set out in more detail below.

The Directors do not currently intend to propose any material changes to the Company's investment policy, save in the case of exceptional or unforeseen circumstances. As required by the Listing Rules, any material change to the investment policy of the Company will only be made with the approval of shareholders.

### Investment Restrictions

The Company will comply with the following investment restrictions for so long as they remain requirements of the UK Listing Authority:

1. The Company and any of its subsidiaries will not conduct a trading activity which is significant in the context of its group as a whole. This does not prevent the businesses forming part of the Company's portfolio from conducting trading activities themselves;
2. not more than 10% in aggregate of the value of the total assets of the Company at the time of its admission to the Official List and to trading on the London Stock Exchange may be invested in other listed closed-ended investment funds, except that this restriction shall not apply to investments in closed-ended investment funds which themselves have published investment policies to invest no more than 15% of their total assets in other listed closed-ended investment funds;
3. the Company will notify to a regulatory information service, within five business days of the end of each quarter, a list of all investments in other listed closed-ended investment funds, as at the last business day of that quarter, which themselves do not have stated investment policies to invest no more than 15% of their total assets in other listed closed-ended investment funds; and
4. to ensure a spread of investment risk the Company will avoid:
  - a) cross financing between the businesses forming part of its portfolio including, for example, through the provision of undertakings or security for borrowings by such businesses for the benefit of another; and
  - b) the operation of common treasury functions as between the Company and investee companies.

In the event of any breach of investment restrictions applicable to the Company, shareholders will be informed of the actions to be taken by the Investment Manager by an announcement issued through a regulatory information service.

## Report of the Investment Manager

The Investment Manager, FourWinds Capital Management, is pleased to report on Phaunos' achievements, activities and developments during the year ended 31 December 2010.

### 2010 Portfolio Highlights<sup>(3)</sup>

(3) See the Financial Results table for details on the movements in value of each investment.

**Matariki Forestry Group ("Matariki"):** The Company completed the acquisition of a significant minority investment in the 183,000 hectare Matariki group, which consists primarily of mixed age pine plantations. The value of the Company's investment in Matariki was up 25.17% at year-end from acquisition cost in February 2010, including the effect of foreign currency valuation. Harvesting operations are on-going on the properties. Phaunos received total distributions of US\$2.6 million from Matariki during the year.

**Mata Mineira Investimentos Florestais Ltda ("Mata Mineira"):** The Company completed the acquisition of 100% of its Mata Mineira property in Minas Gerais, Brazil, which consists of mixed age eucalyptus plantations. Harvesting operations are on-going on the properties. The value of the Company's investment in Mata Mineira was up 11.60% at year-end from the acquisition cost at completion of the transaction in April 2010, including the effect of foreign currency valuation.

**Green Resources AS ("Green Resources"):** The Company completed its significant minority investment program in Green Resources, which consists of mixed age, mixed species plantations in East Africa. Harvesting operations are on-going on the properties. The value of the Company's investment in Green Resources was up 9.82% at year-end, including the effect of foreign currency valuation.

**Eucateca SA ("Eucateca"):** The Company owns 100% of Eucateca, and continued its planting program of eucalyptus and teak plantations in Mato Grosso, Brazil. Eucateca is one of the Company's two wholly owned greenfield plantation companies (see also Pradera Roja below). Harvesting operations are expected to commence in 2015. The value of the Company's investment in Eucateca was down 18.87% at year-end, including the effect of foreign currency valuation, primarily due to the recognition that previously planted hectares are not plantable, the loss of the seedlings planted on those hectares, and high planting costs on other parts of the plantations.

**Aurora Forestal SA ("Aurora Forestal"):** The Company completed its significant minority investment program in Aurora Forestal, which consists of mixed age pine plantations in northern Uruguay. Harvesting operations are on-going on the properties. The value of the Company's investment in Aurora Forestal was up 3.25% at year-end. Phaunos received total dividends of US\$694,368 from its investment in Aurora Forestal during the year.

**Pradera Roja SA ("Pradera Roja"):** The Company owns 100% of Pradera Roja, and completed its planting program of eucalyptus plantations in southern Uruguay. Pradera Roja is one of the Company's two wholly owned greenfield plantation companies (see also Eucateca above). Limited harvesting is anticipated in 2012, and thinning operations are expected to commence in 2013. Full rotation harvesting is expected in 2023. The value of the Company's investment in Pradera Roja was up 5.72% at year-end.

**Greenwood Tree Farm Fund LP ("GTFF"):** The Company owns a significant minority position in GTFF, which consists of mixed age poplar plantations in the Northwestern US. Harvesting operations are on-going on the properties. The value of the Company's investment in GTFF was up 16.61% at year-end attributable to the increase in the underlying value of GTFF's portfolio.

**Green China Forestry Company Limited ("Green China"):** The Company owns 100% of Green China, which consists of mixed age pine plantations. Green China completed its second investment in Jiangxi Province, China. Harvesting and resin-tapping operations are on-going on the properties. The value of the Company's investment in Green China was down 11.26% at year-end, including the effect of foreign currency valuation. The loss is mainly attributable to cost levels relative to the scale of the operations.

The Investment Manager is examining each operating unit to identify cost reduction strategies in the Company's holdings, and expects to streamline operations and concentrate the Company's investment footprint over the coming year. This may result in the sale or consolidation of some investments, with the aim to increase efficiency. It is important to note that, consistent with IFRS guidelines, wholly-owned operating company expenses are included in the Consolidated Statement of Comprehensive Income, in addition to the Company level expenses. This can be misleading when one tries to compute the expense ratio of the Company, since those expenses are, in fact, not Company-level expenses and should not be included in an analysis of Company-level expenses.

The Company is implementing a Forestry Information Management System (FIMS) across the Portfolio in order to manage more efficiently our standing inventory and proposed harvesting schedules. The objective is to be able to forecast and optimise harvesting regimens across the Portfolio, as well as to standardise reporting.

The Company is well diversified with exposure to many end markets. As the world economy continues its recovery, the Investment Manager believes the Portfolio will perform very well.

The following are summaries of the Portfolio at 31 December 2010:

**Portfolio Summary**

Company	Description	Geography	% of Ownership	% of NAV 31 Dec 2010
1. Matariki Forestry Group	Mixed age pine plantations, six estates, currently with 183,000 hectares	New Zealand	Minority holding	24.73
2. Mata Mineira Investimentos Florestais Ltda	Mature and mixed age eucalyptus plantations in Minas Gerais, Brazil, currently with over 19,000 hectares	East Central Brazil	100.00	16.21
3. Green Resources AS	Mixed age, mixed species plantations, currently with 18,000 productive hectares and rights to plant more than 200,000 hectares	East Africa	Minority holding	16.15
4. Eucateca SA	Greenfield teak and eucalyptus plantations in Mato Grosso, Brazil, currently with 17,210 hectares	West Central Brazil	100.00	11.01
5. GreenWood Tree Farm Fund LP	Four mixed age poplar plantations, currently with 35,000 acres and a new sawmill	NW USA	Minority holding	6.02
6. Aurora Forestal Limited	Joint venture in a sawmill and mixed age pine plantations, currently with 19,500 hectares	Northern Uruguay	Minority holding	5.69
7. Pradera Roja SA	Greenfield plantation project for fast growing eucalyptus, currently with 12,000 hectares	Southern Uruguay	100.00	5.22
8. Green China Forestry Company Ltd	Mixed age pine and fir plantations, currently with 6,500 hectares	China	100.00	3.35
9. NTP Timber Plus+ Fund I, LP	"Higher-and-better-use" timberland conversion	SE USA	Minority holding	1.82
10. Forest Enterprises doo	Pellet fuel plant using waste wood	Serbia	100.00	1.16
11. Caldrey SA	Timber harvesting company	Southern Uruguay	100.00	0.48
12. Masarang Foundation (4)	Loan: commercial forestry project with social and environmental goals	Indonesia	100.00	-
13. Other(5)	Cash reserves held for committed projects and working capital	Europe	100.00	8.16
		<b>Total Portfolio Value</b>		<b>100.00%</b>

(4) The Board has reviewed the loan to Masarang and concluded it prudent to keep the provision against the full value, given the uncertainty surrounding the ability of Masarang to repay.

(5) Includes cash reserves held at the Company level and by Romfor Timber and BaltFor Timber.

### Risk Mitigation

Phaunos' global diversity is unique in timber and timber related investments. Investing in a variety of cultures, operating and regulatory environments requires adaptability and flexibility, because no single business model will succeed in every country. By definition, "Global Timberland" investment includes exposure to market, financial, operational, legal, title and expropriation risks. Phaunos is uniquely structured as a timber investment entity without a fixed life to participate advantageously across a variety of business models, and this is necessary to accomplish global exposure.

For instance, co-investment is a long-standing tactic in the timber investment management industry and Phaunos has invested alongside other institutional investors in projects like Matariki. This provides greater diversification than a single investment of the same dollar value could provide. In the Matariki example, Phaunos' operating risk is also diversified across six plantations on the two islands of New Zealand. Our investment of approximately US\$117.5 million could have bought only a fraction of the land mass if invested individually, which would mean decreased operating diversification and increased risk concentration. Additionally, through this investment, Phaunos will benefit from cost efficiencies across a broader land base, as the same management structure is spreading costs across a larger company.

In East Africa, Phaunos has carefully selected and invested in the best operating company it could find, Green Resources, which has an integrated management structure, essential for robust risk management in that region. An integrated management company, where management is vested in a very significant shareholder, aligns interests among all investors. When operating in developing markets, risk sharing is very desirable. In addition to geographic diversification to limit risk, it helps to minimise physical risk and spread costs; it also reduces vulnerability to changes in availability of on-the-ground management should local managers exit the market or change ownership.

Additionally, we believe that the "unlimited life" structure of Phaunos is superior to investing via limited or fixed term funds when working in developing timberland markets, because the start-up and investment periods of these funds are usually significant, and it is not economically optimal to sell portfolio assets so shortly after they have been assembled. Shorter term structures, such as ten-year funds, can force liquidation just when the value curve is climbing. In Phaunos, our unlimited life allows us to manage the Portfolio to its highest value for investors. This is one reason why we have been successful investing in markets where many of our competitors have not.

The result is global diversification.

### Diversification of the Investment Portfolio

Phaunos is diversified by geography, species, age class (merchantable versus pre-merchantable timber), and by type of market. Geographic diversification makes the Portfolio less vulnerable to various types of physical risk: fire, insects or disease, and provides access to different markets. Species diversification provides exposure to different kinds of markets, e.g. pulp, saw wood, etc. Age class diversification allows for sustainable harvesting to produce distributions going forward (always considering the relative value between harvesting today versus next year). Market diversification positions the Portfolio to prosper across different economic regions. In addition, we continue to believe that a global basket of currencies has an inherent self-balancing mechanism over the long term and therefore our general policy is not to hedge currency exposure.

### Summary

Markets are recovering and the trees are growing. Our management focus is on greater efficiencies and intensive management. We are fully invested and have achieved global diversification. The Company is well-positioned to meet its performance objectives in the years to come as our forests mature.

FourWinds Capital Management

15 April 2011

### Directors

Details of the Directors who held office during the year or were appointed shortly after the year end are set out below. The Directors are responsible for the determination of the Company's investment policy and strategy and have overall responsibility for the Company's activities, including the review of investment activity and performance. All the Directors are non-executive and, save for Liane Luke and Kimberly Tara, are independent of the Investment Manager.

**Keith Oates (British)**, aged 68. Keith was Executive Deputy Chairman of Marks & Spencer plc from 1994-1999, having joined as Finance Director in 1984 and being appointed joint Managing Director in 1991. He was the founder and then Chairman of Marks & Spencer Financial Services for 15 years. In addition to Marks & Spencer, he has held executive positions with the Reed Paper group, IBM, Black and Decker and TBG. A Governor of the BBC from 1988 to 1993, he has also been a non-executive director of B.T. plc, MCI, the Financial Services Authority, the G.B. and English Sports Councils, John Laing plc and Chairman of Quest. He was a non-executive director and Chairman of the Audit Committee of Diageo plc, whose brands include Smirnoff, Johnny Walker, Guinness, Gordons, Captain Morgan and Baileys, for nearly 10 years until 2004. He was also a special adviser to Coutts Bank in Monaco from 2002-2005.

He has been a Member of Council (Governor) of Wycombe Abbey School since 1995. He was appointed a non-executive director of the English National Committee of the Forestry Commission in 2007. He graduated with a B.Sc (Econ) from the London School of Economics, a business diploma at UMIST and an M.Sc from Bristol University. In 1998, he was awarded an honorary Doctorate of Science (D.Sc.) from UMIST and an honorary Doctorate of Laws (LLD) from Bristol. He is resident in the United Kingdom and Monaco.

**Liane Luke (American)**, aged 60. Liane is Managing Director and Head of Timber Investments at FourWinds Capital Management, the Investment Manager of Phaunos. Liane founded Phaunos, along with Kimberly Tara. With more than 20 years' experience in real asset investing and managing investments for institutional clients, she has spent the last 14 years working exclusively in timberland investing. She assembled the Investment Manager's timber investment and management team, focusing on including forestry and international business management skills. Previously, she had been a principal in a major US-based Timber Investment Management Organisation, and began her timberland investment career at Hancock Timber Resource Group, where she worked with four other senior members of the Investment Manager's Timber team. Her qualifications include a BA magna cum laude from the University of New Hampshire and an MBA in finance from the Yale University School of Management.

**Kimberly Tara (American)**, aged 41. Kimberly has spent the last 19 years negotiating, executing and managing investments and projects, with a focus on cross-border transactions. She has executed deals in Europe, the US, Latin America, and Asia. She began her career in Mergers & Acquisitions at Morgan Stanley. In 1995 she joined Value Partners, a McKinsey spin-off in Italy. In 1999, she began working as an alternative investment consultant, providing financial and advisory services for clients in Europe and the US. She also worked as Chief Financial Officer for a US-based biotech company. Since 2005 as Chief Executive Officer of the Investment Manager, Kimberly has successfully raised and managed more than US\$1 billion in commodities and natural resources. She graduated magna cum laude from Brown University with a degree in Business Economics and received her MBA from INSEAD in France. She is resident in France.

**Sir Henry Studholme (British)**, aged 53. Sir Henry Studholme was appointed as a Director on 5 January 2011. He is an Engineering graduate of Cambridge University, a Chartered Accountant (FCA), a Chartered Tax Adviser (CTA) and accredited Commercial Mediator (CEDR). He has extensive experience as an owner manager of timber and forest estate. He has worked in an advisory role to the GB Forestry Commission for the last ten years and for the last four years has been a GB Commissioner. He chairs the Forestry Commission Audit Committee. He also has strong commercial experience including Group Financial Controller of S.R. Gent plc and a Director and Chairman of the Audit Committee of Integer Ltd from 1993 to 2002, where he was Chairman from 2002 to 2007. Sir Henry is currently Chairman of the United Kingdom South West of England Regional Development Agency. He is resident in the United Kingdom.

**Martin Ricketts (British)**, aged 66. Martin Ricketts was appointed as a Director on 5 January 2011. He is a Cambridge graduate and holds an MBA from INSEAD. He was the Managing Partner of Euroconsult Monaco for 11 years until 2007 and has extensive experience in financial and operational analysis, acquisitions and mergers. He is also multilingual and has worked in Continental Europe over the last 45 years, for among others, Swiss Re, Chase Manhattan Bank, Eurofinance, TBG and North Atlantic /Sauer AG. He is currently a board member of Fidinam (Monte Carlo) S.A.M., a subsidiary of the largest independent fiduciary company in Switzerland. He is resident in Monaco.

