Regulatory Announcement

Go to market news section

Company	Phaunos Tmbr Fnd Ltd
TIDM	PTF
Headline	Interim Results
Released	07:00 29-Aug-08
Number	2616C07

RNS Number : 2616C
Phaunos Timber Fund Limited
29 August 2008

THE BOARD OF DIRECTORS OF PHAUNOS TIMBER FUND LIMITED ANNOUNCE UNAUDITED HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

HIGHLIGHTS

- Raised US$518 million since launch in December 2006
- Completed migration to the Official List and the Main Market of the London Stock Exchange in June 2008
- Net asset value per share (unaudited) was US$1.02 at 30 June 2008
- Already made ten commitments in seven countries
- US$72.8 million of portfolio commitments drawn down as of 30 June 2008 (US$84.8 million as of 1 August 2008)
- 126% of gross assets has been committed, US$606.1 million as of 30 June 2008 (US$618.7 as of 1 August 2008)
- Established an international network of companies and tax efficient structures to support the continued investment of the portfolio in our target markets
- Strong pipeline of committed and potential investments - currently undertaking due diligence on potential acquisitions and investments in all markets
- Allocated capacity of up to US$600 million to DWS, a subsidiary of Deutsche Bank in connection with the proposed C Share offerings

INTRODUCTION

Dear Shareholders,

I am pleased to report that at the half-year ending 30 June 2008, the Company had identified and secured attractive investments for more than 126% of the capital raised to date, namely US$606.1 million committed at mid-year (US$618.7 as of 1 August 2008). Of this, as at 30 June 2008, US$72.8 million (US$84.8 million as of 1 August 2008) has been drawn down. We have been able to pursue this aggressive commitment schedule, in part, due to the flexibility afforded by the potential for quarterly additional capital raisings through C-share offerings, and also because of the lead time involved in making investments.

The Company is seeing substantial deal flow in both its current and prospective markets. We expect to be able to take advantage of this through one or a combination of our existing resources, from cashflow from the Company's existing portfolio, from syndication of our participation and/or from the proceeds of C Share offerings, depending on timing and the size of the investment required.

The Company has moved to the Official List and the Main Market of the London Stock Exchange, which we believe will enhance our ability to grow the Company. This action is also designed to increase diversification of investors, improve liquidity in our shares, provide increased financial and investment community profile and attract greater analyst coverage.

As at 30 June 2008, the Company had a portfolio that contained seven larger investments: two in the United States, three in Uruguay, one in Eastern Europe, and one in Asia. Three additional investment programmes have been initiated in Brazil, China, and Eastern Europe, with some relatively small amounts of capital having been drawn down in each case. The Company has built a portfolio of companies and entities designed to implement its investment strategies in a tax-efficient manner. The Company continues to provide a diversified portfolio: geographically, by species, age class and end market use.

FourWinds Capital Management, our Investment Manager, has built a management team, dedicated to the Phaunos portfolio, with multidisciplinary skills and representing broad cultural diversity. The objective has been to find professionals with the strongest technical skills who also have genuine personal experience in the countries where we are investing.

Our portfolio has been structured to achieve long-term strategic value creation for investors. Details of the portfolio are contained in the Investment Manager's Report.

Our pipeline of potential investments continues to grow. We believe we have established an investment strategy that identifies the best regions for timberland investment, paired with favourable markets for the sale of wood and fibre. Our Investment Manager is building the contacts and relationships to implement this strategy.

Any investment in the Company should be viewed as long-term in nature.

NET ASSET VALUE

The Company's un-audited net asset value per share was US$1.02 as at 30 June 2008. The net asset value ("NAV") remains unchanged since the year ended December 2007.

Over the period to 30 June 2008, the Company has successfully identified investments and committed the full amount of capital raised to date. It has also completed the migration to the Official List and LSE Main Market listing and put in place all necessary authorities to achieve further capital raising through C Share offerings. The Board considers that the upfront costs invested in these activities will offer medium to long term benefits in terms of increased NAV.

DIVIDENDS

The Board is not currently proposing a dividend for the period but is to review this situation in 2009.

C SHARE CAPITAL RAISINGS

We are pleased that the C Share arrangements have been approved by Shareholders. Currently, the Company has fully committed its existing capital, but continues to hold significant cash balances during the drawdown period for these committed investments. The C Share arrangements, which are structured to provide for quarterly closings overtime, will allow the Company the flexibility to increase the global diversification and scale of the portfolio whilst seeking to manage the balance between capital raisings and investment draw downs. The Board intends to manage the C Share quarterly closing amounts as appropriate, to meet these objectives.

OUTLOOK

Our strategic footprint is in place internationally: the strategies, the structures, and the management teams. We turn now to completing the implementation of each investment. We have robust pipelines in all of our target markets, and we continue to work through the opportunities methodically and selectively.

I am pleased with our progress to date, and look forward to our progress in the second half of 2008. As always, shareholders should note that current information about the Company is always available on our website: www.phaunostimber.com.

Keith Oates
Chairman
August 2008

We confirm to the best of our knowledge:

(a) the Chairman's Statement and Interim Management Report include a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces as required by the Disclosure and Transparency Rules of the UK Listing Authority; and

(b) the condensed half-yearly financial report for the period ended 30 June 2008 has been prepared in accordance with IAS 34 'Interim Financial Reporting', and gives a true and fair view of the assets, liabilities, financial position, profits and losses of the Company.

By order of the Board

Keith Oates	Peter Niven
Director	Director

FourWinds Capital Management is pleased to report on the progress we have made during the first half of 2008. Our focus has been on building a portfolio of assets that will have enduring value.

STRATEGY FOR GROWTH

The Company initially listed having raised US$115 million in December 2006, only about 20% of its current size. Even at that relatively small size for a timber fund, we needed to provide diversification across several investments. Therefore, as Phaunos' Investment Manager, we selected projects that were scalable, that is, that we could grow over time as our asset base grew. We did this by selecting "club" investments, or alternatively, relatively small projects with the potential to grow. We also made a point of choosing partners who could provide access to multiple investments over time, and in varied locales. As a result, we have been able to grow the investments in our portfolio, either by increasing the amount invested in a particular project, or by expanding the relationship with a particular partner to a new project.

Going forward, this will make us more efficient because it allows us to use the relationships, companies, and structures that we have now developed to make further investments. Over the past year and a half, we have designed tax-efficient holding companies for our ten investments, and have developed in-country controls and banking relationships critical to our success. Our pipeline is extremely robust and we are confident that we will continue to find unique opportunities like the ones we are building now, allowing us to leverage on the infrastructure we have already built.

INVESTMENT STRATEGY

FourWinds is pursuing an investment plan that is designed to provide Phaunos with both maximum diversification and strong returns over time.

First, we identified those markets which should provide strong risk-adjusted returns, either because they provide very favourable growing conditions, or because market demand is strong, or both. We continue to avoid those investments that are offered through intermediaries, and to avoid so-called "bid-events," in which too many bidders inflate the price of the asset. Instead, we are developing a portfolio of investments designed to create value. Typically, they are new investments, created specifically for the Company, like the greenfield plantations we are developing in Pradera Roja, being planted with the fast-growing species eucalyptus.

Secondly, once we have determined our preferred strategy for Phaunos in a region, we seek out the most suitable in-country partners, and build relationships to acquire and manage the Company's assets. Our partners are an important part of our management strategy, because they provide the in-country expertise required for each region. They will be an important element of our success.

Concurrently, we begin an active review of the investment assets we intend to acquire. That way, we are ready to make investments as soon as the structures are ready.

Finally, we develop the optimal structures for the investment assets, using the best available advice from attorneys and accountants from leading firms with timber investment expertise. Typically, we also develop an external accounting and control function for the subsidiary so that we can manage the disbursements from any of our bank accounts remotely.

Our due diligence process provides us with our initial operating budget and long-term plan. Multiple exit options characterise our investment model. For instance, we aim to have the option of selling the wood from a plantation and replanting; selling all or part of the plantation to other investors; or listing all or part of the entity on a stock exchange. The result should be that each asset is positioned for maximum benefit over the long term, because it can be managed on a continuous basis, while we manage intensively and monitor markets for our best options.

PORTFOLIO REVIEW

From the period of incorporation up to 30 June 2008, the Company committed to the following projects totalling approximately US$606.1 million (US$618.7 as of 1 August 2008):

US$30 million in a partnership (Greenwood Tree Farm Fund) for investment in the north western United States, which has acquired four plantations, totalling 35,000 acres of hybrid poplar tree farms in Washington and Oregon. Our ownership is approximately 18% of the project. The tree farms are certified under the stringent forest practices guidelines of the Forest Stewardship Council ("FSC"). This investment includes a specially designed sawmill to be managed by one of the co-investors, a pre-eminent manufacturer and marketer of sawn wood products. The project is almost complete. The saw mill is scheduled for completion this year, and the partnership has begun selling chips into a favourable fibre market. US$27.6 million was drawn down as of 30 June 2008 (US$27.7 million as of 1 August 2008)

US$10 million to an investment partnership (National Timber Partners' Timber Plus+ Fund I LP) investing in the South-Eastern United States designed to realise the "higher-and-better-use" values of timberland properties. Our ownership percentage is approximately 8.6% of this partnership. At August 2008 this project is approximately 70 per cent invested and has been generating revenue for over a year. US$3.9 million (net of fees and distributions) was drawn down as at 30 June 2008 (US$7 million as of 1 August 2008).

US$27 million in a joint venture formed in northern Uruguay with a family-run business owning pine plantations and sawmill (Aurora Forestal LTD). We have a minority holding in this company. The tree farms are managed under the stringent forest practices guidelines of the Forest Stewardship Council ("FSC"). The original commitment of US$21.0 million was completely drawn down as of 30 June 2008, and an additional US$6 million commitment has subsequently been made to this venture. We have slowed harvesting of mature pine, in light of depressed pine saw timber prices. (US$21.1 million as of 1 August 2008)

US$6.8 million to a new company (Caldrey SA) designed to provide forestry services to the growing timber management industry in Uruguay. We own 100% of this company. This company has already begun generating revenues using a combination of leased and owned equipment, and we are considering expanding its capabilities. Caldrey has secured two long-term contracts with an international forest products company in Uruguay, and has other prospective contracts. US$4.8 million was drawn down as at 30 June 2008.

US$ 5.9 million (€4 million) in the form of an interest bearing loan note to a prominent Dutch foundation operating in Indonesia (Masarang), which is secured by a tropical hardwood plantation, of which 100% had been drawn down as of 30 June 2008.

US$9 million to a wholly-owned wood pellet plant in Serbia (Forest Enterprise doo) that will produce wood pellets for the residential heating market in Europe. The establishment of this plant and our plans for future similar plants using wood waste that otherwise ends up as a pollutant in the local environment, is entirely congruent with our goal of maintaining the highest environmental standards. The plant is expected to be operational mid-2009. US$2 million was drawn down as of 30 June 2008 (US$7.3 million as of 1 August 2008).

US$17.4 million to a greenfield plantation project in Uruguay to be planted with fast growing eucalyptus for both the fiber and sawn wood markets (Pradera Roja). We own 100% of this company. The US$17.4 million commitment covers only those land investments either already purchased or under agreement awaiting final closing, and associated planting costs. We currently have approximately 9000 hectares either owned or under agreement. We anticipate acquiring more land for planting for this company on an ongoing basis and, upon doing so, the commitment will be increased. As of 30 June 2008, US$7.4 million had been drawn down (US$8 million as of 1 August 2008).