**Ian Burns (British)**, aged 51. Ian Burns was appointed as a Director on 1 March 2011. He is a Chartered Accountant and Chartered Fellow of the Chartered Securities and Investment Institute. He has extensive experience of the structuring, administration, reporting and governance of offshore companies including investment funds and captive insurance companies. He is currently senior executive director of VIA Executive Ltd, a consulting company in Guernsey and President of Regent Mercantile Bancorp Inc, a leading private investment firm based in Canada. He is a non-executive director of Darwin Property Investment (Guernsey) Ltd and Premier Asset Management (Guernsey) Ltd. He is resident in Guernsey. Until 18 October 2006 he was also a director of The Glanmore Property Fund Limited (listed on the Irish Stock Exchange) and The British Real Estate Fund Limited (listed on the Channel Islands Stock Exchange).

**Peter Niven** resigned as a Director on 5 January 2011.

**Sarah Evans** resigned as a Director on 5 January 2011.

## Investment Manager, Administrator and Company Secretary

### Investment Manager

FourWinds Capital Management is the Company's Investment Manager and its management team has a proven track record of generating competitive returns from timberland and timber-related investments across multiple geographic locations. The Directors consider such broad timberland and timber-related experience to be beneficial as the Company and entities controlled by the Company (together the "Group") seek to execute the Company's investment strategy.

The Investment Manager is a Cayman Islands exempted company with offices and affiliates in Boston, London, Hong Kong and Dubai, and was incorporated on 14 March 2005. The Investment Manager has discretionary authority to invest the Company's assets and is responsible for all investment decisions made on behalf of the Company, subject to the overall control, supervision and policies of the Board.

It is also primarily responsible for researching, selecting and monitoring the Company's investments and making decisions on when and how much to invest in, or withdraw from, a particular investment, subject to the overall control, supervision and policies of the Board. The timber management team works solely on timberland investments.

There is also a focus on the development and risk management of investment vehicles for natural resources, commodities and real assets.

The Investment Manager currently has other investments under management, including Aqua Resources Fund Limited, Ceres Agriculture II, Environmental Infrastructure Partnership (MEA) L.P., Waste Resources Fund L.P., Zephyr Liquid Commodities Fund LLC and Zephyr Commodity Fund.

### Administrator and Company Secretary

HSBC Securities Services (Guernsey) Limited is the Administrator and Company Secretary of the Company.

## Report of the Directors

The Directors present the Annual Report and Audited Consolidated Financial Statements for Phaunos Timber Fund Limited (the "Company" or "Phaunos") and of its subsidiaries (the "Group") for the year ended 31 December 2010.

### Principal Activity and Business Review

The Company has been established to invest in a diversified global portfolio of timberland and timber-related investments.

A description of the principal activities of the Company and the Group during the year is given in the Report of the Investment Manager.

### Status

Phaunos is an authorised closed-ended investment company, incorporated in Guernsey on 28 September 2006, with an unlimited life. The Company has one class of US Dollar denominated shares in issue being Ordinary Shares. The Company converted all its issued C Shares into Ordinary Shares during the year - please see the section 'Share Issues and Repurchases' below. Since inception, the Company has raised a total of US\$559.8 million (before expenses) through Ordinary Share and C Share placings.

### Share Issues and Repurchases

The Company's authorised share capital is represented by an unlimited number of Ordinary Shares of no par value.

The issued share capital of the Company at 31 December 2010 was 537,149,832 Ordinary Shares and 4,065,045 Ordinary Shares held in treasury (2009: 498,334,561 Ordinary Shares, 43,510,000 C Shares and 4,065,045 Ordinary Shares held in treasury).

The Ordinary Shares of the Company are admitted to listing on the Official List, to trading on the Main Market of the LSE and to listing and trading on the CISX.

On 8 June 2010, 43,510,000 C Shares were converted into 38,815,271 Ordinary Shares and were admitted to the Official List, to trading on the Main Market of the LSE and to listing on the CISX. The C Shares were converted to Ordinary Shares at a conversion ratio of 0.8921 Ordinary Share to 1 C Share based on the NAV of the respective share classes at 31 December 2009 and in accordance with the Company's Articles of Incorporation.

The Articles of Incorporation have granted authority to the Directors, pursuant to the Companies (Guernsey) Law 2008, to allot an unlimited number of Ordinary Shares and 1,556,490,000 C Shares (including warrants, options and other rights in respect of such shares). This authority has a term of five years from the date of adoption of the Articles of Incorporation on 24 March 2011.

The Company has authority to buy back up to 14.99% of its Ordinary Shares, which expires at the conclusion of the 2011 annual general meeting of the Company (the "2011 Annual General Meeting"). The Company is seeking renewal of this authority at the 2011 Annual General

Meeting, again in respect of 14.99% of the Ordinary Shares in issue at the time of the 2011 Annual General Meeting.

At 31 December 2010 the following shareholders had an interest of 3% or more in the Ordinary Shares of the Company:

Ordinary Share Holder	Number of Shares	% of Total Shares in Issue
Citibank Nominees (Ireland) Limited*	94,950,700	17.68
Euroclear Nominees Limited*	91,698,107	17.07
Chase Nominees Limited*	77,012,815	14.34
HSBC Global Custody Nominee (UK) Limited*	40,792,387	7.59
Nortrust Nominees Limited*	32,882,264	6.12
Securities Services Nominees Limited*	31,739,071	5.91
The Bank of New York (Nominees) Limited*	24,217,500	4.51
DWS Access SA	22,311,421	4.15
State Street Nominees Limited*	21,863,415	4.07
Pershing Nominees Limited*	20,314,176	3.78
Rathbone Nominees Limited*	18,834,135	3.51

\*Custodian accounts held on behalf of individual shareholders. These holdings are aggregated holdings.

#### Investment Objective and Investment Policy

The investment objective and policy of the Company are stated in the Investment Objective and Policy section.

#### Results

The results for the year are set out in the Consolidated Statement of Comprehensive Income.

#### Dividends and Dividend Policy

Phaunos has now reached full investment. In its original Prospectus it had stated that dividends would not be paid before this point was reached.

The Board believes that although the Company is primarily designed for shareholders to benefit from long term capital gain, there are also good reasons to pay income to shareholders through dividends. This is partly because Phaunos receives income both from felling operations it owns and manages, under high sustainable and environmentally protective standards. There are also dividends received from the companies where it has a minority stake.

In addition, the Phaunos timberlands provide growth in the value of its biological assets throughout the year which is reflected in the NAV calculation and this too will eventually provide realised felling income and cash. All these factors taken together justify paying a dividend.

The Dividend Policy adopted by the Board aims to provide shareholders with the security of a sustained dividend payment into the foreseeable future and under normal circumstances. If necessary, this will be achieved by raising cash through disposals where these are economic and appropriate.

At the EGM held on 24 March 2011, the Articles of Incorporation of the Company were revised to enable dividends to be declared from any account as long as the Board considers that, following the payment of such dividend, the Company will be able to pass a statutory solvency test. The Board will also consider offering a scrip dividend alternative to cash dividends once the discount to NAV per Ordinary Share is reduced.

The Company has indicated that on full investment it should have the ability to pay a dividend, and the Board has announced that it proposes (subject to shareholder approval at the 2011 Annual General Meeting) to declare the Company's first dividend of US\$0.02 per Ordinary Share.

#### Performance Fees

A performance fee becomes payable to the Investment Manager at the end of the first performance period when the NAV of the Company, as adjusted for share premiums on Ordinary Shares issues and discounts on Ordinary Shares buybacks, exceeds US\$1.08. The adjusted NAV for the purpose of calculating the performance fee at 31 December 2010 was US\$1.07. This is below the first performance hurdle and consequently no performance fee is payable. Please refer to Note 32 for details on determining the performance fee.

#### Further Share Issues and Pre-emption Rights

The Company's authorised share capital is such that either further issues of new Ordinary Shares or re-issues of Ordinary Shares held in treasury may be made. Subject to prevailing market conditions, the Board may decide to make one or more further issues or re-issues of Ordinary Shares for cash from time to time, and, where required, a prospectus relating to any such issue or re-issue will be published by the Company. Any further issues of new Ordinary Shares or re-issues of Ordinary Shares held in treasury will rank paripassu with Ordinary Shares in issue.

The Articles of Incorporation have granted authority to the Directors, pursuant to the Companies (Guernsey) Law, to allot an unlimited number of Ordinary Shares and 1,556,490,000 C Shares (including warrants, options and other rights in respect of such shares). This authority has a term of five years from the date of adoption of the Articles of Incorporation on 24 March 2011 (ending 23 March 2016). The Board intends to seek renewal of this authority prior to the end of this period.

As a Guernsey incorporated vehicle, the Company is not subject to any local statutory requirements in respect of shareholder pre-emption rights for new share issues for cash. However under changes to the Listing Rules that came into effect in April 2010, non-UK companies that have shares admitted to the Official List with a premium listing were required to have pre-emption rights contained in their constitution prior to 6 April 2011. Accordingly, at an extraordinary general meeting of the Company held on 24 March 2011 (the "EGM"), new Articles of Incorporation of the Company were adopted to introduce pre-emption rights in respect of all new Ordinary Share issues for cash in order that the Company complies with the Listing Rules and retains the premium listing for the Ordinary Shares.

Pursuant to a further special resolution approved at the EGM, the pre-emption rights introduced in the new Articles of Incorporation were disapplied in respect of new issues of Ordinary Shares for cash, subject to the disapplication being limited to a proportion of any new issue of Ordinary Shares that represented approximately 5 per cent. of the issued share capital of the Company (including Treasury Shares) at that time, being 27,060,744 Ordinary Shares. The Company is seeking renewal of this disapplication at each annual general meeting of the Company hereafter including at the 2011 Annual General Meeting, again in respect of 5% of the Ordinary Shares in issue at the date of publication of the relevant consolidated financial statements.

#### Financing Strategy

Unless authorised by shareholders, the Company will not issue further Ordinary Shares or re-issue Ordinary Shares out of treasury for cash at a price below the prevailing NAV per Ordinary Share unless they are first offered pro rata to existing shareholders.

The Directors do not intend to borrow, save for short-term liquidity and working capital requirements. However, if the Directors deem it prudent, the Company or members of the Group may borrow for longer term purposes. In any event, the Company's power to borrow is limited to 25% of the NAV of the Company.

### Shareholder Information

The NAV of the Company (and hence the NAV per Ordinary Share) is calculated in US Dollars at the end of each financial year (audited) and each interim reporting period end (unaudited), based upon information supplied by a variety of sources, including third party local managers, as described below. The NAV is the value of all assets of the Company less all liabilities of the Company determined in accordance with the valuation guidelines adopted by the Directors from time to time. Under current valuation guidelines adopted by the Directors, such values are determined in accordance with IFRS adopted by the European Union.

Valuations of the Group's investments classed as financial assets are based on fair value information provided by the underlying managers of those investments. Valuations of the land and biological assets held by operating subsidiaries are based on independent timberland appraisals arranged by the Investment Manager on an annual basis. In addition, the financial reports typically provided to the Company by third party managers are provided on a half yearly basis and generally are issued two to three months after the respective valuation dates. At the end of each financial year, the Company publishes its audited NAV per Ordinary Share. It also publishes an interim unaudited NAV at 30 June each financial year.

### Directors and their Interests

The Directors' details are given in the Directors section. Directors' interests in Ordinary Shares were unchanged during the year and their holdings at 31 December 2010 are set out below<sup>(6)</sup>.

Director	Ordinary Shares	Percentage of issued Ordinary Shares
Keith Oates	200,000	0.04%
Sarah Evans (resigned 5 January 2011)	38,500	0.01%
Liane Luke	-	-
Peter Niven (resigned 5 January 2011)	30,000	0.01%
Kimberly Tara <sup>(7)</sup>	275,000	0.06%

<sup>(6)</sup> After the year end, on 20 January 2011, Sir Henry Studholme (appointed as a Director of the Company on 5 January 2011) acquired 75,000 Ordinary Shares in the Company, representing 0.0139 per cent of the issued Ordinary Shares of the Company, augmenting his holding of 20,000 Ordinary Shares held prior to appointment.

<sup>(7)</sup> Tara's interest in 275,000 Ordinary Shares is in respect of Ordinary Shares owned by FourWinds Capital Management, the Investment Manager, of which Kimberly Tara is a shareholder and a director.

All of the Directors are non-executive directors. None of the Directors have, or have had during the year, an interest in any transaction which is, or was, unusual in its nature or conditions, or significant to the business of the Group or which has been effected by the Group during the year, except for the interests in the Investment Manager of Kimberly Tara (by virtue of her shareholding in and directorship of the Investment Manager) and Liane Luke (by virtue of her position as Managing Director of the Investment Manager's Timber Group), and therefore in the investment management agreement between the Company and the Investment Manager dated 4 June 2008 (the "Investment Management Agreement") (details of which can be found in Note 32).

### Directors' Remuneration

The Chairman receives a fee of £70,000 per annum (2009: £70,000). Each of the other Directors receive an annual fee of £25,000 per annum (2009: £25,000), with the exception of Kimberly Tara and Liane Luke who do not receive fees.

During the year Peter Niven received an additional sum of £5,000 per annum (2009: £5,000) for his chairmanship of the Management Engagement Committee. During 2009, Mr Niven also received a pro rata proportion of £5,000 per annum for his chairmanship of the Audit Committee for the period to 30 June 2009. During the year, Sarah Evans received an additional sum of £5,000 per annum for her chairmanship of the Audit Committee (2009: £5,000 per annum, pro rata effective 1 July 2009). An extra £10,000 each was awarded to Peter Niven and Sarah Evans as a special payment in respect of additional duties performed during the fourth quarter of 2010. Peter Niven and Sarah Evans resigned from the Board of the Company on 5 January 2011. Their chairmanships of the Management Engagement Committee and Audit Committee respectively ended upon resignation.

Sir Henry Studholme has assumed the Chair of the Audit Committee with effect from 5 January 2011. Martin Ricketts has assumed the Chair of the Management Engagement Committee with effect from 5 January 2011. The additional remuneration for these Chairmanships is the same annual additional amount as received by their predecessors.

The aggregate remuneration of the Directors in respect of the year ended 31 December 2010, which is payable out of the assets of the Company, did not exceed £200,000.

### Net Asset Value

The audited NAV per Ordinary Share at 31 December 2010 was US\$1.11 per share (2009: NAV per Ordinary Share of US\$1.07 and NAV per C Share of US\$0.96).

### Corporate Governance

Guernsey does not currently have its own corporate governance code, however from 6 April 2010, overseas companies listed on the Official List are required, under the Listing Rules, to 'comply' or 'explain' against the Combined Code on Corporate Governance (June 2008) (the "Combined Code") issued by the Financial Reporting Council (the "FRC"). The FRC allows for investment companies to discharge this obligation by reporting against the Association of Investment Companies' Code of Corporate Governance (March 2009) (the "AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies (March 2009) (the "AIC Guide"<sup>(8)</sup>) rather than the Combined Code.

<sup>(8)</sup> The AIC Guide is publicly available at the website address: <http://www.theaic.co.uk/Documents/Technical/AICCorporateGovernanceGuide2010.pdf>

The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code, as well as setting out additional principles and recommendations on issues specific to investment companies, and are considered by the FRC to meet the obligations of the Combined Code.

The Company has complied throughout the year with the recommendations of the AIC Code and the relevant provisions of the Combined Code. Since all the Directors are non-executive, in accordance with the AIC Code and the preamble to the Combined Code, the provisions of the Combined Code on the role of the chief executive and, except in so far as they apply to non-executive Directors, on Directors' remuneration, are not relevant to the Company, and are not reported on further. In addition, and because all of the Directors are non-executive, there is no remuneration or nomination committee.

The Board meets at least four times a year and between these formal meetings there is regular contact with the Company Secretary and the Investment Manager. The Directors are kept fully informed of investment and financial controls and other matters that are relevant to the business of the Group and which should be brought to their attention.