US$150 million to a joint venture partnership with a very experienced timberland management company in Brazil for the purchase and establishment of teak and eucalyptus plantations in Mato Grosso (Eucateca SA). We own the controlling interest in this company. The establishment of the necessary subsidiaries, associated compliance with in-country regulations, and the finalisation of the joint venture and management agreements were all completed in July 2008 and several properties are in advanced due diligence. As at 30 June 2008, US$250,000 had been drawn down (US$2.6 million as of 1 August 2008).

US$200 million to a joint venture in China to grow fast-growing species in plantations (Green China Forestry Co., Ltd.) with a partner that has had in-country presence and network since 2000. We own the controlling interest in this company. Joint venture documents and structuring for this project were completed in July 2008. The pipeline is very well populated and several projects properties are currently in due diligence. No draw downs had been made as at 30 June 2008 (US$37,299 as at 1 August 2008)

US$150 million to a joint venture in Eastern Europe with a partner with in-country foresters in our target market. We will own the controlling interest in this company. The organisational documents with this partner are still in process, but our operating subsidiary and bank accounts are in place. Two offers have been made on properties, but not accepted. No capital was drawn down as of 30 June 2008 (US$164,528 as of 1 August 2008).

As a result of these investments, we believe that Phaunos offers the most globally diversified timberland portfolio available in the market today.

IN SUMMARY

On Phaunos' behalf, FourWinds has moved to establish an international presence for its investments, and has built a tax-efficient organisation in which to grow the Company's investments, now and into the future.

FourWinds Capital Management

	Note	1 Jan 2008 to 30 Jun 2008 US$	28 Sep 2006 to 30 Jun 2007 US$
Net gains / (losses) on financial assets designated at fair value through profit or loss	11	(156,166)	(29,205)
Operating income	4	6,493,630	4,164,560
Total income		6,337,464	4,135,355
Operating expenses	5	(5,703,699)	(1,619,220)
Net operating income before taxation		633,765	2,516,135
Taxation on ordinary activities		-	-
Net gain for the period attributable to shareholders		633,765	2,516,135
		Cents	Cents
Earnings per share for the period - Basic and Diluted	7	0.13	1.82

In arriving at the results for the financial period, all amounts above relate to continuing operations.

There are no recognised gains or losses for the period other than those disclosed above.

The notes on pages 18 to 30 form an integral part of these financial statements.

	Notes	30 Jun 2008 US$	31 Dec 2007 US$	30 Jun 2007 US$
NON-CURRENT ASSETS				
Unquoted financial assets designated as fair value through profit or loss	11	68,544,985	50,197,810	23,297,763
Intangible assets	8	2,087	2,087	-
Plant and equipment	9	121,263	121,263	-
		68,668,335	50,321,160	23,297,763
CURRENT ASSETS				
Receivables	13	4,026,095	2,602,669	1,714,026
Cash and cash equivalents	12	406,982,820	425,863,895	446,673,972
		411,008,915	428,466,564	448,387,972
TOTAL ASSETS		479,677,250	478,787,724	471,685,735
CURRENT LIABILITIES				
Payables - due within one	14	443,853	188,092	57,971

year				
TOTAL LIABILITIES		443,853	188,092	57,971
EQUITY				
Share capital	15	-	-	-
Share premium	16	358,560,982	358,560,982	358,693,034
Retained earnings	17	10,253,820	9,620,055	2,516,135
Distributable reserves	18	110,418,595	110,418,595	110,418,595
TOTAL EQUITY		479,233,397	478,599,632	471,627,764
TOTAL EQUITY AND LIABILITIES		479,677,250	478,787,724	471,685,735
SHARES IN ISSUE		470,919,230	470,919,230	470,919,230
		US$	**US$**	**US$**
NAV PER SHARE		1.02	1.02	1.00

The notes on pages 18 to 30 form an integral part of these financial statements.

	Note	**1 Jan 2008 to 30 Jun 2008**	**28 Sep 2006 to 30 Jun 2007**
		US$	**US$**
Net gains / (losses) on financial assets designated at fair value through profit or loss	11	338,403	(29,205)
Operating income	4	6,492,580	4,163,889
Total income		6,830,983	4,132,684
Operating expenses	5	(5,703,631)	(1,619,140)
Net operating income before taxation		1,127,352	2,515,544
Taxation on ordinary activities		-	-
Net gain for the period attributable to shareholders		1,127,352	2,515,544
		Cents	**Cents**
Earnings per share for the period - Basic and Diluted	7	0.81	1.82

In arriving at the results for the financial period, all amounts above relate to continuing operations.

There are no recognised gains or losses for the period other than those disclosed above.

The notes on pages 18 to 30 form an integral part of these financial statements.

	Notes	**30 Jun 2008**	**31 Dec 2007**	**30 Jun 2007**
		US$	**US$**	**US$**
NON-CURRENT				

ASSETS				
Investments in subsidiaries	10	42,214,713	29,251,429	20,200,000
Unquoted financial assets designated as fair value through profit or loss	11	31,647,663	25,769,239	3,120,620
		73,862,376	55,020,667	23,320,620
CURRENT ASSETS				
Receivables	13	3,143,493	1,720,066	1,714,026
Cash and cash equivalents	12	403,221,158	422,103,181	446,650,498
		406,364,651	423,823,247	448,364,524
TOTAL ASSETS		480,227,027	478,843,914	471,685,144
CURRENT LIABILITIES				
Payables - due within one year	14	346,198	90,437	57,971
TOTAL LIABILITIES		346,198	90,437	57,971
EQUITY				
Share capital	15	-	-	-
Share premium	16	358,560,982	358,560,982	358,693,034
Retained earnings	17	10,901,252	9,773,900	2,515,544
Distributable reserves	18	110,418,595	110,418,595	110,418,595
TOTAL EQUITY		479,880,829	478,753,477	471,627,173
TOTAL EQUITY AND LIABILITIES		480,227,027	478,843,914	471,685,144
SHARES IN ISSUE		470,919,230	470,919,230	470,919,230
		US$	**US$**	**US$**
NAV PER SHARE		1.02	1.02	1.00