The Board has a breadth of experience relevant to the Group and the Directors believe that any changes to the Board's composition can be managed without undue disruption. With any new Director appointed to the Board, consideration will be given as to whether an induction process is appropriate.

**Board Responsibilities**

At the year end the Board comprised five non-executive Directors, three of whom were independent. Following the resignations and appointments which took place after the year end (referred to in the Directors section), the Board comprises six non-executive Directors, four of whom are independent.

The Board meets quarterly to consider the affairs of the Group in a prescribed and structured manner with additional adhoc meetings being held as required. Biographies of the current Directors appear in the Directors section, demonstrating the wide range of skills and experience they bring to the Board.

The Board has formalised arrangements under which Directors, in the furtherance of their duties, may take independent professional advice at the Company's expense. The Directors have access to the advice and services of the Company Secretary through its appointed representatives who are responsible to the Board for ensuring that Board procedures are followed and comply with applicable rules and regulations.

To enable the Board to function effectively and allow Directors to discharge their responsibilities, full and timely access is given to all relevant information.

Under the Articles of Incorporation, one third of the Board is subject to retirement by rotation each year, such that all Directors are required to submit themselves for re-appointment at least every three years. Directors who have served for nine years or more will be subject to annual re-appointment. Pursuant to the Listing Rules, being newly appointed Directors, Sir Henry Studholme, Martin Ricketts and Ian Burns will each retire and, being eligible, offer themselves for re-appointment at the 2011 Annual General Meeting. Keith Oates, having not retired and been offered for re-appointment at the last two annual general meetings of the Company, will also retire and, being eligible, offer himself for re-appointment at the 2011 Annual General Meeting. In addition, pursuant to the Listing Rules, both Kimberly Tara and Liane Luke are required to retire from office at each annual general meeting of the Company and may offer themselves for re-appointment at each such meeting. Accordingly, at the 2011 Annual General Meeting, all of the current Directors will retire and, being eligible, will offer themselves for re-appointment.

None of the Directors have a director's service contract with the Company.

**Audit Committee**

The Audit Committee comprises of all the independent Directors. In the year ended 31 December 2010, the members were Sarah Evans (Chairman), Peter Niven and Keith Oates.

The function of the Audit Committee is to ensure that the Company maintains high standards of integrity, financial reporting and internal controls. The Audit Committee reviews the annual and interim reports and the consolidated financial statements of the Company, the internal controls pertinent to the preparation of accurate financial statements and the management of the Company, the Auditors' remuneration and engagement, as well as the Auditors' independence and any non-audit services provided by them.

The Audit Committee receives information from the Administrator and from the Auditors as to the objectivity of their audit and their independence. The terms of reference of the Audit Committee are available on request from the Company Secretary.

**Management Engagement Committee**

In the year ended 31 December 2010, the Management Engagement Committee comprised Peter Niven (Chairman), Sarah Evans and Keith Oates.

The function of the Management Engagement Committee is to ensure that the terms of engagement with all the Company's service providers are operating satisfactorily to ensure the safe and accurate management and administration of the Company's affairs and business, and that the terms of their appointment are competitive and reasonable for the shareholders, and to make appropriate recommendations to the Board.

**Board Evaluation**

Each Director's performance is reviewed annually by the Chairman with input from all Directors and the performance of the Chairman is assessed by the Chairman of the Audit Committee, who likewise receives input from all Directors, in the same time scale.

**Attendance at meetings**

Directors' attendance at Board, Management Engagement Committee and Audit Committee meetings during the year was as follows:

Director	Board Meetings	Audit Committee	Management Engagement Committee
Keith Oates	5	4	1
Sarah Evans	5	4	1
Peter Niven	5	4	1
Kimberly Tara	5	N/A	N/A
Liane Luke	5	N/A	N/A

**Internal Controls**

The Board is responsible for the Company's internal control systems and for reviewing its effectiveness.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. The management of the Company's investments is delegated to the Investment Manager, in line with the delegated authorities agreed by the Board.

The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed. Accordingly, the internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against misstatement and loss.

The Group does not have an internal audit department. All the Group's management and administration functions are delegated to independent third parties and it is therefore felt that there is no need for the Group to have an internal audit facility. However, this matter is reviewed periodically by the Board.

**Investment Manager**

The Investment Manager was appointed on 13 December 2006. The Directors have reviewed the performance of the Investment Manager and are satisfied that the continued appointment of the Investment Manager on the terms agreed is in the best interests of the shareholders and the Company. The Directors have formed this opinion based on the track record of the Investment Manager's team of generating competitive returns from timberland and timber-related investments across multiple geographic locations and consider that the team's broad timberland and timber-related experience is beneficial to the Group in seeking to execute the Company's investment strategy. Refer to Note 32 of the consolidated financial statements for the agreed terms of the Investment Manager.

**Dialogue with Shareholders**

All shareholders of the Company have the right to receive notice of, and attend, each annual general meeting of the Company during which the Board and the Investment Manager are available to discuss issues affecting the Company.

Following the Board's strategic review of the Company during the fourth quarter of 2009, the Board concluded, based on shareholder feedback, to increase marketing and investor communications and also host analyst presentations during 2010.

#### 2011 Annual General Meeting

**The following information, which is to be discussed at the forthcoming 2011 Annual General Meeting, is important and requires your immediate attention. If you are in any doubt about the action you should take, you are recommended to seek immediately your own advice from an appropriately qualified independent adviser authorised pursuant to the UK Financial Services and Markets Act 2000 (as amended) if in the United Kingdom or otherwise regulated under the laws of your own country. If you have sold or otherwise transferred all of your Ordinary Shares, please send this document, together with all accompanying documents at once to the purchaser or transferee or to the stockbroker, banker or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.**

Resolutions relating to the following items of special business will be proposed at the 2011 Annual General Meeting of the Company. The Directors recommend that shareholders vote in favour of the resolutions which are, in the Directors' opinion, in the best interests of shareholders as a whole.

#### Resolution 12- Authority to buy back shares

The resolution to be proposed will seek to renew the authority granted to Directors enabling the Company to purchase its own Ordinary Shares. The Directors will consider repurchasing Ordinary Shares in the market if they believe it to be in shareholders' interests and as a means of addressing any imbalance between the supply of, and demand for, Ordinary Shares, to increase the NAV per share and to assist in maintaining a narrow discount between the NAV per share and price at which the Ordinary Shares may be trading.

Purchases of Ordinary Shares will only be made through the market for cash at prices below the prevailing NAV per Ordinary Share. Under the Listing Rules of the UK Listing Authority the maximum price which can be paid by the Company for an Ordinary Share shall not be more than the higher of (i) 5% above the average of the mid-market values of the Ordinary Shares for the five business days immediately preceding the date of purchase, and (ii) the higher of the last independent trade and the highest current independent bid for the Ordinary Shares on the trading venue where the purchase is carried out. The minimum price (exclusive of expenses) which may be paid for an Ordinary Share pursuant to a buy back under the authority is US\$0.01.

The Directors are seeking authority to purchase up to 14.99% of the issued Ordinary Share capital of the Company (excluding Treasury Shares) at the date the resolution is passed. At the date of publication of the consolidated financial statements that represented 80,518,759 Ordinary Shares (excluding Treasury Shares), but this figure may change if there are any repurchases of shares before the date of the 2011 Annual General Meeting. The resolution will be proposed as a special resolution and the authority granted by the resolution will expire at the conclusion of the next annual general meeting of the Company.

The timing of any purchases by the Company pursuant to the authority will be decided by the Directors in their discretion. Any Ordinary Shares bought back may be held in treasury (up to a maximum of 10% of the issued share capital) or be subsequently cancelled by the Company. As at the date of publication of the consolidated financial statements, the Company holds 4,065,045 Ordinary Shares in treasury, being 0.75% of its issued Ordinary Share capital.

The Company has no warrants or options to subscribe for Ordinary Shares that are outstanding as at the date of the consolidated financial statements.

#### Resolution 13 - Authority to make tender offers

The resolution to be proposed will seek to renew the authority granted to the Directors enabling the Company to purchase its own shares pursuant to a tender offer for up to 25% of the issued Ordinary Shares (excluding Treasury Shares). The Directors will consider making such a tender offer from time to time if they believe it to be in shareholders' interests and as a means of addressing any imbalance between supply of, and demand for, Ordinary Shares, to increase the NAV per Ordinary Share and to assist in maintaining a narrow discount between the NAV per Ordinary Share and the price at which the Ordinary Shares may be trading.

The Directors are seeking authority to make tender offers for a maximum number of Ordinary Shares up to 25% of the issued Ordinary Share capital of the Company (excluding Treasury Shares). Any such tender offer will be at a maximum price per share which is below the prevailing NAV (less expenses). The minimum price (exclusive of expenses) which may be paid for an Ordinary Share pursuant to a tender offer under the authority is US\$0.01. The resolution will be proposed as a special resolution and the authority granted by the resolution will expire at the conclusion of the next annual general meeting of the Company.

The timing of any purchases by the Company pursuant to a tender offer made under the authority will be decided by the Directors in their discretion. Any shares bought back may be held in treasury (up to a maximum of 10% of the issued share capital) or be subsequently cancelled by the Company. As at the date of publication of the consolidated financial statements, the Company holds 4,065,045 Ordinary Shares in treasury, being approximately 0.75% of its issued Ordinary Share capital.

The Company has no warrants or options to subscribe for Ordinary Shares that are outstanding as at the date of the consolidated financial statements.

#### Resolution 14 - Disapplication of pre-emption rights

As stated above, at the EGM, new Articles of Incorporation of the Company were adopted to introduce pre-emption rights in respect of all new Ordinary Share issues for cash and a special resolution was passed approving a disapplication of such pre-emption rights in respect of new issues of Ordinary Shares, subject to the disapplication being limited to a proportion of any new issue of Ordinary Shares that represented approximately 5 per cent. of the issued share capital of the Company (including Treasury Shares) at that time, being 27,060,744 Ordinary Shares.

The resolution to be proposed will seek to renew such disapplication again on a limited basis in respect of a proportion of any new issue of Ordinary Shares that represents approximately 5 per cent. of the issued share capital of the Company (including Treasury Shares) at the date of publication of the consolidated financial statements, being 27,060,744 Ordinary Shares.

The Board considers that this limitation is appropriate and customary for a closed-ended investment fund such as the Company, having regard to guidance from The Association of Investment Companies and the Statement of Principles published by the Pre-emption Group.

The disapplication is proposed by way of a special resolution of the Company and the Board intends to seek such disapplication at each annual general meeting of the Company hereafter. The authority granted by the resolution will expire at the conclusion of the next annual general meeting of the Company.

#### Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Report of the Investment Manager. The financial position of the Group, the principal risks and uncertainties, its cash flows, liquidity position and borrowing facilities are described in this report. In addition, Note 30 to the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Group has sufficient financial resources and no external borrowings. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue to adopt the going concern basis in preparing the Company's annual report and consolidated financial statements.

#### Principal Risks and Uncertainties

The principal risks facing the Company relate to the Company's investment activities. These risks are market risk (comprising currency risk, interest rate risk and price risk), liquidity risk, credit risk and capital management risk.

An explanation of these risks and how they are managed is contained in Note 30 and also in the Risk Management section of the Report of the Investment Manager.

A further risk facing the Company includes regulatory risk (that the loss of the Company's investment status or a breach of the rules of the UK Listing Authority, the LSE, the CISX or the Guernsey Financial Services Commission could have adverse financial consequences and cause reputational damage).

#### Auditors

Ernst & Young LLP have expressed their willingness to continue in office as the Company's auditors. A resolution proposing their re-appointment will be submitted at the 2011 Annual General Meeting.

#### Statement of Directors' Responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable Guernsey Law and generally accepted accounting principles. Guernsey company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group as at the end of the financial year and of the profit or loss for that year. In preparing those financial statements, the Directors should:

1. select suitable accounting policies and apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
4. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Group and to enable them to ensure that the financial statements have been properly prepared in accordance with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### Responsibility Statement

To the best of the knowledge of the Directors:

- The consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and have been prepared in accordance with International Financial Reporting Standards;
- The Chairman's Statement and Report of the Investment Manager include a fair review of the development and performance of the business and position of the Company, together with a description of the principal risks and uncertainties that the Company faces; and
- There is no relevant audit information of which the Auditors are unaware and each Director has taken all reasonable steps he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Auditors are aware of that information.

By order of the Board:

Sir Henry Studholme

Ian Burns

15 April 2011

#### Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	Note	31 Dec 2010 US\$'000	31 Dec 2009 US\$'000
<b>Income</b>			
Net gains on financial assets designated at fair value through profit or loss	14	43,677	19,841
Revaluation of biological assets	11	935	(1,133)
Operating income	4,17	11,067	8,150
		<u>55,679</u>	<u>26,858</u>
<b>Expenses</b>			
Operating expenses	5,17	(34,223)	(18,686)
<b>Operating profit before taxation</b>		21,456	8,172
Taxation on ordinary activities	6	(742)	(1,179)
<b>Profit for the year</b>		<u>20,714</u>	<u>6,993</u>
<b>Other comprehensive (loss)/income</b>			
Revaluation of land	10,27	(7,685)	10,659
Exchange differences on translation of operating Subsidiaries' net assets	26	6,856	22,875
		<u>(829)</u>	<u>33,534</u>

<b>Total comprehensive income for the year</b>	19,885	40,527
<b>Profit for the year attributable to:</b>		
Equity holders of the parent	20,714	6,996
Minority interest	-	(3)
Net profit for the year attributable to Ordinary Shareholders	<u>20,714</u>	<u>6,993</u>
<b>Other comprehensive (loss)/income attributable to:</b>		
Equity holders of the parent	(829)	33,534
Net (loss)/gain for the year attributable to Ordinary Shareholders	<u>(829)</u>	<u>33,534</u>
Earnings per Ordinary Share for the year - Basic and Diluted	<b>Cents</b> 3.98	<b>Cents</b> 1.40

(Based on weighted average number of Ordinary Shares 520,301,445 (2009: 499,520,929))

In arriving at the operating results for the year, all amounts above relate to continuing operations, except as disclosed in Note 17.

### Consolidated Statement of Financial Position

at 31 December 2010

	Note	31 Dec 2010 US\$'000	31 Dec 2009 US\$'000
<b>Non-Current Assets</b>			
Financial assets designated at fair value through profit or loss	14	323,680	142,965
Intangible assets		1	1
Plant and equipment	9	3,043	9,857
Land	10	90,486	62,561
Biological assets	11	108,774	21,548
Prepaid land lease	12	1,617	-
Deferred tax	20	-	490
Loans receivable	15	528	8,431
		<u>528,129</u>	<u>245,853</u>
<b>Current Assets</b>			
Inventories and work in progress		210	692
Receivables	16	2,742	7,036
Cash and cash equivalents	18	68,486	331,032
		<u>71,438</u>	<u>338,760</u>
Assets classified as held for sale	17	9,547	-
		<u>80,985</u>	<u>338,760</u>
<b>TOTAL ASSETS</b>		<u><u>609,114</u></u>	<u><u>584,613</u></u>
<b>Current Liabilities</b>			
Payables - due within one year	19	13,446	9,575
Liabilities classified as held for sale	17	745	-
<b>TOTAL LIABILITIES</b>		<u>14,191</u>	<u>9,575</u>
<b>Equity</b>			
Share capital	22	-	-
Share premium	24	432,101	390,547
C Share class	21	-	41,554
Retained earnings	25	30,850	10,136
Foreign currency translation reserve	26	21,605	14,749
Land revaluation reserve	27	2,974	10,659
Distributable reserves	28	110,418	110,418
Purchase of own shares (Treasury Shares)	23	(3,025)	(3,025)
<b>TOTAL EQUITY</b>		<u>594,923</u>	<u>575,038</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>609,114</u></u>	<u><u>584,613</u></u>
		<b>31 Dec 2010</b>	<b>31 Dec 2009</b>
	<b>Note</b>		
Ordinary Shares in Issue	22	537,149,832	498,334,561
C Shares in Issue	21	-	43,510,000
		<b>US\$</b>	<b>US\$</b>
Net Asset Value Per Ordinary Share		1.11	1.07
Net Asset Value Per C Share		-	0.96

Approved by the Board on 15 April 2011.

Sir Henry Studholme

Ian Burns

### Consolidated Statement of Cash Flows

for the year ended 31 December 2010

	Note	31 Dec 2010 US\$'000	31 Dec 2009 US\$'000
<b>Operating activities</b>			
Net profit for the year attributable to Ordinary Shareholders		20,714	6,993
Movement in inventories		307	694
Depreciation and amortisation		728	215
Inventory impairment	5	175	-
Taxation	6	742	1,179
Impairment of loans receivable	5, 15	2,290	-
Reorganisation of loans receivable	15	2,280	-
Movement in payables		4,957	3,003
Movement in receivables excluding accrued income		4,294	3,432
Less: Net gains on financial assets designated at fair value through profit or loss	14	(43,677)	(19,841)
Revaluation of biological assets	11	(935)	1,133
Dividend income	4	(694)	(968)
Investment income	4	(6,980)	(6,136)
Prepaid land lease (non-current)		(1,617)	-
Net operating (loss)/profit attributable to C Shares	21	-	(573)
<b>Net cash outflow from operating activities before income</b>		<b>(17,416)</b>	<b>(10,869)</b>
Dividend income received	4	694	968
Investment income received	4	6,980	5,821
Taxation paid		(1,086)	(390)
<b>Net cash outflow from operating activities</b>		<b>(10,828)</b>	<b>(4,470)</b>
<b>Investing activities</b>			
Purchase of financial assets	14	(132,843)	(23,454)
Disposals of financial assets	14	-	210,015
Disposals of plant and equipment	9	16	53
Purchase of biological assets	11	(82,972)	(19,506)
Purchase of land	10	(32,607)	(21,486)
Purchase of plant and equipment	9	(3,116)	(2,358)
Repayment of loans/(loans granted)		518	(7,064)
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(251,004)</b>	<b>136,200</b>
		<b>31 Dec 2010 US\$'000</b>	<b>31 Dec 2009 US\$'000</b>
<b>Financing activities</b>			
Proceeds of issue of C Shares	21	-	4,640
Costs of issue of C Shares	21	-	(305)
Repurchase of Ordinary Shares	22	-	(2,038)
<b>Net cash inflow from financing activities</b>		<b>-</b>	<b>2,297</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>331,032</b>	<b>186,074</b>
(Decrease)/increase in cash and cash equivalents		(261,832)	134,027
Effect of foreign exchange rate changes		(714)	10,931
<b>Cash and cash equivalents at end of year</b>		<b>68,486</b>	<b>331,032</b>

### Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

	Note	31 Dec 2010 US\$'000	31 Dec 2009 US\$'000
<b>Opening balance</b>		<b>575,038</b>	<b>494,995</b>

<b>Comprehensive income for the year</b>		
Profit for the year	20,714	6,993
Other comprehensive (loss)/income	<u>(829)</u>	<u>33,534</u>
<b>Total comprehensive income for the year</b>	<b>19,885</b>	<b>40,527</b>
<b>Transactions with owners, directly recorded in equity</b>		
Purchase of own shares (Treasury Shares)	23	(2,038)
Conversion of C Shares	21	<u>41,554</u>
<b>Total transactions with owners, directly recorded in equity</b>	<b>-</b>	<b>39,516</b>
<b>Closing balance at 31 December 2010</b>	<b><u>594,923</u></b>	<b><u>575,038</u></b>

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

### 1. ACCOUNTING POLICIES

#### (a) Basis of Preparation and statement of compliance

The consolidated financial statements of the Company and its Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and applicable Guernsey company law.

The consolidated financial statements have been prepared on a historical cost basis, except for the measurement at fair value of certain financial instruments, land and biological assets.

The consolidated financial statements are presented in US Dollars being the currency of the primary economic environment in which the Group operates. The Group comprises the Company and entities controlled by the Company (its "subsidiaries") as listed below in Note 13.

The consolidated financial statements are rounded to the nearest thousand US Dollars (US\$'000) except where otherwise indicated.

#### (b) Changes in accounting policies and disclosures

##### New and amended standards and interpretations

The same accounting policies, presentation and methods of computation are followed in these consolidated financial statements as were followed in the previous financial year. The adoption of the following new standards, amendments and interpretations effective from 1 January 2010, has not had any impact on the financial position or performance of the Group:

- IFRS 1: First-time Adoption of International Financial Reporting Standards - New Structure
- IFRS 1: First-time Adoption of International Financial Reporting Standards - Additional exemptions (Amendments)
- IFRS 2: Group Cash-settled Share-based Payment Arrangements (Amendments) - for account periods commencing on or after 1 January 2010
- IFRS 3: Business combinations (Revised) - for account periods commencing on or after 1 July 2009
- IAS 27: Consolidation and Separate Financial Statements (Amendment) - for account periods commencing on or after 1 July 2009
- IAS 39: Financial Instruments: Recognition and Measurement - Eligible Hedged Items effective 1 July 2009
- IFRS 12: Service Concessions - for accounting periods commencing on or after 28 March 2009
- IFRIC 15: Agreements for the Construction of Real Estate - for accounting periods commencing on or after 31 December 2009
- IFRIC 17: Distribution to non-cash assets to owners - for accounting periods commencing on or after 1 July 2009
- IFRIC 18: Transfers of Assets from Customers - effective from 1 July 2009

When the adoption of the standard or interpretation may have an impact on the financial statements or performance of the Company, its impact is described below:

##### **IFRS 2: Share-based Payment (Revised)**

The International Accounting Standards Board ("IASB") issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Company.

##### **IFRS 3: Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)**

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010. The change in accounting policy had no material impact on earnings per share.

##### **IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items**

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company, as it has not entered into any such hedges.

##### **IFRIC 17 Distribution of Non-cash Assets to Owners**

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on the financial position nor performance of the Company.

##### **IFRIC 18: Transfer of Assets from Customers**

The International Financial Reporting Interpretations Committee ("IFRIC") issued IFRIC Interpretation 18 in January 2009. IFRIC 18 provides guidance on accounting for transfers of assets, where cash is used to purchase those items of plant, property and equipment, which an entity receives from a customer, which is either used to connect the customer to a network, or provide the customer ongoing access to a supply of

goods and services. The interpretation is effective prospectively to transfers of assets from customers received on or after 1 July 2009. The interpretation has no effect on the financial position or performance of the Company.

#### Improvements to IFRS

In May 2008 and April 2009, the IASB issued an omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Company.

##### Issued in April 2009

- IFRS 8 *Operating Segments*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

Other amendments resulting from Improvements to IFRS to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

##### Issued in May 2008

- IFRS 5: Non-current Assets Held for Sale and Discontinued Operations

##### Issued in April 2009

- IFRS 2: Share-based payment
- IFRS 5: Non-current Assets Held for Sale and Discontinued Operations
- IAS 1: Presentation of Financial Statements
- IAS 7: Statement of Cash Flows
- IAS 17: Leases
- IAS 34: Interim Financial Reporting
- IAS 36: Impairment of Assets
- IAS 38: Intangible Assets
- IAS 39: Financial Instruments: Recognition and Measurement
- IFRS 9: Reassessment of Embedded Derivatives
- IFRIC 16: Hedge of a Net Investment in a Foreign Operation

At the date of approval of these financial statements, the following standards and interpretations, which have not been applied, were in issue but not yet effective:

- IAS 24: Related party disclosures - for accounting periods commencing on or after 1 January 2011
- IFRS 9: Financial instruments - for accounting periods commencing on or after 1 January 2013
- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments - for accounting periods commencing on or after 1 July 2010
- IFRIC 14: Prepayments of a minimum funding requirement - for accounting periods commencing on or after 1 January 2011
- IAS 32 amendments: Classification of rights issues - for accounting periods commencing on or after 1 February 2010
- IFRS 1 amendments: Limited exemption from comparative IFRS 7 disclosures - for accounting periods commencing on or after 1 July 2010
- IFRS 7: Disclosures - Transfer of financial assets - for accounting periods commencing on or after 1 July 2011
- IAS 12: Income Taxes - Tax recovery of underlying assets (Amendment)
- IAS 39: Financial Instruments: Recognition and Measurement - Classification of rights issues
- 2010 improvements to IFRS

The Directors anticipate that the adoption of these standards and interpretations in future periods will not have a material impact on the financial statements of the Company. These standards and interpretations will be adopted when they become effective.

#### (c) Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and its subsidiaries which are prepared for the same reporting period as the Company. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

#### (d) Foreign currency translation

The consolidated financial statements are presented in US Dollars, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are included in operating profit before taxation in the Consolidated Statement of Comprehensive Income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's non-US Dollar denominated operating subsidiaries are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are classified as other comprehensive income and recognised in the Group's foreign currency translation reserve in the Consolidated Statement of Comprehensive Income. Such translation differences will be recognised as income or expenses in the period in which the Group disposes of an operating subsidiary.

#### (e) Operating income

Interest income is accounted for on an accruals basis. Interest income relates only to interest on bank balances and money market deposits. Distributions are recognised when an entitlement to the dividend is established. Income from harvesting revenue, timber sales and pellet mill sales is recognised upon performance of those services or the transfer of risk to the customer.

#### (f) Taxation

Income tax is provided in the financial statements of each subsidiary in accordance with the best estimate of the taxation liability. No allowance is made for any intergroup relief for loss making entities.

Deferred taxes are calculated using the liability method on temporary timing differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. Deferred tax is also provided on unremitted profits at the mitigating tax rate.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective periods of realisation, provided they are enacted or substantively enacted at the reporting date. Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income.

Changes in deferred tax assets or liabilities are recognised as a component of tax expenses in the Consolidated Statement of Comprehensive Income, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

**(g) Expenses**

All expenses are accounted for on an accruals basis.

**(h) Share issue costs**

The Ordinary Shares have no fixed redemption date. Therefore the costs are written off through the Consolidated Statement of Changes in Equity.

**(i) Financial assets designated at fair value through profit or loss**

All investments that are minority-owned by the Group are designated as financial assets at fair value through profit or loss. Investments are initially recognised on the date of purchase at fair value. Transaction costs associated with an investment are recognised immediately in the Consolidated Statement of Comprehensive Income as an expense.

Designation of the investments in this way is consistent with the Company's documented risk management policy and investment strategy and information about the investments is provided to the Board on this basis.

After initial recognition, investments are measured at fair value, with unrealised gains and losses on investments recognised in the Consolidated Statement of Comprehensive Income. Investments are derecognised on sale. Gains and losses on the sale of investments will be recognised in the Consolidated Statement of Comprehensive Income.

**(j) Assets and liabilities classified as held for sale**

Assets and liabilities are classified as held for sale if the asset's carrying amount will be recovered principally through a sale transaction, rather than continuing use. The sale must be highly probable and completed within one year from the date of classification. Such assets and liabilities that meet these and other criteria in accordance with IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations will initially be carried at the lower of carrying amount and fair value less costs to sell. Subsequent to initial recognition, the assets and liabilities held for sale will be measured at fair value less costs to sell, with impairment losses recognised in the Consolidated Statement of Comprehensive Income. On derecognition of assets and liabilities held for sale, any gain or loss will be recorded in the Consolidated Statement of Comprehensive Income.

**(k) Loan receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group includes in this category interest-bearing, secured loans as detailed in Note 15, but excludes the loan to Masarang which is classed as a financial asset designated at fair value through profit or loss. Loans and receivables are carried at amortised cost less any allowance for impairment. Gains and losses are recognised in the Consolidated Statement of Comprehensive Income when loans and receivables are derecognised or impaired, as well as through the amortisation process. Interest earned on loans and receivables are recorded in the Consolidated Statement of Comprehensive Income.

**(l) Plant and equipment**

Equipment, fittings and furniture are carried at acquisition cost less subsequent depreciation and impairment losses.

Depreciation is calculated on a straight line basis so as to write down the cost to estimated residual value over the following periods:

Land improvements - 10 years  
Machines and vehicles - 5 to 10 years  
Computers - 3 years  
Other equipment - 3 to 4 years

**(m) Land**

Land held for use in production or administration is initially stated at acquisition cost in accordance with IAS 16: Property, Plant and Equipment. As no finite useful life for land can be determined, related carrying amounts are not depreciated. Any subsequent increases in value under the revaluation model are credited to Other Comprehensive Income and accumulated in equity under the heading Land Revaluation Reserve. A decrease arising as a result of a revaluation will be recognised in Operating Expense to the extent that it exceeds any amount previously credited to the Land Revaluation Reserve.

When a revalued asset is disposed of, any revaluation surplus is transferred directly to Retained Earnings. The transfer to Retained Earnings will not be made through the Consolidated Statement of Comprehensive Income (that is there will be no "recycling" through profit or loss).

**(n) Biological assets**

Biological assets are initially recognised at cost. This treatment applies to all newly established plantations and is in line with IAS 41: Agriculture ("IAS 41"). IAS 41 allows for the deferral of a fair valuation for a period during which there has been little biological transformation, which the Group has defined as 3 years.

Biological assets are measured at fair value when there is evidence of part physical change (growth, etc.) and part unit price change. Fair value measurement stops at harvest, after which IAS 2: Inventories applies after harvest. Gains and losses on revaluation of biological assets to fair value are recognised in the Consolidated Statement of Comprehensive Income. The same accounting treatment applies when biological assets are derecognised or impaired.

**(o) Prepaid land lease**

Land leases are recognised as an operating lease in accordance with IAS 17: Leases ("IAS 17"). Lease payments are initially recorded at historical cost and carried at amortised cost. The amortisation expense is recognised in the Consolidated Statement of Comprehensive Income over the lease term on a straight-line basis. The land lease prepayments are tested annually for impairment with gains and losses recognised in the Consolidated Statement of Comprehensive Income.

**(p) Impairment of tangible and intangible assets**

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease, all of which is

recognised in the Consolidated Statement of Comprehensive Income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**(q) Inventories and work in progress**

Inventories are stated at the lower of cost and net realisable value. Cost comprises the cost of direct materials and, where applicable, the cost of direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**(r) Cash and cash equivalents**

Cash and cash equivalents are carried at cost. For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash at bank and investments in short term fixed deposits.

**(s) Joint ventures**

The Group's joint ventures were initially designated at fair value through profit or loss on the basis that the fair value of the investment would be recovered through its eventual disposal rather than through the operating results of the jointly controlled entity.

**(t) Other provisions, contingent liabilities and contingent assets**

Other provisions are recognised when present obligations are likely to lead to an outflow of economic resources from the entity and they can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts. Provisions are not recognised for future operating losses. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

**(u) Share-based payments**

The Group has applied the requirements of IFRS 2: Share-based Payment. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the date of granting the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

**2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

The Group ensures independent external appraisals (except for Green Resources, see Note 2(a) below) are conducted every year for financial assets (see Note 14) and the land and biological assets of operating subsidiaries (per Notes 10 and 11 respectively), except for the first year after acquisition, when they are initially carried at acquisition cost.

**(a) Valuation of financial assets**

The Directors use their judgement in selecting an appropriate valuation technique for financial assets not quoted in an active market. For investments which have been recently acquired, the Directors consider the fair value to be equal to cost. The movement in the fair value is included in Income in the Consolidated Statement of Comprehensive Income.