The notes on pages 18 to 30 form an integral part of these financial statements

	30 Jun 2008 US$	**30 Jun 2007 US$**
Operating activities		
Net gain for the period attributable to shareholders	633,765	2,516,135
Add: Net losses on financial assets designated at fair value through profit or loss	156,166	29,205
Less: Interest income	(6,305,256)	(4,162,157)
Less: Investment income	(188,374)	(2,403)
Add: Increase in payables	255,761	57,971
Less: (Increase) in receivables excluding accrued income	(2,136,590)	(213,843)
Net cash outflow from operating activities before income	(7,584,528)	(1,775,092)
Interest received	7,018,420	2,661,974
Investment income received	188,374	2,403

Net cash (outflow) / inflow from operating activities	(377,734)	889,285
Investing activities		
Purchase of financial assets	(18,503,341)	(23,326,968)
Net cash outflow from investing activities	(18,503,341)	(23,326,968)
Financing activities		
Proceeds of issue of shares	-	485,150,000
Costs of issue of shares	-	(16,038,371)
Net cash inflow from financing activities	-	469,111,629
Cash and cash equivalents at beginning of period	425,863,895	-
(Decrease) / Increase in cash and cash equivalents	(18,881,075)	446,673,946
Cash and cash equivalents at end of period	406,982,820	446,673,946

The notes on pages 18 to 30 form an integral part of these financial statements.

	30 Jun 2008 US$	30 Jun 2007 US$
Operating activities		
Net gain for the period attributable to shareholders	1,127,352	2,515,544
Less / add: Net (gains) / losses on financial assets designated at fair value through profit or loss	(388,403)	29,205
Less: Interest income	(6,304,206)	(4,161,486)
Less: Investment income	(188,374)	(2,403)
Add: Increase in payables	255,761	57,971
Less: (Increase) in receivables excluding accrued income	(2,136,591)	(213,843)
Net cash outflow from operating activities before income	(7,584,461)	(1,775,012)
Interest received	7,017,370	2,661,303
Investment income received	188,374	2,403
Net cash (outflow) / inflow from operating activities	(378,717)	889,694
Investing activities		
Purchase of financial assets	(12,422,139)	(3,149,625)
Investments in subsidiaries	(6,081,167)	(20,200,000)
Net cash outflow from investing activities	(18,503,306)	(23,349,825)
Financing activities		
Proceeds of issue of shares	-	485,150,000
Costs of issue of shares	-	(16,038,371)
Net cash inflow from financing activities	-	469,111,629

Cash and cash equivalents at beginning of period	422,103,181	-
(Decrease) / Increase in cash and cash equivalents	(18,882,023)	446,650,498
Cash and cash equivalents at end of period	403,221,158	446,650,498

The notes on pages 18 to 30 form an integral part of these financial statements.

	30 Jun 2008 US$	31 Dec 2007 US$	30 Jun 2007 US$
GROUP			
Opening balance	478,599,632	-	-
Issue of shares	-	485,150,000	485,150,000
Share issue costs	-	(16,170,423)	(16,038,371)
Net gain for the period attributable to shareholders	633,765	9,620,055	2,516,135
Closing balance	479,233,397	478,599,632	471,627,764
COMPANY			
Opening balance	478,753,477	-	-
Issue of shares	-	485,150,000	485,150,000
Share issue costs	-	(16,170,423)	(16,038,371)
Net gain for the period attributable to shareholders	1,127,352	9,773,900	2,515,544
Closing balance	479,880,829	478,753,477	471,627,173

The notes on pages 18 to 30 form an integral part of these financial statements.

1 ACCOUNTING POLICIES

(a) Basis of preparation

The condensed consolidated set of financial statements are prepared in accordance with IAS 34 Interim Financial Reporting issued by the International Accounting Standards Board. All accounting policies adopted for the period are consistent with International Financial Reporting Standards ("IFRS") issued by the IASB and as adopted by the European Union and applicable Guernsey law. The condensed consolidated set of financial statements have been prepared on an historical cost basis except for the measurement at fair value of certain financial instruments.

The consolidated financial statements are presented in US Dollars because that is the currency of the primary economic environment in which the Group operates. The consolidated financial statements are prepared to the nearest US$1.

The same accounting policies and methods of computation are followed in the half-yearly financial report as were adopted in the annual financial statements.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company made up to 30 June 2008 and entities controlled by the Company (its subsidiaries) (the Group) finalised up to 30 June 2008. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All inter-group transactions, balances, income and expenses are eliminated on consolidation.

In the separate financial statements of the Company, investments in subsidiaries are recorded at cost net of impairment losses.

(c) Taxation

The Company has been granted exemption under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 from Guernsey Income Tax, and is charged an annual fee of £600.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. Deferred tax is, however, neither provided on the initial recommendation of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet 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.

The Company bases its assessment of the probability of future taxable income on the entity's latest approved budget forecast, which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit.

If a positive forecast of taxable income indicates the probable use of a deferred tax asset, that deferred tax asset is usually recognised in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by the Company based on the specific facts and circumstances.

1 ACCOUNTING POLICIES

(c) Taxation (continued)

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, 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.

(d) Expenses

All expenses are accounted for on an accruals basis.