The investments in NTP and GTFF are recorded at the underlying manager's valuation prepared on a fair value basis. The value of Aurora is based on the NAV provided by the underlying manager, adjusted for land and biological assets valued by an independent external appraisal during the year. The fair value of Green Resources has been estimated by the Investment Manager using a proposed independent third party transaction due for completion in Q2 2011. The Directors consider that such valuation methods best represent fair value of the relevant investments. Refer to Note 14 for details on investment appraisals.

An independent external appraisal of the land and biological assets of Aurora was conducted at 30 September 2010, and updated by the Investment Manager for the final quarter of 2010. This valuation was reflected in the consolidated financial statements for the year ending 31 December 2010. The same process will apply for all future reporting periods.

External, independent appraisals were conducted by the underlying managers of GTFF and Matariki during the final quarter of 2010, which were reflected in each company's individual consolidated financial statements for the year ending 31 December 2010. The same process is expected to apply for all future reporting periods.

**(b) Valuation of land and biological assets**

Land and biological assets are carried at fair value at 31 December 2010 at the value determined by independent appraisers. Where the date of the appraisal is before 31 December the value is projected by the Investment Manager to 31 December.

The fair value of land and biological assets owned by Eucateca and Pradera at 31 December 2010 is based on fair values determined by independent external appraisers at 30 September 2010. These independent appraisals were updated by the Investment Manager for the final quarter of 2010. Given this is the first year of acquisition for land and biological assets purchased by Mata Mineira and Green China, the fair value at 31 December 2010 is determined by the Investment Manager by updating the original acquisition appraisals. The movement in the fair value is included in the Consolidated Statement of Comprehensive Income. Refer to Notes 10 and 11 for valuation methods and assumptions.

Independent external appraisals will be conducted in the second and first quarters of 2011 for Mata Mineira and Green China respectively and third quarter of 2011 for Eucateca and Pradera. The appraisals will be updated by the Investment Manager in the final quarter of 2011, and are expected to be reflected in the consolidated financial statements for the year ending 31 December 2011.

**(c) Impairment of loan receivable**

Loan receivables are carried at fair value at 31 December 2010 at the recoverable amount estimated by the Investment Manager. Where the Investment Manager believes there is sufficient uncertainty surrounding the ability of the borrower to repay the loan, a conservative adjustment is made to impair the loan to its net realisable value. An impairment expense is recorded against the loan and included in the Consolidated Statement of Comprehensive Income. Refer to Note 15 for details on impairment of loan receivables.

**3. SEGMENT INFORMATION**

In accordance with IFRS 8, the Board, as a whole, has been determined as constituting the chief operating decision maker of the Group. The key measure of performance used by the Board in the capacity of "chief operating decision maker" is to assess the Group's performance and to allocate resources based on the total return of each individual investment within the Group's Portfolio, as opposed to geographic regions. As a result, the Board is of the view that the Group is engaged in a single segment of business, being investment in timber and timber-related investments. The financial results from this segment are equivalent to the consolidated financial statements of the Group as a whole.

The following table analyses the Group's total income (which comprises operating income and net gain/(loss) on financial assets designated at fair value through profit or loss) by geographical location and investment type. The basis for attributing the total income, by geographical

location, is the place of incorporation of the instrument's counterparty.

	31 Dec 2010 US\$'000	31 Dec 2009 US\$'000
Africa	9,003	29,942
Asia	93	(5,570)
Europe	1,417	529
New Zealand	32,216	-
South America	6,860	(236)
United States	6,090	2,193
	<u>55,679</u>	<u>26,858</u>

	31 Dec 2010 US\$'000	31 Dec 2009 US\$'000
Limited Partnerships	6,089	2,193
Minority Interest in Equity	33,976	(2,012)
Majority Interest in Equity	6,250	1,901
Loan Instrument	9,003	24,353
Holding Company cash and cash equivalents	361	423
	<u>55,679</u>	<u>26,858</u>

#### 4. OPERATING INCOME

	31 Dec 2010 US\$'000	31 Dec 2009 US\$'000
Dividend income	694	968
Investment income	6,980	6,136
Income from timber sales	1,009	-
Income from harvesting services*	1,354	805
Income from pellet mill sales*	985	2
Foreign exchange gains	-	29
Sundry income*	45	210
	<u>11,067</u>	<u>8,150</u>

\* Includes operating income relating to assets/liabilities held for sale per Note 17.

#### 5. OPERATING EXPENSES

	31 Dec 2010 US\$'000	31 Dec 2009 US\$'000
<b>Holding Company Expenses</b>		
<i>General operating expenses</i>		
Investment Manager's fees	9,060	8,088
Foreign exchange loss	6,640	-
Legal fees	473	454
Professional fees	674	1,288
Administration fees	314	116
Audit fees	129	172
Directors' remuneration	232	205
Directors' expenses	104	13
Directors' & Officers' insurance	177	152
Accounting fees	(30)	71
Regulatory fees	69	147
Other operating expenses	110	272
	<u>17,952</u>	<u>10,978</u>
<b>Operating Subsidiary Expenses</b>		
<i>Setting up expenses</i>		
Legal and professional fees	-	1,034
<i>Direct operating costs</i>		
Cost of sales (harvesting services)*	937	-
Cost of sales (pellet mill sales)*	1,691	-
Depletion of timber	1,023	-
Depreciation and amortisation*	696	216
Impairment of plant and equipment (a)*	450	-
Impairment of inventory (b)*	175	-
	<u>4,972</u>	<u>216</u>
	<b>31 Dec 2010</b>	<b>31 Dec 2009</b>
	<b>US\$'000</b>	<b>US\$'000</b>
<i>Other operating expenses</i>		
Impairment of loan receivable (see Note 15)	2,290	-
Management fees	1,742	1,897
Professional fees*	1,734	267
Impairment of seedling advances (b)	879	-
Legal fees*	638	64
Accounting fees*	985	814
Employee compensation and benefits*	512	775
Audit fees*	58	38
Property, repairs and maintenance*	394	542
Other operating expenses*	2,067	2,061
	<u>11,299</u>	<u>6,458</u>
	<u>34,223</u>	<u>18,686</u>

\* Includes operating expenses relating to assets/liabilities held for sale per Note 17.

(a) During the year, Caldrey, the timber harvesting company located in Uruguay, wrote off US\$450,000 to impairment charges for heavy equipment whose net book value exceeded the net recoverable amount. In addition, Caldrey also wrote off a deferred tax asset for US\$525,000.

(b) As a result of the loan reorganisation filing referred to in Note 15, Eucateca assessed the recoverability of other assets and liabilities related to AP Servicios Agronomicos LTDA ("AP Servicios"). Of the seedling inventory held by AP Servicios in the amount of R\$650,000, approximately R\$100,000 has been delivered to Eucateca. Of the balance due in the amount of R\$550,000, management has reserved for approximately R\$275,000 or US\$157,000, which is included in 'Impairment of inventory' above.

AP Servicios also owes Eucateca for additional seedlings whose net recoverable amount is approximately R\$3.1 million. Eucateca has recorded impairment for seedling advances for R\$1.5 million or US\$879,000 of this asset.

## 6. TAX

	31 Dec 2010 US\$'000	31 Dec 2009 US\$'000
Deferred tax	(225)	(2)
Current tax	(517)	(1,177)
	<u>(742)</u>	<u>(1,179)</u>

All tax charges for the year relate to continuing operations. Taxation for subsidiaries operating in jurisdictions outside Guernsey is calculated at the rates prevailing in the respective jurisdictions.

	31 Dec 2010 US\$'000	31 Dec 2009 US\$'000
Operating profit before taxation	<u>21,456</u>	<u>8,172</u>
Effects of various tax rates of subsidiaries operating in other jurisdictions	(742)	(1,179)
Tax credit and effective tax rate for the year of 3.46% (2009: 14.28%)	<u>(742)</u>	<u>(1,179)</u>

The Group has been granted exemption from Guernsey Income Tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989, and is charged an annual fee of £600. As a result, the taxation charge for the year relates solely to the subsidiaries where applicable.

## 7. DIRECTORS' REMUNERATION

The Chairman receives a fee of £70,000 per annum (2009: £70,000). Each of the other Directors receive an annual fee of £25,000 per annum (2009: £25,000), with the exception of Kimberly Tara and Liane Luke who do not receive fees.

During the year Peter Niven received an additional sum of £5,000 per annum (2009: £5,000) for his chairmanship of the Management Committee. During 2009, Mr Niven also received a pro rata proportion of £5,000 per annum for his chairmanship of the Audit Committee for the period to 30 June 2009. During 2010, Sarah Evans received an additional sum of £5,000 per annum for her chairmanship of the Audit Committee (2009: £5,000 per annum, pro rata effective 1 July 2009). An extra £10,000 each was awarded to Peter Niven and Sarah Evans as a special payment in respect of additional duties performed during the fourth quarter of 2010. Peter Niven and Sarah Evans resigned from the Board of the Company on 5 January 2011. Their chairmanships of the Management Committee and Audit Committee respectively were terminated with effect 31 December 2010.

Sir Henry Studholme has assumed the Chair of the Audit Committee with effect from 5 January 2011. Martin Ricketts has assumed the Chair of the Management Engagement Committee with effect from 5 January 2011. The additional remuneration for these chairmanships is unchanged at £5,000 per annum.

No commissions or performance related payments have been or will be made to the Directors by the Company.

US\$231,746 (2009: US\$205,126) of Directors' remuneration were incurred by the Company in the year, of which US\$81,968 (2009: US\$ Nil) was outstanding at 31 December 2010.

## 8. EARNINGS PER SHARE

Earnings per Ordinary Share are based on the net profit for the year attributable to Ordinary Shareholders of US\$20.7 million (2009: US\$7.0 profit for the year) and on 520,301,445 (2009: 499,520,929) Ordinary Shares, being the weighted average number of Ordinary Shares in issue during the year. There are no dilutive instruments and therefore basic and diluted earnings per share are identical.

## 9. PLANT AND EQUIPMENT

	31 Dec 2010 US\$'000	31 Dec 2009 US\$'000
<b>Cost:</b>		
Opening cost	10,650	8,367
Additions	3,116	2,358
Disposals	(24)	(75)
Impairment (see Note 5)	(450)	-
Closing cost	<u>13,292</u>	<u>10,650</u>
<b>Depreciation:</b>		
Opening depreciation	(491)	(298)
Charge for the year	(687)	(215)
Disposal adjustments	12	22
Closing depreciation	<u>(1,166)</u>	<u>(491)</u>
<b>Reclassified as held for sale (see Note 17)</b>	(7,796)	-
<b>Exchange differences</b>	(1,287)	(302)

Closing carrying value*	<u>3,043</u>	<u>9,857</u>
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\*Includes construction in progress to the value of US\$7.3 million at 31 December 2009 relating to the construction of the pellet mill by Forest Enterprises d.o.o. There was no construction in progress at 31 December 2010.

#### 10. LAND

	31 Dec 2010 US\$'000	31 Dec 2009 US\$'000
<b>Cost:</b>		
Opening cost	46,238	24,752
Additions	<u>32,607</u>	<u>21,486</u>
Closing cost	<u>78,845</u>	<u>46,238</u>
<b>Revaluation of land:</b>		
Opening	10,659	-
Revaluation for the year	<u>(7,685)</u>	<u>10,659</u>
Closing	<u>2,974</u>	<u>10,659</u>
	31 Dec 2010 US\$'000	31 Dec 2009 US\$'000
<b>Depreciation on land improvements:</b>		
Opening depreciation	-	-
Charge for the year	<u>(20)</u>	<u>-</u>
Disposal adjustments	<u>(20)</u>	<u>-</u>
<b>Reclassified as held for sale (see Note 17)</b>	(278)	-
<b>Exchange differences</b>	8,965	5,664
Closing carrying value	<u>90,486</u>	<u>62,561</u>

#### Land valuation assumptions

Land is carried at fair value at 31 December 2010 at the value determined by independent external appraisers, which is projected by the Investment Manager to the reporting date if the date of the independent external appraisal differs.

Eucateca's land was valued at 30 September 2010 by an independent external appraiser. The appraiser used a combination of the cost approach and the income capitalisation approach. For the Investment Manager's projections at 31 December 2010, the unit values from the external appraisal were applied to land areas in existence at that date. Therefore, any change in total land values from the 30 September 2010 values were due to changes in area, not changes in per hectare values.

Pradera's land was valued at 30 September 2010 by an independent external appraiser. The appraiser used the cost approach. For the Investment Manager's projections at 31 December 2010, the unit values from the external appraisal were applied to land areas in existence at that date. Therefore, any change in total land values from the 30 September 2010 values were due to changes in area, not changes in per hectare values.

The value of Mata Mineira's land at 31 December 2010 was based on the Investment Manager's projections at 31 December 2010, using the unit values from the property's acquisition analysis as the basis. The unit values from the acquisition analysis were applied to land areas in existence at 31 December 2010. Therefore, any change in total land values were due to changes in area, not changes in per hectare values.

#### Land sensitivity analysis

The following details the sensitivity of the Group's reported land value to a 5% increase or decrease in the per hectare values of land, with 5% considered by the Directors as an appropriate estimate of the range in land per hectare values.

At 31 December 2010, if the per hectare values of land were to increase or decrease by 5%, with all other variables held constant, the NAV would have increased or decreased by US\$4.5 million (2009: US\$3.1 million). This would represent an increase or decrease in Net Assets of 0.76% (2009: 0.54%).

#### 11. BIOLOGICAL ASSETS

	31 Dec 2010 US\$'000	31 Dec 2009 US\$'000
<b>Cost:</b>		
<b>Plantations</b>		
Opening cost	20,755	1,249
Costs incurred during the year:		
Silviculture costs	13,105	12,430
Treatment costs	2,086	3,778
Plantations acquired	67,727	3,196
Other costs	54	102
Depletion	(1,023)	-
Disposals	<u>(13)</u>	<u>-</u>
Closing cost	<u>102,691</u>	<u>20,755</u>
<b>Revaluation of plantations:</b>		
Opening balance	(1,133)	-
Revaluation for the year	<u>935</u>	<u>(1,133)</u>
Closing balance	<u>(198)</u>	<u>(1,133)</u>
<b>Exchange differences</b>	6,281	1,926

Closing carrying value	<u>108,774</u>	<u>21,548</u>
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#### Biological assets valuation assumptions

Biological assets are carried at fair value at 31 December 2010 at the value determined by independent external appraisers during the year, projected by the Investment Manager to the reporting date where the date of the independent external appraisal differs.

Biological assets held by Eucateca consist of eucalyptus and teak plantations in Brazil. The teak strategy is aimed at the production of premium logs, typically grown for 25 years. The eucalyptus strategy includes short-rotation fuelwood, with the potential to reach final harvest in seven years. Eucateca's biological assets were valued at 30 September 2010 by an independent external appraiser. The appraiser used a combination of the cost approach and the income capitalisation approach.

Biological assets held by Pradera consist of eucalyptus plantations in Uruguay for both the fibre and sawn wood markets. Eucalyptus is typically grown on an eight to twelve year rotation for fibre/energy or a fifteen to twenty year rotation for saw timber. Pradera's biological assets were valued at 30 September 2010 by an independent external appraiser. The appraiser used the cost approach.

The values of Eucateca's and Pradera's biological assets at 31 December 2010 were based on the Investment Manager's projections at 31 December 2010. The unit values from each investment's external appraisal were applied to timber age classes at that date, which was adjusted to account for three months of additional timber growth. Therefore, any change in total timber values from the 30 September 2010 values were due to changes in the number of hectares for each age class of the pre-merchantable timber or changes in timber volume, not changes in the per hectare values for each age class or timber prices.

Biological assets held by Mata Mineira consist of mixed age eucalyptus plantations in Minas Gerais, Brazil. The trees are grown on a five to seven year rotation to supply the local charcoal markets. Biological assets held by Green China consist of mixed age pine, fir and other plantation species, which are grown for the sawn timber market.

The values of Mata Mineira's and Green China's biological assets at 31 December 2010 were based on the Investment Manager's projections at 31 December 2010, using unit values from each investment's respective acquisition analyses of the property as the basis. The unit values from the acquisition analysis were applied to land areas in existence at 31 December 2010. Therefore, changes in values were due to changes in the number of hectares for each age class of the pre-merchantable timber or changes in timber volume, not changes in the per hectare values for each age class or timber prices. Note that land that was site prepared but not planted was valued at a rate provided by the local forest manager.

#### Biological assets sensitivity analysis

The following details the sensitivity of the Group's biological assets reported value to a 5% increase or decrease in the per hectare values of each timber age class, with 5% considered by the Directors as an appropriate estimate the range in per hectare values.

At 31 December 2010, if the per hectare values of biological assets were to increase or decrease by 5%, with all other variables held constant, the NAV would have increased or decreased by US\$5.4 million (2009: US\$1.1 million). This would represent an increase or decrease in Net Assets of 0.91% (2009: 0.19%).

#### 12. PREPAID LAND LEASE

	31 Dec 2010 US\$'000	31 Dec 2009 US\$'000
Opening cost	-	-
Land lease prepayments during the year	<u>1,790</u>	<u>-</u>
Closing cost	<u>1,790</u>	<u>-</u>
<b>Lease amortisation:</b>		
Opening balance	-	-
Amortisation for the year	<u>(41)</u>	<u>-</u>
Closing balance	<u>(41)</u>	<u>-</u>
<b>Exchange differences</b>	56	-
Closing carrying value	<u>1,805</u>	<u>-</u>
Summary of prepayments due:		
Prepayments due to expire within one year (see Note 16)	188	-
Prepayments due to expire more than one year	<u>1,617</u>	<u>-</u>
Closing cost	<u>1,805</u>	<u>-</u>

Through the Company's wholly owned subsidiary, Green China, prepayments were made during the year for timberland leases for property located in the Jiangxi province, China. All leases are to be amortised over the life of the remaining lease terms which varies from 30 to 50 years.

#### 13. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries consist of investments in the following wholly-owned Group companies (except for Green China Forestry Company Limited, which is 99.5% owned by the Company and Eucateca SA which is 99.99% owned):

Company	Place of Incorporation
Alzamendi Participacoes SA	Brazil
BaltFor Timber BV	Netherlands
BaltFor Timber OU	Estonia
Caldrey SA	Uruguay
Cottage International Group Limited	British Virgin Islands
Eucateca SA	Brazil
Exclusive Technologies Limited	British Virgin Islands
Forest Enterprise BV	Netherlands
Forest Enterprises doo	Serbia
Green China Forestry Company Limited	Hong Kong
Green China (Jiangxi) Forestry Company Limited	China
Green Nature Forestry Company Limited	Hong Kong

Hamar Holding Limited	British Virgin Islands
Mata Mineira Investimentos Florestais LTDA	Brazil
Nora Timber Cyprus Limited	Cyprus
Nortimber BV	Netherlands
Oxford Financial Investments Limited	British Virgin Islands
Phaunos Brazil Investimentos Florestais LTDA	Brazil
Phaunos China Limited	Hong Kong
Phaunos Norge AS	Norway
Phaunos US Incorporated	USA
Pradera Roja SA	Uruguay
Romfor Timber (Cyprus) Limited	Cyprus
Romfor Timber BV	Netherlands
SC Romfor Timber SRL	Romania
South Hampton International Limited	British Virgin Islands
Terrific Plan Limited	Hong Kong
Tura Holding Limited	British Virgin Islands
Vale do Jequitinhonha Silvicultura e Participacoes LTDA	Brazil
Waimarie Forests Pty Ltd	Australia
Wood NRG Limited	Cyprus

**14. INVESTMENTS****FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>31 Dec 2010</b>	<b>31 Dec 2009</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Opening portfolio cost	127,959	314,403
Net additions at cost:	136,294	23,454
Proceeds from disposals*:	-	(210,015)
Realised gain on disposal of investments	-	117
<b>Closing portfolio cost</b>	<b>264,253</b>	<b>127,959</b>
Unrealised appreciation/(depreciation) on valuation brought forward	15,492	(4,377)
Unrealised appreciation on valuation for the year	31,269	25,799
Provision against Masarang loan	-	(5,930)
Unrealised foreign exchange movement brought forward	(486)	(341)
Unrealised foreign exchange movement for the year	12,408	(145)
Unrealised appreciation and foreign exchange movement on valuation carried forward	58,683	15,006
Exchange differences on translation of foreign subsidiaries	744	-
<b>Closing valuation</b>	<b>323,680</b>	<b>142,965</b>
Unrealised appreciation and foreign exchange movement on valuation for the year	43,677	19,724
Exchange differences on translation of foreign subsidiaries	744	-
Realised gain on disposal of investments	-	117
<b>Net gains on financial assets designated at fair value through profit or loss</b>	<b>44,421</b>	<b>19,841</b>

The nature of the investments designated at fair value through profit or loss is as follows:

Greenwood Tree Farm Fund LP	Timber operation
Aurora Forestal Limited	Joint venture
NTP Timber Plus Fund I LP	Higher-and-better-use conversion
Green Resources AS	Timber operation
Matariki Forestry Group	Timber operation
Masarang Foundation Asset Linked Euro Note 09/2012	Loan
US Treasury Bills 0% 07/02/2009	Financial instrument

\* Includes proceeds on maturity of US Treasury Bills of US\$210.0 million during 2009.

**Provision against loan to Masarang Foundation**

Due to the situation in the global capital markets, the Board is concerned that the borrower will be unable to pay back the principal amount at the due date in 2012 from the proceeds of a planned fundraising as originally intended. As a result, the Board considers it prudent to continue fully providing against the original cost of the US\$5.6 million loan.

**Fair value analysis**

In the opinion of the Directors there is no material difference between the book values and the fair values of other financial assets and liabilities.

Financial assets and financial liabilities recorded at fair value are analysed by using a fair value hierarchy that reflects the significance of inputs. The fair value hierarchy has the following levels:

- Level 1: Quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as

prices) or indirectly (that is, derived from prices).

- Level 3: Inputs for assets or liabilities that are not based on observable market data (that is, unobservable inputs).

The Group's unlisted securities, classified as financial assets designated at fair value through profit or loss and valued at US\$323.7 million at 31 December 2010 (31 December 2009: US\$143.0), were categorised as Level 3 inputs in accordance with the fair value hierarchy.

Inputs for the determination of the fair values of financial assets designated as Level 3 include valuations provided by the managers of the underlying investments at the year end. There were no transfers of financial assets between Levels during the year. The table below reflects the movements in assets designated as Level 3 during the course of the year.

	<b>31 Dec 2010</b>	<b>31 Dec 2009</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Fair value at beginning of year	142,965	99,487
Acquisitions at cost	136,294	23,454
Unrealised appreciation	43,677	19,724
Exchange differences on translation of foreign subsidiaries	744	-
Reversal of prior year unrealised depreciation	-	300
Fair value at end of year	<u>323,680</u>	<u>142,965</u>

## 15. LOANS RECEIVABLE

Borrower	Ccy	Principal borrowed	Draw down date	Maturity date	Interest rate	31 Dec 2010 Local Balance outstanding in '000	31 Dec 2010 Local market value in '000	31 Dec 2010 Balance outstanding US\$'000	31 Dec 2010 Market Value US\$'000
AGN Gestao Florestal LTDA ("AGN", formerly Nemus SA)	R\$	1,920,000	31 Jan 2009	30 Sept 2012	8% p.a.	876	983	528	592
AP Servicos Agronomicos LTDA ("AP Servicos")	R\$	3,800,000	8 Dec 2010	8 Dec 2023	N/A	3,800	3,800	2,290	2,290
Impairment of AP Servicos loan (see Loan Reorganisation section below)						(3,800)	(3,800)	(2,290)	(2,290)
						<u>876</u>	<u>983</u>	<u>528</u>	<u>592</u>
								<u>528</u>	<u>592</u>
Borrower	Ccy	Principal borrowed	Draw down date	Maturity date	Interest rate	31 Dec 2009 Local Balance outstanding in '000	31 Dec 2009 Local market value in '000	31 Dec 2009 Balance outstanding US\$'000	31 Dec 2009 Market Value US\$'000
AGN Gestao Florestal LTDA ("AGN", formerly Nemus SA)	R\$	1,920,000	31 Jan 2009	30 Sept 2012	8% p.a.	1,498	1,522	859	873
AP Servicos Agronomicos LTDA	R\$	12,261,901	31 Jan 2009	30 Sept 2012	8% p.a.	6,093	6,194	3,495	3,553
AP Servicos Agronomicos LTDA	R\$	1,400,000	31 Jan 2009	30 Sept 2012	8% p.a.	1,092	1,110	626	637
						<u>8,683</u>	<u>8,826</u>	<u>4,980</u>	<u>5,063</u>
Green Resources AS	NOK	20,000,000	17 Jul 2009	30 Nov 2012	12% p.a.	20,000	20,111	3,451	3,470
						<u>20,000</u>	<u>20,111</u>	<u>3,451</u>	<u>3,470</u>
								<u>8,431</u>	<u>8,533</u>

**Loan Reorganisation**

During 2010, AP Servicos Agronomicos LTDA ("AP Servicos"), the service provider of Eucateca filed for Judicial Reorganisation under Brazilian law (the equivalent to Chapter 11 in the US). At that time, AP Servicos owed Eucateca for outstanding loans and seedling advances totalling approximately R\$9.0 million. In January 2011 the reorganisation court in Brazil adjudicated that these two loan receivables, valued in total at R\$7.6 million and certain seedling advance payments, valued at R\$1.4 million be converted into one loan receivable for R\$3.4 million ("the reorganisation loan") and equipment to be transferred into Eucateca's name valued at R\$5.2 million ("transfer equipment"). The transfer equipment was formerly held under a lien as security for one of the AP Servicos loans.

The reorganisation loan was further increased by R\$400,000 for transfer equipment determined to be inoperable by Eucateca. This increase has been fully reserved for against the transfer equipment, thus reducing its value from R\$5.2 million to R\$4.8 million. Additionally Eucateca deemed it prudent to reserve for R\$3.8 million or US\$2.3 million of the reorganisation loan receivable. This was done on the basis of uncertainty surrounding the ability of AP Servicos to repay the loan given the company's present level of operations.

**Collateral for loans**

The loan to AGN of R\$0.9 million (2009: R\$1.5 million) is secured by two rural properties of 485 hectares, located in Mato Grosso, Brazil. The reorganisation loan of R\$3.8 million (2009: Nil) to AP Servicos, an affiliated company of AGN, is to be secured by real assets as well as accounts receivables associated with the nursery operations owned and operated by AP Servicos. Based on the Judicial Reorganisation order, Eucateca is seeking a pledge from AP Servicos of the nursery receivables and the nursery building and land, valued at US\$3.8 million as documented in the court order.

**Converted loans**

On 1 December 2010, the loan to Green Resources AS of NOK 20.0 million (2009: NOK 20.0 million) was converted into 466,808 ordinary shares in Green Resources AS at NOK 54 per share.

**16. RECEIVABLES**

(amounts falling due within one year)

	31 Dec 2010	31 Dec 2009
	US\$'000	US\$'000
Trade receivables	120	539
Prepaid land lease	188	-
Other prepayments	1,541	4,432
Other receivables	893	2,065
	<u>2,742</u>	<u>7,036</u>

**17. ASSETS/LIABILITIES CLASSIFIED AS HELD FOR SALE****Loss for the year on assets/liabilities classified as held for sale**

	31 Dec 2010	31 Dec 2009
	US\$'000	US\$'000
Revenue	2,368	-
Expense	(4,458)	-
Gross loss	(2,090)	-
Finance costs	(7)	-
Impairment of plant and equipment	(450)	-
Loss before tax from assets classified as held for sale	(2,547)	-
Taxation:		
Deferred tax	(225)	-
	<u>(2,772)</u>	<u>-</u>

The results for the year for assets/liabilities classified as held for sale are included in Notes 4 and 5.

**Assets classified as held for sale**

	31 Dec 2010	31 Dec 2009
	US\$'000	US\$'000
Plant and equipment	7,796	-
Land	278	-
Deferred tax asset	238	-
Inventories	192	-
Trade receivables	737	-
Other receivables	306	-
	<u>9,547</u>	<u>-</u>

**Liabilities classified as held for sale**

	31 Dec 2010	31 Dec 2009
	US\$'000	US\$'000
Deferred tax liability	16	-
Other payables	729	-
	<u>745</u>	<u>-</u>

**Cash flows from assets/liabilities classified as held for sale**

	31 Dec 2010	31 Dec 2009
	US\$'000	US\$'000
Net cash used in operating activities	(1,632)	-
Net cash used in investing activities	(225)	-
Net cash from financing activities	1,505	-
Net cash flows for the year	<u>(352)</u>	<u>-</u>

Forest Enterprises and Caldrey are currently held for sale following the strategic decision in 2010 by the Investment Manager to divest of non-core assets.

**Forest Enterprises d.o.o. ("FE doo")**

FE doo is the wholly-owned subsidiary of Forest Enterprise B.V. ("FE BV"), which in turn is a wholly-owned subsidiary of Phaunos. After FE doo is sold, FE BV will be liquidated.

In November 2011, FE BV hired Citadel Financial Advisory d.o.o, Beograd (the "Financial Advisor") to take all necessary steps to manage and execute the sale of FE doo. To date, interested parties have executed a Non-Disclosure Agreement, accessed a virtual data room containing all sale documents and visited the FE doo plant itself. The Financial Advisor has invited bids from a limited number of interested parties but has not yet received any official bids. On this basis we are unable to predict the sale price or fee payable to the Financial Advisor for successfully completing the FE doo sale transaction.

**Caldrey**

The Investment Manager anticipates the sale of Caldrey as a private transaction and Phaunos is currently in negotiations with an individual interested in purchasing Caldrey. The Investment Manager is currently preparing a memorandum of understanding for the interested party's signature.

Caldrey's NAV at year-end is US\$2.9 million. For sale purposes, Caldrey's NAV at the year-end approximates US\$2.3 million, which excludes cash. The Investment Manager anticipates minimal costs to sell the entity. In addition, it anticipates a small profit as a result of the sale of Caldrey.

**18. CASH AND CASH EQUIVALENTS**

	31 Dec 2010	31 Dec 2009
	US\$'000	US\$'000
Cash at bank	20,908	31,787
Cash equivalents*	47,578	299,245
	<u>68,486</u>	<u>331,032</u>

\*Refers to short term bank deposits.

**19. PAYABLES**

(amounts falling due within one year)

	31 Dec 2010	31 Dec 2009
	US\$'000	US\$'000
Accrued administration fees	88	59
Accrued audit fees	119	133
Accrued Directors' fees	82	-
Accrued Investment Manager's fees (C Shares)	411	582
Accrued professional fees	-	156
Amount due on Eucateca farm (Alto Jauru)	4,133	3,934
Amount due on Purchase & Sale Agreements*	4,492	-
Other payables	1,761	1,832
Taxation	323	1,278
Trade payables	2,037	1,601
	<u>13,446</u>	<u>9,575</u>

\*Final amounts due on purchase and sale agreements relating to Green China investments completed during 2010.