(e) Operating Income

Interest income and distributions receivable are accounted for on an accruals basis. Interest income relates only to interest on bank balances and money market deposits.

(f) Share issue costs

The share issue costs incurred amounted to US$16,170,423. Because the Company's shares have no fixed redemption date, the costs are written off through the statement of changes in equity.

(g) Cash and Cash equivalents

Cash at bank is carried at cost. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash, deposits at bank and money market fund.

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

All investments are designated at fair value through profit or loss. Investments are initially recognised on the date of purchase at cost, being the fair value of the consideration given. Transaction costs associated with the investment are recognised immediately in the Income Statement 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 of directors on this basis.

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

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

Phaunos US Incorporated	Investment in subsidiary
Balerio - Aurora Forestal	Joint venture
EMTN linked to Timber Assets of the Masarang Foundation	Loan
National Timber Partners Timber Fund LP	Investment in limited partnership
Caldrey SA	Investment in subsidiary
Forest Enterprises	Investment in subsidiary
Eucateca	Joint venture

Pradera Roja	Investment in subsidiary
Romfor Timber	Investment in subsidiary

1 ACCOUNTING POLICIES (continued)

(i) Foreign currency translation

The consolidated financial statements are presented in US Dollars, which is the Company'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 balance sheet date. All differences are taken to the Income Statement.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising (where material) are classified as equity and recognised in the Group's foreign currency translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

(j) Intangible assets

Other intangible assets include acquired software used in administration. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and install specific software. These items are amortised over 3 years. Expenditure relating to patches and other minor updates as well as their installation, are expensed as incurred.

(k) 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.

Machines and vehicles	5 years
Computers	3 years

(l) Impairment of tangible and intangible assets

At each balance sheet 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 an 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. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset might be impaired.

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.

1 ACCOUNTING POLICIES

(l) Impairment of tangible and intangible assets (continued)

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.

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 carrying 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.

(m) Joint ventures

The Group's Joint ventures have been designated at fair value through profit or loss.

(n) Other provisions, contingent liabilities and contingent assets

Other provisions are recognised when present obligations will probably 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, product warranties granted, legal disputes or onerous contracts. Restructuring provisions are recognised only if a detailed form plan for the restructuring has been developed and implemented, or management has at least announced the plan's main features to those affected by it. 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 balance sheet date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Long term provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision. All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate of the Group's management.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, no liability is recognised.

Probable inflows of economic benefits to the entity that do not yet meet the recognition criteria of an asset are considered contingent assets.

(o) Share-based payments

The Group has applied the requirements of IFRS 2 *Share-based Payment*.

The Group issues equity-settled share-based payments to certain directors. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of 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.

1 ACCOUNTING POLICIES

(o) Share-based payments (continued)

Subject to certain conditions, the Group has agreed to make equity-settled share-based payments to UCG in respect of services undertaken on behalf of the Group by UCG. The share-based payments will be in the form of Ordinary Shares of Caldrey SA and the maximum payments will total 50% of the share capital of Caldrey SA.

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 balance sheet 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.

(a) Fair value of financial instruments

The directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Given the nature of the Group's investments and the fact that they have been recently acquired, the directors consider the fair value to be equal to cost for most of the investments. The investments in National Timber Partners Timbers Fund LP and Masarang have been recorded at carrying value as this is considered to be a reasonable approximation of fair value.

3 SEGMENTAL ANALYSIS

Geographical segments

The Group's operations are located in the US, South America, Europe and Asia. The following is an analysis of various items analysed by geographical area in which the assets are located:

	USA	South America	Asia	Europe	Unallocated	Total
	US$	US$	US$	US$	US$	US$
Net gains on financial assets designated at fair value through profit or loss	(422,655)	-	266,489	-	-	(156,166)
Operating income	-	-	-	-	6,493,630	6,493,630
Net gain for the period attributable to shareholders	-	-	-	-	633,765	633,765
Total equity	-	-	-	-	479,233,397	479,233,397
Total assets	31,117,267	28,963,484	6,301,197	29,033	413,266,269	479,677,250
Plant, equipment and						

intangible assets expenditure	-	-	-	-	-	-

4 OPERATING INCOME

	Company 30 Jun 2008 US$	Group 30 Jun 2008 US$	Company 30 Jun 2007 US$	Group 30 Jun 2007 US$
Investment income	188,374	188,374	2,403	2,403
Bank interest	6,304,206	6,305,256	4,161,486	4,162,157
	6,492,580	6,493,630	4,163,889	4,164,560

5 OPERATING EXPENSES

	Company 30 Jun 2008 US$	Group 30 Jun 2008 US$	Company 30 Jun 2007 US$	Group 30 Jun 2007 US$
Investment manager's fees	3,804,183	3,804,183	1,268,270	1,268,270
Director's remuneration	79,952	79,952	111,187	111,187
Directors' expenses	1,479	1,479	3,594	3,594
Directors' & Officers' insurance	13,713	13,713	23,671	23,671
Directors' & Officers' insurance (Phaunos US Inc)	42,214	42,214	24,205	24,205
Audit fees	75,738	75,738	41,166	41,166
Annual fees	98,874	98,874	7,786	7,786
Administration fees	102,659	102,659	36,463	36,463
Registration fees	8,738	8,738	10,189	10,189
Nominated Advisor fees	44,400	44,400	54,346	54,346
Legal and professional fees	526,406	526,406	3,959	3,959
C Share issue and LSE listing expenses	832,955	832,995	-	-
Foreign exchange revaluations	34,665	34,665	5,626	5,626
Other operating expenses	37,655	37,723	28,678	28,758
	5,703,631	5,703,699	1,619,140	1,619,220

6 DIRECTORS' REMUNERATION

Each independent Director receives a fee of £20,000 per annum from the Company, except for the Chairman, who receives £40,000 per annum. These amounts are expensed quarterly in US$ at the exchange rate applicable at that time. Liane Luke and Kimberly Tara are not entitled to receive a fee.

7 EARNINGS PER SHARE

Earnings per share is based on the net gain for the period attributable to shareholders of Group US$633,765 and Company US$1,127,352 (2007 : US$2,516,135 and US$2,515,544) and on 470,919,230 (2007 : 138,436,713) Shares, being the weighted average number of shares in issue during the period. There are no dilutive instruments and therefore basic and diluted earnings per share are identical.

8 OTHER INTANGIBLE ASSETS

GROUP	30 Jun 2008 US$	31 Dec 2007 US$	30 Jun 2007 US$
Cost:			

Opening cost	2,087	-	-
Additions	-	2,087	-
Closing cost	2,087	2,087	-
Amortisation:			
Opening amortisation	-	-	-
Charge for the period	-	-	-
Closing amortisation	-	-	-
Net book value:			
At period end	2,087	2,087	-

9 PLANT AND EQUIPMENT

GROUP	**30 Jun 2008 US$**	**31 Dec 2007 US$**	**30 Jun 2007 US$**
Cost:			
Opening cost	121,263	-	-
Additions	-	121,263	-
Closing cost	121,263	121,163	-
Amortisation:			
Opening amortisation	-	-	-
Charge for the period	-	-	-
Closing amortisation	-	-	-
Net book value:			
At period end	121,263	121,263	-

10 INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries consist of investments in the following wholly owned Group companies:

Company	**Place of Incorporation**	**Percentage of shares**	**30 Jun 2008 US$**
Phaunos US Incorporated	USA	100%	27,711,506
Caldrey SA	Uruguay	100%	4,948,114
Forest Enterprise	Serbia	100%	2,134,004
Pradera Roja	Uruguay	100%	7,392,056
Romfor Timber	Romania	100%	29,033
			42,214,713

10 INVESTMENTS IN SUBSIDIARIES (continued)

Phaunos Timber Fund Limited owns 100% of the issued share capital of the above companies. The value of the investments in subsidiaries is stated at cost. Following advice from FourWinds, the Directors consider that there has been no diminution in the value of the investments.

11 INVESTMENTS

GROUP

UNQUOTED FINANCIAL ASSETS DESIGNATED THROUGH PROFIT OR LOSS AS FAIR VALUE	**30 Jun 2008 US$**	**31 Dec 2007 US$**	**30 Jun 2007 US$**
Opening portfolio cost	50,108,528	-	-
Additions at cost	18,503,341	50,108,528	23,326,968
Unrealised appreciation / (depreciation) on valuation brought forward	(3,388)	-	-

Unrealised appreciation / (depreciation) on value for the period	(422,655)	(3,388)	(29,205)
Unrealised foreign exchange movement brought forward	92,670	-	-
Unrealised foreign exchange movement for the period	266,489	92,670	-
Unrealised appreciation / (depreciation) and foreign exchange movement on valuation carried forward	(66,884)	89,282	(29,205)
Closing valuation	68,544,985	50,197,810	23,297,763

11 INVESTMENTS (continued)

COMPANY

UNQUOTED FINANCIAL ASSETS DESIGNATED THROUGH PROFIT OR LOSS AS FAIR VALUE	30 Jun 2008 US$	31 Dec 2007 US$	30 Jun 2007 US$
Opening portfolio cost	25,679,956	-	-
Additions at cost	5,540,022	25,679,956	3,149,825
Unrealised appreciation / (depreciation) on valuation brought forward	(3,388)	-	-
Unrealised appreciation / (depreciation) on value for the period	71,914	(3,388)	(29,205)
Unrealised foreign exchange movement brought forward	92,670	-	-
Unrealised foreign exchange movement for the period	266,489	92,670	-
Unrealised appreciation / (depreciation) and foreign exchange movement on valuation carried forward	427,685	89,282	(29,205)
Closing valuation	31,647,663	25,769,238	3,120,620

Investments are shown at fair value. In the directors' opinion the cost of investments approximates fair value.

12 CASH AND CASH EQUIVALENTS

	Company 30 Jun 2008 US$	Company 31 Dec 2007 US$	Company 30 Jun 2007 US$
Cash at bank	5,254,855	203,332	328,348
	397,966,303	421,899,849	466,322,150

Money market fund			
	403,221,158	422,103,181	466,650,498

	Group 30 Jun 2008 US$	Group 31 Dec 2007 US$	Group 30 Jun 2007 US$
Cash at bank	9,016,517	3,964,046	328,347
Money market fund	397,966,303	421,899,849	446,345,599
	406,982,820	425,863,895	446,673,946

12 CASH AND CASH EQUIVALENTS (continued)

In the directors' opinion, the risk of changes in market value of the money market funds are insignificant.

13 RECEIVABLES

	Company 30 Jun 2008 US$	Company 31 Dec 2007 US$	Company 30 Jun 2007 US$
Prepayments	2,054,704	36,557	63,802
Accrued income	893,878	1,607,042	1,500,183
Sundry receivables	194,911	76,467	150,041
	3,143,493	1,720,066	1,714,026

	Group 30 Jun 2008 US$	Group 31 Dec 2007 US$	Group 30 Jun 2007 US$
Prepayments	2,902,692	884,545	63,802
Accrued income	893,878	1,607,042	1,500,183
Sundry receivables	229,525	111,082	150,041
	4,026,095	2,602,669	1,714,026

14 PAYABLES

(amounts falling due within one year)