**20. DEFERRED TAX**

Deferred tax relates to the following:

	31 Dec 2010	31 Dec 2009
	US\$'000	US\$'000
<b>Deferred tax assets</b>		
Tax losses available to be carried forward	<u>300</u>	<u>637</u>
	300	637
Deferred tax assets reclassified as held for sale	(300)	-
Exchange differences	<u>-</u>	<u>(19)</u>
	-	618
<b>Deferred tax liabilities</b>		
Property, plant and equipment	(16)	(127)
Other financial assets	<u>-</u>	<u>(1)</u>
	(16)	(128)
Deferred tax liabilities reclassified as held for sale	16	-
Exchange differences	<u>-</u>	<u>-</u>
	-	(128)

Net deferred tax assets	-	490
	<b>31 Dec 2010</b>	<b>31 Dec 2009</b>
	<b>US\$'000</b>	<b>US\$'000</b>
Movement in deferred tax relates to the following:		
<b>Movement in deferred tax assets</b>		
Opening	637	637
Movement for the year	(337)	-
Closing	<u>300</u>	<u>637</u>
<b>Movement in deferred tax liabilities</b>		
Opening	(128)	(126)
Movement for the year	112	(1)
Closing	<u>(16)</u>	<u>(127)</u>
Total deferred tax movement	<u>(225)</u>	<u>(2)</u>

**21. C SHARE CLASS**

	<b>31 Dec 2010</b>	<b>31 Dec 2009</b>	
	<b>US\$'000</b>	<b>US\$'000</b>	
Net assets attributable to C Share class	-	41,554	
Net asset value per C Share	-	0.955	
The issues of C Shares took place as follows:			
	<b>Number</b>	<b>Price per share</b>	<b>Amount received/ (converted)</b>
<b>Date of issue</b>	<b>of shares</b>	<b>US\$'000</b>	<b>US\$'000</b>
At 1 January 2009	38,870,000	1.00	38,870
14 May 2009	2,830,000	1.00	2,830
29 October 2009	1,810,000	1.00	1,810
At 31 December 2009	<u>43,510,000</u>		<u>43,510</u>
8 June 2010 - C Shares converted to Ordinary Shares	(43,510,000)	0.955	(43,510)
At 31 December 2010	<u>-</u>		<u>-</u>
	<b>31 Dec 2010</b>	<b>31 Dec 2009</b>	
	<b>US\$'000</b>	<b>US\$'000</b>	
<b>Reconciliation of carrying amount:</b>			
Issue proceeds	43,510	43,510	
Issue costs	(1,384)	(1,384)	
Income in relation to C Share class	19	19	
Expenses in relation to C Share class	(591)	(591)	
C Shares converted to Ordinary Shares	(41,554)	-	
Net assets attributable to C Share class	<u>-</u>	<u>41,554</u>	

On 8 June 2010, 43,510,000 C Shares were converted into 38,815,271 Ordinary Shares and were admitted to the Official List, to trading on the Main Market of the LSE and to listing on the C1SX. The C Shares were converted to Ordinary Shares at a conversion ratio of 0.8921 Ordinary Share to 1 C Share, based on the audited NAV of the respective share classes at 31 December 2009 and in accordance with the Articles of Incorporation of the Company.

**22. SHARE CAPITAL****Authorised, issued and fully paid**

At 31 December 2010 and 31 December 2009:	<b>US\$</b>
Unlimited Ordinary Shares of no par value	<u>-</u>

The issues of Ordinary Shares and purchase of Treasury Shares took place as follows:

	<b>Number</b>	<b>Price per share</b>	<b>Amount</b>
<b>Issue of Shares</b>	<b>of shares</b>	<b>US\$</b>	<b>US\$'000</b>
At 31 December 2008:			
Ordinary Shares	502,399,606		518,024
Purchase of Ordinary Shares (now held in Treasury)	<u>(1,335,000)</u>		<u>(997)</u>
	501,064,606		517,207
Purchase of Ordinary Shares (now held in Treasury) during the year:			
1 May 2009	(75,000)	0.69	(51)
6 May 2009	(250,000)	0.72	(180)
8 May 2009	(350,000)	0.71	(250)
12 May 2009	(350,000)	0.71	(247)
26 June 2009	(1,405,045)	0.64	(901)

30 June 2009	<u>(300,000)</u>	0.64	<u>(193)</u>
	<u>(2,730,045)</u>		<u>(1,822)</u>
		<b>Price per share US\$</b>	<b>Amount US\$'000</b>
<b>Issue of Shares</b>	<b>Number of shares</b>		
At 31 December 2009:			
Ordinary Shares	502,399,606		518,204
Purchase of Ordinary Shares (now held in Treasury)	<u>(4,065,045)</u>		<u>(2,819)</u>
	<u>498,334,561</u>		<u>515,385</u>
Conversion of C Shares to Ordinary Shares during the year:			
8 June 2010	38,815,271	1.07	41,554
At 31 December 2010:			
Ordinary Shares	541,214,877		559,758
Purchase of Ordinary Shares (now held in Treasury)	<u>(4,065,045)</u>		<u>(2,819)</u>
	<u>537,149,832</u>		<u>556,939</u>

The holders of the Ordinary Shares will, under general law, be entitled to participate in any surplus assets in a winding-up only in proportion to their shareholdings in the appropriate class.

### 23. PURCHASE OF OWN SHARES

	<b>31 Dec 2010 US\$'000</b>	<b>31 Dec 2009 US\$'000</b>
Treasury shares reserve at beginning of year	3,025	987
Purchased during the year	-	2,038
	<u>3,025</u>	<u>3,025</u>

The Treasury Shares reserve at the end of the year represents 4,065,045 Ordinary Shares (31 December 2009: 4,065,045 Ordinary Shares) purchased in the market at various prices per share ranging from US\$0.64 to US\$0.80 and held by the Company in Treasury. These shares may be reissued or cancelled.

At the Annual General Meeting of the Company held on 27 May 2010, it was resolved that the Company be authorised to make market purchases of Ordinary Shares, provided that the number of Ordinary Shares purchased does not exceed 14.99% of the number of Ordinary Shares in issue on the date the resolution was passed.

The number of Ordinary Shares in issue at the date the resolution was passed was 498,334,561. The number of Ordinary Shares held in treasury by the Company at the date the resolution was passed was 4,065,045 representing 0.82% of the Ordinary Shares in issue at the date the resolution was passed and 0.75% of the Ordinary Shares in issue at 31 December 2010.

The Company's authority to make purchases of its own issued Ordinary Shares will expire at the conclusion of the 2011 Annual General Meeting. A renewal of such authority to make purchases of Ordinary Shares will therefore be sought from shareholders at the 2011 Annual General Meeting. Under such authority, the Directors only intend to purchase shares where they believe such purchases will result in an increase in the NAV per Ordinary Share and will assist in narrowing any discount to the NAV per Ordinary Share at which the Ordinary Shares may be trading. When Ordinary Shares trade at a substantial discount to the NAV per Ordinary Share and do not coincide with trading volumes in the market, the Directors may feel that it is appropriate to exercise such authority.

### 24. SHARE PREMIUM

	<b>31 Dec 2010 US\$</b>
Share premium at 31 December 2009	390,547
Add: Conversion of C Shares to Ordinary Shares 8 June 2010	41,554
Share premium at 31 December 2010	<u>432,101</u>

### 25. RETAINED EARNINGS

	<b>31 Dec 2010 US\$'000</b>	<b>31 Dec 2009 US\$'000</b>
Retained earnings at 1 January	10,136	3,140
Net profit for the year attributable to shareholders	20,714	6,996
Balance at 31 December	<u>30,850</u>	<u>10,136</u>

### 26. FOREIGN CURRENCY TRANSLATION RESERVE

	<b>31 Dec 2010 US\$'000</b>	<b>31 Dec 2009 US\$'000</b>
Foreign currency translation reserve at 1 January	14,749	(8,126)
Exchange differences on translation of operating subsidiaries	6,856	22,875
Balance at 31 December	<u>21,605</u>	<u>14,749</u>

The net gain/(loss) incurred on translation of the net assets of the Group's non-US Dollar denominated operating subsidiaries at the reporting date has been credited to the foreign currency translation reserve.

### 27. LAND REVALUATION RESERVE

	<b>31 Dec 2010 US\$'000</b>	<b>31 Dec 2009 US\$'000</b>
Land revaluation reserve at 1 January	10,659	-
Revaluation of land	<u>(7,685)</u>	<u>10,659</u>
Balance at 31 December	<u>2,974</u>	<u>10,659</u>

The net gain incurred on the revaluation of land held by Eucateca at 31 December 2010 has been credited to the land revaluation reserve.

## 28. DISTRIBUTABLE RESERVES

	31 Dec 2010 US\$'000	31 Dec 2009 US\$'000
Balance at 31 December	110,418	110,418

The above distributable reserves relate only to the Ordinary Shares.

The Company passed a special resolution reducing to US\$ NIL the amount standing to the credit of the Company's share premium account following the date on which the Ordinary Shares were first admitted to the Alternative Investment Market ("AIM") in December 2006, and that the surplus created form a distributable reserve. In accordance with The Companies (Guernsey) Law, 1994 (as amended), the Company applied to the Royal Court in Guernsey for an order confirming such reduction of the share premium account following admission of the Ordinary Shares to AIM. The distributable reserve created on cancellation is available as distributable profits to be used for all purposes permitted by Guernsey companies law, including the buy-back of Ordinary Shares and the payment of dividends.

## 29. FINANCIAL INSTRUMENTS

The Group's main financial instruments comprise:

- a) Cash and cash equivalents that arise directly from the Group's operations;
- b) Investments in unlisted entities.

## 30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are market price risk, liquidity risk, interest rate risk, credit risk and foreign exchange risk. The Board regularly reviews and agrees policies for managing each of these risks and these are summarised below:

### (a) Market Price Risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Group might suffer through holding market positions in the face of price movements. The Investment Manager actively monitors market prices and reports to the Board as to the appropriateness of the investments held.

There is also a further risk due to the small number of large investments made by the Group. Such a concentration of investments subjects the Group to increased exposure to significant declines in the value of one investment. The Investment Manager actively monitors the appropriateness of such investments held and reports to the Board on the same.

The Investment Manager may hold cash or cash equivalent instruments reserved for committed projects and working capital requirements. As a result, the Group's net funds are invested in fixed income investments (including but not limited to bank deposits, bonds or government issued treasury securities) for the purpose of protecting the capital value of the Group's cash assets.

Details of the Group's Investment Objective and Policy are provided in the Investment Objective and Policy section.

#### *Physical risks associated with timber*

Timberland is subject to a number of natural forces that can damage or destroy growing trees. These include weather events (tornados, hurricanes, ice and snow storms, frost), insects and diseases as well as fire. While some trees might be destroyed during one of these events (particularly tornados), most of these events will leave dead standing trees or leave live trees that are damaged and take a year or two to recover. This is likely to adversely affect the Group's operating and financial condition. However, much of the affected, merchantable timber is salvageable after such events, so some value can be recovered.

#### *Economic risks associated with timber*

The Group's operating revenues depend on the prevailing market prices for timber and wood products. Decreases in demand or increases of supply in those products may reduce prices, which may reduce the Group's revenues and the value of its timber.

The demand for timber is dependent on the demand for products such as paper and paperboard, lumber, panels and energy. Changes in the demand for those products will affect the demand for timber and the Group's revenues. The demand for paper and paperboard (and through them the demand for pulpwood) is related to the general level of economic activity. Low economic growth rates may lead to a lessening of demand for pulpwood and lower prices.

The demand for lumber and panels (and through it the demand for sawlogs, veneer logs and pulpwood used in manufacturing panels) is related to construction and remodelling activity. A reduction in such activity may lead to a lessening of demand for logs. The demand for energy (and through it the demand for logging and mill residues, chips and fuelwood) is related to the general level of economic activity and the price of oil. Decreases in oil prices may lead to a decrease in demand for wood based energy.

#### *Political and legal risks associated with timber*

Changes in laws related to forest management and environmental legislation may adversely affect the Group's ability to harvest timber as planned. Regulations might require the Group to reduce harvesting or set aside some land for active timber management or restrict the movement of logs across political boundaries. Such regulatory changes might reduce the volume of timber that can be harvested from Group lands and reduce revenues. In addition, in situations where land is leased, the lease rights could be expropriated (or be subject to legal challenge) both of which could reduce the volume of timber that can be harvested and reduce revenues.

#### *Risk concentrations*

Refer to the Portfolio Summary in the Report of the Investment Manager, for the geographical risk exposures of the Portfolio.

#### *Price sensitivity*

The following details the sensitivity of the Portfolio to a 5% increase and decrease in the market prices, with 5% being the sensitivity rate used when reporting price risk internally to key management personnel and representing management's assessment of the possible change in market prices.

At 31 December 2010, if market prices had increased or decreased by 5%, with all the other variables held constant, the net assets attributable to shareholders for the year would have increased or decreased by US\$16.2 million (2009: US\$7.1 million), due to the increase or decrease in the fair value of financial assets designated at fair value through profit or loss. This would represent an increase or decrease in Net Asset Value of 2.72% (2009: 1.24%).

### (b) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in realising assets or otherwise raising funds to meet financial commitments. Since not all of the Group's investments will be income generating the Group retains a proportion of its liquid assets in cash or near-cash investments for working capital purposes.

The following illustrates the maturity analysis of the Group's financial assets and undiscounted contractual cash flows for liabilities at 31 December 2010:

	Due on demand	Due < 3 months	Due between 3 and 12 months	Due >5 Years	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Assets</b>					
Investments designated at fair value	-	-	-	323,680	323,680
Trade and other receivables	2,742	-	-	-	2,742
Cash and cash equivalents	68,486	-	-	-	68,486
<b>Total assets</b>	<b>71,228</b>	<b>-</b>	<b>-</b>	<b>323,680</b>	<b>394,908</b>
<b>Liabilities</b>					
Trade and other payables	-	13,446	-	-	13,446
<b>Total liabilities</b>	<b>-</b>	<b>13,446</b>	<b>-</b>	<b>-</b>	<b>13,446</b>

The following illustrates the maturity analysis of the Group's financial assets and undiscounted contractual cash flows for liabilities at 31 December 2009:

	Due on demand	Due < 3 months	Due between 3 and 12 months	Due >5 Years	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Assets</b>					
Investments designated at fair value	-	-	-	142,965	142,965
Trade and other receivables	7,036	-	-	-	7,036
Cash and cash equivalents	331,032	-	-	-	331,032
<b>Total assets</b>	<b>338,068</b>	<b>-</b>	<b>-</b>	<b>142,965</b>	<b>481,033</b>
<b>Liabilities</b>					
Trade and other payables	-	9,575	-	-	9,575
<b>Total liabilities</b>	<b>-</b>	<b>9,575</b>	<b>-</b>	<b>-</b>	<b>9,575</b>

At 31 December 2010 the Group has non-contractual capital commitments as per Note 31, which are subject to due diligence.

#### (c) Interest Rate Risk

During the year the Group held cash in fixed deposits in US Dollars, Euro and New Zealand Dollars, the return on which varies with market rates.

The weighted average effective interest rate for cash and bank balances at 31 December 2010 was 1.15% (2009: 10.34%).

##### *Interest rate sensitivity*

If interest rates had been 25 basis points higher or lower and all other variables were held constant, the Group's net assets attributable to shareholders at 31 December 2010 would have increased or decreased by approximately US\$57,475 or 0.01% (2009: US\$538,200 or 0.09%) of Net Asset Value, due to an increase or decrease in the amount of interest receivable on the bank balances.

#### (d) Credit Risk

There is a credit risk relating to the Group's investments in joint ventures and other non-wholly-owned operations, where the Group has limited control over its investment. There is a further credit risk from the Group's holdings of cash and bank deposits with banks worldwide. The Board monitors credit ratings to ensure that cash and bank balances are maintained with institutions holding at least an Aa1 credit rating. The gross credit exposure to the Group arising from the above items is shown in Notes 15 to 18.

At 31 December 2010, the Company had loans totalling US\$528,000 (2009: US\$8.4 million). These loans relate to Eucateca, where the AGN loan is a receivable at year-end. The two original AP Servicios loans were reorganised into a single loan, which has been fully impaired at 31 December 2010, as detailed in Note 15. To the extent that the borrowers are unable or unwilling to repay these loans the Company has a counterparty risk. The Company is currently in the process of seeking, in accordance with the Judicial Reorganisation order relating to AP Servicios, collateral to minimise the impact of default (refer to Note 15).

During the year the Company prepaid land leases in the Jiangxi province, China totalling US\$1.8 million (2009: Nil) as detailed in Note 12. Relative to other properties within the Company's diversified Portfolio, the Company made relevant adjustments to the valuation methodology (for these Chinese timberland investments) to hedge against possible adverse consequences.

The Group has receivables which have been reviewed for credit quality and it has been confirmed that there are no bad debts or items that are past due but not impaired.

The following illustrates an ageing analysis of the Group's receivables (excluding prepayments) at 31 December 2010:

Up to 45	Between	Between	Total
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	days	45 and 90 days	91 and 180 days	
	US\$'000	US\$'000	US\$'000	US\$'000
Trade receivables	120	-	-	120
Sundry receivables	893	-	-	893
<b>Total receivables</b>	<b>1,013</b>	<b>-</b>	<b>-</b>	<b>1,013</b>

The following illustrates an ageing analysis of the Group's receivables (excluding prepayments) at 31 December 2009:

	Up to 45 days	Between 45 and 90 days	Between 91 and 180 days	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Trade receivables	35	-	504	539
Sundry receivables	2,065	-	-	2,065
<b>Total receivables</b>	<b>2,100</b>	<b>-</b>	<b>504</b>	<b>2,604</b>

**(e) Foreign Exchange Risk**

The Group undertakes certain transactions denominated in foreign currencies and hence exposures to exchange rate fluctuations arise.

The carrying amounts of the Group's major foreign currency denominated monetary assets (bank balances) at 31 December 2010 are as follows:

	31 Dec 2010 US\$'000	31 Dec 2009 US\$'000
New Zealand Dollar	160	94,620
Euro	254	65,141
Brazilian Real	9,652	51,798
Norwegian Krone	238	235

*Foreign exchange sensitivity*

The Group's major foreign currency exposure, the Brazilian Real is due to the significant amount of Brazilian currency invested in Itaú Bank short term investment accounts for working capital needs.

If US Dollar rates against the Brazilian Real had been 3% higher or lower and all other variables were held constant, the Group's net assets attributable to shareholders as at 31 December 2010 would have increased or decreased by approximately US\$290,000 (2009: US\$2.6 million using 5% sensitivity rate) due to the translation of the Brazilian Real currency.

**(f) Capital Management**

The investment objective of the Company is to provide shareholders with attractive long term returns, expected to be in the form of capital appreciation but with some income, through a diversified portfolio of timberland and timber-related investments.

Details of the Company's Investment Objective and Policy are provided in the Investment Objective and Policy section of these consolidated financial statements.

The Company has now reached full investment. In its original Prospectus it had stated that dividends would not be paid before this point was reached. Dividends are expected to be paid in US Dollars. Please refer to the updated Dividend Policy section in the Directors' Report.

As the Ordinary Shares are traded on the Main Market of the LSE, they may trade at a discount to the NAV per Ordinary Share on occasions. In order to address this issue, at the Annual General Meeting of the Company held in 2010, the Directors were granted authority to buy back up to 14.99% of the Ordinary Shares in issue at the date of the passing of the resolution granting such authority. The Company's authority to make purchases of its own issued Ordinary Shares will expire at the conclusion of the 2011 Annual General Meeting. A renewal of such authority to make purchases of Ordinary Shares will be sought from shareholders at the 2011 Annual General Meeting. The timing of any purchases will be decided by the Board.

The Directors intend that purchases will only be made pursuant to this authority through the market, for cash, at prices below the prevailing NAV per Ordinary Share where the Directors believe such purchases will result in an increase in the NAV per Ordinary Share of the remaining Ordinary Shares and to assist in narrowing any discount to NAV per Ordinary Share at which the Ordinary Shares may be trading.

Any Ordinary Shares bought back by the Company will either be held by the Company in treasury (and which may be re-issued) or forthwith be cancelled.

The Company passed a special resolution reducing to US\$ NIL the amount standing to the credit of the Company's share premium account following the date on which the Ordinary Shares were first admitted to the AIM in December 2006, and that the surplus created form a distributable reserve. In accordance with The Companies (Guernsey) Law, 1994 (as amended), the Company applied to the Royal Court in Guernsey for an order confirming such reduction of the share premium account following admission of the Ordinary Shares to AIM. The amount released on cancellation has been credited as a distributable reserve in the books of account and may be used by the Company for all purposes permitted by Guernsey companies law, including for the purpose of funding purchases of its Ordinary Shares as described above and for the payment of dividends.

The Company's authorised share capital is such that either further issues of new Ordinary Shares or re-issues of Ordinary Shares held in treasury can be made. Subject to prevailing market conditions, the Board may decide to make such issues or re-issues of Ordinary Shares for cash from time to time. Any further issues of new Ordinary Shares or re-issues of Ordinary Shares held in treasury will rank paripassu with Ordinary Shares in issue.

The Articles of Incorporation have granted authority to the Directors, pursuant to the Companies (Guernsey) Law 2008, to allot an unlimited number of Ordinary Shares and 1,556,490,000 C Shares (including warrants, options and other rights in respect of such shares). This authority has a term of five years from the date of adoption of the Articles of Incorporation on 24 March 2011 (ending 23 March 2016). The Board intends to seek renewal of this authority prior to the end of this period.

As a Guernsey incorporated vehicle, the Company is not subject to any local statutory requirements in respect of shareholder pre-emption rights for new share issues for cash. However under changes to the Listing Rules that came into effect in April 2010, non-UK companies that have shares admitted to the Official List with a premium listing were required to have pre-emption rights contained in their constitution prior to 6 April 2011. Accordingly, at the EGM, new Articles of Incorporation of the Company were adopted to introduce pre-emption rights

in respect of all new Ordinary Share issues for cash in order that the Company complies with the Listing Rules and retains the premium listing for the Ordinary Shares.

Pursuant to a further special resolution approved at the EGM, the pre-emption rights introduced in the new Articles of Incorporation were disapplied in respect of new issues of Ordinary Shares for cash, subject to the disapplication being limited to a proportion of any new issue of Ordinary Shares that represented approximately 5 per cent. of the issued share capital of the Company (including Treasury Shares) at that time, being 27,060,744 Ordinary Shares. The disapplication of pre-emption rights will expire at the conclusion of the 2011 Annual General Meeting. A renewal of such disapplication in respect of 5% of the Ordinary Shares in issue at the date of publication of these consolidated financial statements will be sought from shareholders at the 2011 Annual General Meeting.

Unless authorised by shareholders, the Company will not issue further Ordinary Shares or re-issue Ordinary Shares out of treasury for cash at a price below the prevailing NAV per share unless they are first offered pro rata to existing shareholders.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the Consolidated Statement of Financial Position. Capital for the year is summarised as follows:

	31 Dec 2010	31 Dec 2009
	US\$'000	US\$'000
Share premium	432,101	390,547
C share class	-	41,554
Retained earnings	30,850	10,136
Foreign currency translation reserve	21,605	14,749
Land revaluation reserves	2,974	10,659
Distributable reserves	110,418	110,418
Purchase of own shares	<u>(3,025)</u>	<u>(3,025)</u>
Total	<u>594,923</u>	<u>575,038</u>

The Group is not subject to externally imposed capital requirements.

### 31. CAPITAL COMMITMENTS

At the year end, the Group has outstanding contractual commitments of up to US\$4.7 million (2009: US\$9.7 million) in relation to outstanding working capital commitments for GTFF.

### 32. RELATED PARTIES

HSBC Securities Services (Guernsey) Limited is the Company's Administrator and Company Secretary. US\$281,335 (2009: US\$122,349) of costs were incurred by the Company with this related party in the year, of which US\$105,268 (2009: US\$88,753) was outstanding to this related party at 31 December 2010.

Liane Luke is a senior consultant in the Investment Manager's group. Kimberly Tara is also a director and shareholder of the Investment Manager. US\$9.1 million (2009: US\$8.1 million) of costs were incurred by the Company with this related party in the year, of which US\$ Nil (2009: US\$ Nil) was outstanding to this related party as at 31 December 2010. Given management fees are prepaid on a quarterly basis during the year, the Investment Manager owed US\$75,322 (2009: US\$1.1 million) to the Company at 31 December 2010. The Board has agreed to pay the Investment Manager US\$260,704 in respect of legal services which the Board considered could more appropriately be provided by the Investment Manager than by external lawyers and US\$93,750 in respect of financial reporting and consolidation work for the Company.

Under the terms of the Investment Management Agreement, the Investment Manager is entitled to receive a base fee together with reimbursement of reasonable expenses incurred by it in the performance of its duties. The base fee will be equal to 0.375% per quarter of the NAV of the Company, calculated quarterly and payable in advance, using an implied straight-line increase in NAV of 10% per annum on a basis which increases at 2.5% per quarter. As the quarterly calculation is based on an estimated NAV, following the calculation of the audited NAV at the end of each financial period, the base fee payable over such financial period will be recalculated and any deficiency will be payable by the Company to the Investment Manager. To the extent that such post-audit recalculation demonstrates that an excess fee has been paid, any such amount will be deducted from the payment due in respect of subsequent periods, up until the amount equal to the excess has been repaid.

In addition, the Investment Manager is entitled to a performance fee if the NAV per Ordinary Share at the end of each performance period exceeds the performance hurdle (as detailed below).

For these purposes the first performance period is the period from 20 December 2006 (being the date on which the Ordinary Shares were first admitted to AIM) to such 31 December on which the NAV per Ordinary Share (adjusted as described below) exceeds 108% of US\$1.00 (being the placing price at which the Ordinary Shares were placed at the initial admission to AIM). Thereafter performance periods shall be each 12 month period ending on 31 December.

The performance hurdle is:

- for the first performance period, an amount equal to 108% of the initial US\$1.00 placing price on admission to AIM; and
- for the second performance period, the figure which is 8% above the audited NAV per Ordinary Share as the end of the first performance period (adjusted as described below); and
- for each of the third and subsequent performance periods the figure which is 8% above (i) if a performance fee was payable in respect of the immediately prior performance period, the audited NAV per Ordinary Share at the end of such immediately prior performance period (adjusted as described below); or (ii) if no performance fee was payable in respect of the immediately prior performance period, the performance hurdle at the end of such immediately prior performance period (adjusted as described below).

Where the performance hurdle is met in respect of a performance period, a performance fee will be payable in an amount equal to 20% of any out performance in respect of the adjusted audited NAV per Ordinary Share over and above the highest previously recorded adjusted audited NAV per Ordinary Share in respect of which a performance fee was paid (or, in the case of the first performance period, above 108% of the initial US\$1.00 placing price) multiplied by the time-weighted average number of Ordinary Shares in issue over the performance period.

For the purposes of calculating the performance fee hurdle and whether any performance fee is payable in respect of any performance period the NAV at the end of that performance period shall be adjusted so as to:

- include the gross amount of all dividends per Ordinary Share declared or announced in respect of such performance period and any undistributed net revenue in respect of such performance period not otherwise taken into account for the purposes of calculating such NAV per Ordinary Share;
- not take account of any accrual made in respect of the performance fee itself for that performance period;
- not take into account any increase in NAV per Ordinary Share attributable to the issue of Ordinary Shares at a premium to NAV per

Ordinary Share or any buy-back of any Ordinary Shares at a discount to NAV per Ordinary Share; and

- (d) include any other adjustments which the Audit and Management Committee of the Board and the Investment Manager agree are appropriate.

For the purposes of calculating the performance fee hurdle and whether any performance fee is payable for each of the second and subsequent performance periods, the NAV per Ordinary Share (adjusted as described above) and the performance hurdle as at the end of the immediately prior performance period shall be further adjusted so as to:

- (a) exclude the gross amount of all dividends declared or announced in respect of Ordinary Shares in such prior performance period; and  
(b) take account of any accrual made in respect of the performance fee attributable to Ordinary Shares in such prior performance period.

Under the terms of the Investment Management Agreement, FourWinds Capital Management will continue as the Investment Manager unless the agreement is terminated by either party giving to the other not less than 36 months' notice. Such notice cannot be given earlier than the seventh anniversary of the initial admission of the Ordinary Shares to AIM, that being 20 December 2013. The Investment Management Agreement may be terminated with immediate effect in such circumstances as the liquidation of either the Company or the Investment Manager, or a material breach of its obligations by the Investment Manager not remedied within 28 days of receiving notice of such breach.

Upon termination of the Investment Management Agreement in accordance with its terms, each of the base fee and the performance fee will be calculated up to and including the date on which the Investment Manager ceases to manage the Company, with the performance hurdle being pro-rated accordingly. No additional payment will be required to be made to the Investment Manager by the Company.

Directors' remuneration is disclosed in Note 7.

There are no other key management personnel other than the Directors.

### 33. EVENTS AFTER THE BALANCE SHEET DATE

The Company's wholly owned subsidiaries, Forest Enterprises and Caldrey are currently held for sale following the strategic decision by the Investment Manager to divest of non-core assets.

Accordingly Forest Enterprise B.V. hired Citadel Financial Advisory d.o.o (the "Financial Advisor"), Beograd to take all necessary steps to coordinate, organize, manage and execute the sale of Forest Enterprises d.o.o. The Financial Advisor has invited bids from a limited number of interested parties but has not yet entered into any binding agreement to sell Forest Enterprises d.o.o, therefore the potential sale may or may not proceed.

As the parent of Caldrey, Phaunos is in negotiations with an individual interested in purchasing this wholly owned subsidiary.

### Schedule of Investments

Name of investment	Nature of investment	Fair Value US\$'000	31 Dec 2010 Total Net Assets %	31 Dec 2009 Total Net Assets %
Matariki Forestry Group	Timber operation	147,142	24.73%	-
Green Resources AS	Timber operation	96,058	16.15%	12.78%
Greenwood Tree Farm Fund LP	Timber operation	35,843	6.02%	5.38%
Aurora Forestal Limited	Timber operation	33,830	5.69%	4.84%
NTP Timber Plus+ Fund I, LP	Higher-and-better-use conversion	10,807	1.82%	1.86%
Masarang Foundation Asset Linked Euro Note 09/2012	Loan	-	-	-
Total financial assets designated at fair value through profit or loss		323,680	54.41%	24.86%
Other non-current assets		204,449	34.36%	17.89%
Other net current liabilities		(1,692)	(0.28)%	(0.32)%
Cash and cash equivalents		68,486	11.51%	57.57%
<b>Total Net Asset Value</b>		<b>594,923</b>	<b>100.00%</b>	<b>100.00%</b>

### Shareholder Information

The Ordinary Shares are traded on the Main Market of the LSE and on the CISX. The Ordinary Shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf. The buying and selling of Ordinary Shares may be settled through CREST.

The ISIN, SEDOL and the LSE mnemonic of the Ordinary Shares are:

ISIN	SEDOL	LSE mnemonic
GG00B1G3RS66	B1G3RS6	PTF

**Shareholder Enquiries**

The Company's CREST compliant registrar is, as at the date of publication of these financial statements, Capita Registrars (Guernsey) Limited, who maintains the Company's registers of shareholders. They may be contacted by telephone on +44 (0)1534847445.

For information about investing in the Company contact [info@fourwindscm.com](mailto:info@fourwindscm.com).

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**Directors**

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Ian Burns - Appointed 1 March 2011  
Liane Luke  
Martin Ricketts - Appointed 5 January 2011  
Sir Henry Studholme - Appointed 5 January 2011  
Kimberly Tara  
Sarah Evans - Resigned 5 January 2011  
Peter Niven - Resigned 5 January 2011

**Administrator**

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**Sponsor to CISX Listing**

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