	Company 30 Jun 2008 US$	Company 31 Dec 2007 US$	Company 30 Jun 2007 US$
Accrued audit fees	52,777	61,046	41,166
Accrued administration fees	8,501	19,664	5,540
Accrued registration fees	1,499	1,985	3,410
Other accrued expenses	283,421	7,742	7,855
	346,198	90,437	57,971

	Group 30 Jun 2008 US$	Group 31 Dec 2007 US$	Group 30 Jun 2007 US$
Accrued audit fees	52,777	61,046	41,166
Accrued administration fees	8,501	19,664	5,540
Accrued registration fees	1,499	1,985	3,410
Other accrued expenses	283,421	7,742	7,855
Sundry payables	97,655	97,655	-
	443,853	188,092	57,971

15 SHARE CAPITAL

Authorised, issued and fully paid	**30 Jun 2008 US$**
Unlimited Ordinary Shares of no par value	-

The issues of Ordinary Shares took place as follows:

Date of issue	**Number of shares**	**Price per share US$**	**Amount received US$**
20 December 2006	115,150,000	1.00	115,150,000
05 June 2007	355,769,230	1.04	370,000,000
	470,919,230		485,150,000

As the Company has only one class of shares, the holders of its shares will under general law be entitled to participate in any surplus assets in a winding-up in proportion to their shareholdings.

16 SHARE PREMIUM

COMPANY AND GROUP

	US$
Share premium as at 28 September 2006	-
Share premium on initial raising 20 December 2006	115,150,000
Share premium on initial raising 5 June 2007	370,000,000
Less : Share issue costs	(16,038,371)
Transfer to distributable reserves	(110,418,595)
Share premium as at 30 June 2007	358,693,034
Less : Share issue costs	(132,052)
Share premium as at 31 December 2007 and 30 June 2008	358,560,982

17 RETAINED EARNNGS

	Company 30 Jun 2008 US$	**Company 31 Dec 2007 US$**	**Company 30 Jun 2007 US$**
Balance at beginning of period	9,773,900	-	-
Net gain for the period attributable to shareholders	1,127,352	9,773,900	2,515,544
Balance as at 30 June 2008	10,901,252	9,773,900	2,515,544

	Group 30 Jun 2008 US$	**Group 31 Dec 2007 US$**	**Group 30 Jun 2007 US$**
Balance at beginning of period	9,620,055	-	-
Net gain for the period attributable to shareholders	633,765	9,620,055	2,516,135
Balance as at 30 June 2008	10,253,820	9,620,055	2,516,135

18 DISTRIBUTABLE RESERVES

	Company US$	Group US$
Balance as at 28 September 2006	-	-
Transferred from share premium	110,418,595	110,418,595
Balance as at 30 June 2007, 31 December 2007 and 30 June 2008	110,418,595	110,418,595

The Company has passed a special resolution reducing the amount standing to the credit of the share premium account on the initial raising to US$ nil, and that the surplus created from a distributable reserve in accordance with The Companies (Guernsey) Law, 1994 (as amended) (the "Companies Law"), the Directors applied to the Royal Court in Guernsey for an order confirming such reduction of the share premium account following admission. The distributable reserve created on cancellation is available as distributable profits to be used for all purposes permitted by the Companies Law, including the buy back of Ordinary Shares and the payment of dividends.

19 CAPITAL COMMITMENTS

At the year end, the Company has made a further commitment totaling US$200 million into a new venture in China.

The Company has also made further commitments to provide funding of around US$333.9 million into investments as at 30 June 2008.

20 RELATED PARTIES

Anson Fund Managers Limited is the Company's Administrator and Secretary, Anson Registrars Limited is the Company's Registrar, Transfer Agent and Paying Agent and Anson Administration (UK) Limited is the UK Transfer Agent. John R Le Prevost is a director of Anson Fund Managers Limited, Anson Registrars Limited and Anson Administration (UK) Limited. US$111,397 (2007: US$46,652) of costs were incurred by the Company with these related parties in the period, of which US$10,000 (2007: US$8,950) was due to these related parties as at 30 June 2008.

FourWinds Capital Management is the Company's Investment Manager. Liane Luke and Kimberly Tara are both senior employees of FourWinds Capital Management. US$3,804,183 (2007: US$1,268,270) of costs were incurred by the Company with this related party in the period, of which US$nil (2007: US$nil) was due to this related party as at 30 June 2008.

Directors' remuneration is disclosed in Note 6.

The Company has an agreement with Fanerey, the manager of Caldrey SA (Note 9), under which up to 50% of Caldrey SA's shares will be transferred to the manager based on performance over an extended period.

21 POST BALANCE SHEET EVENTS

The Company announced on 7 August 2008 a further US$5 million dollar commitment in to the Pradera Roja investment in Uruguay which brings the total investment in Pradera Roja to US$13 million dollars and the total investment in Uruguay to US$68.8 million dollars.

The Company raised a further US$33 million by a placing in July 2008 of 31,480,376 Ordinary Shares at a price of US$1.05 each. These shares began trading on 10 July 2008.

GROUP

Name of investment	Nature of investment	VALUATION US$	TOTAL NET ASSETS %
GreenWood Tree Farm Fund	Timber operation	27,194,115	5.67%
Balerio - Aurora Forestal	Timber operation	21,173,314	4.42%
5 Year EMTN linked to Timber Assets of the Masarang Foundation	Loan	6,301,197	1.31%

National Timber Partners Timber Fund LP	Financial Instrument	3,923,152	0.82%
Forest Enterprise BV	Timber operation	2,134,004	0.45%
Pradera Roja	Timber operation	7,392,056	1.54%
Romfor Timber BV	Timber operation	29,033	0.01%
Caldrey SA	Timber operation	148,114	0.03%
Eucateca	Timber operation	250,000	0.05%
		68,544,985	14.30%

COMPANY

Name of investment	Nature of investment	VALUATION US$	TOTAL NET ASSETS %
Balerio - Aurora Forestal	Timber operation	21,173,314	4.41%
5 Year EMTN linked to Timber Assets of the Masarang Foundation	Loan	6,301,197	1.31%
National Timber Partners Timber Fund LP	Financial instrument	3,923,152	0.82%
Eucateca	Timber operation	250,000	0.05%
		31,647,663	6.59%

Name of subsidiary	COST US$	TOTAL NET ASSETS %
Phaunos US Incorporated	27,111,506	5.77%
Caldrey SA	4,948,114	1.03%
Forest Enterprise BV	2,134,004	0.44%
Pradera Roja	7,392,056	1.54%
Romfor Timber BV	29,033	0.01%
	42,214,713	8.79%

GROUP

Name of investment	Nature of investment	VALUATION US$	TOTAL NET ASSETS %
GreenWood Tree Farm Fund	Timber operation	24,428,572	5.10%
Balerio - Aurora Forestal	Timber operation	19,000,000	3.97%
5 Year EMTN linked to Timber Assets of the Masarang Foundation	Loan	2,918,000	0.61%
National Timber Partners Timber Fund LP	Financial Instrument	3,851,238	0.80%

Forest Enterprise BV	Timber operation	-	0.00%
Pradera Roja	Timber operation	-	0.00%
Romfor Timber BV	Timber operation	-	0.00%
		50,197,810	10.48%

COMPANY

Name of investment	Nature of investment	VALUATION US$	TOTAL NET ASSETS %
Balerio - Aurora Forestal	Timber operation	19,000,000	3.97%
5 Year EMTN linked to Timber Assets of the Masarang Foundation	Loan	2,918,000	0.61%
National Timber Partners Timber Fund LP	Financial instrument	3,851,238	0.80%
Eucateca	Timber operation	-	0.00%
		25,769,238	5.38%

Name of subsidiary	COST US$	TOTAL NET ASSETS %
Phaunos US Incorporated	24,451,429	5.11%
Caldrey SA	4,800,000	1.00%
Forest Enterprise BV	-	0.00%
Pradera Roja	-	0.00%
Romfor Timber BV	-	0.00%
	29,251,429	6.11%

GROUP

Name of investment	Nature of investment	VALUATION US$	TOTAL NET ASSETS %
GreenWood Tree Farm Fund	Timber operation	20,177,143	4.28%
Balerio - Aurora Forestal	Timber operation	-	0.00%
5 Year EMTN linked to Timber Assets of the Masarang Foundation	Loan	-	0.00%
National Timber Partners Timber Fund LP	Financial Instrument	3,120,620	0.66%
Forest Enterprise BV	Timber operation	-	0.00%
Pradera Roja	Timber operation	-	0.00%
Romfor Timber BV	Timber operation	-	0.00%
		23,297,763	4.94%

COMPANY

Name of investment	Nature of investment	VALUATION US$	TOTAL NET ASSETS %
Balerio - Aurora Forestal	Timber operation	-	0.00%
5 Year EMTN linked to Timber Assets of the Masarang Foundation	Loan	-	0.00%
National Timber Partners Timber Fund LP	Financial instrument	3,120,620	0.66%
Eucateca	Timber operation	-	0.00%
		3,120,620	0.66%

Name of subsidiary	COST US$	TOTAL NET ASSETS %
Phaunos US Incorporated	20,200,000	4.28%
Caldrey SA	-	0.00%
Forest Enterprise BV	-	0.00%
Pradera Roja	-	0.00%
Romfor Timber BV	-	0.00%
	20,200,000	4.28%

ABOUT THE COMPANY

Phaunos Timber Fund Limited is a closed ended investment company registered and incorporated in Guernsey on 28 September 2006 with an unlimited life. The Company has one class of share in issue, being US Dollar denominated Ordinary Shares. The Company has raised a total of US$ 518 million through three separate placings.

The Company raised approximately US$115 million through a placing of 115,150,000 Ordinary Shares at a price of US$1 each on the 20 December 2006.

The Company raised a further US$370 million in June 2007 through a placing of 355,769,230 Ordinary Shares at a placing price of US$1.04 per share. These shares began trading on 5 June 2007.

The Company also raised a further US$33 million in July 2008 through a placing of 31,480,376 Ordinary Shares at a price of US$1.05 each. These shares began trading on 10 July 2008.

Originally admitted to trading on AIM on 20 December 2006 the Ordinary Shares of the Company were migrated to the Official List and admitted to trading on the Main Market of the London Stock Exchange on the 11 June 2008. The Ordinary Shares are also admitted to listing and trading on the CISX.

INVESTMENT POLICY, OBJECTIVES AND STRATEGY

Investment Objective

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

The 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 geographically diversified range of timberland markets 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 investments in both well established markets and investments in less developed timberland markets or countries where the Investment Manager believes the benefits of the timberland investment 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 per cent. of gross assets and no continent more than 60 per cent. of gross assets.

Asset Allocation
The Investment Manager seeks to accomplish the investment objective by: (i) seeking exposure to timberland and timber-related investments on a global basis; (ii) seeking portfolio diversification by tree species, age classes and geographic timberland markets; and (iii) seeking to control risk through portfolio diversification, investment vehicle selection and implementation of risk control strategies. Generally, the Company will not invest in securities carrying unlimited liability and no single investment or investment in the securities of any one company may, at the time of acquisition, exceed 30 per cent. of gross assets. 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 the restriction can again be complied with.

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.

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 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 permit maximum borrowings of up to 25 per cent. of Net Asset Value. The Directors do not intend to use gearing in respect of investments, but, when necessary and where appropriate, may consider borrowing: (i) for short term liquidity; (ii) for working capital requirements; (iii) to facilitate the Company's over commitment policy; and/or (iv) 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 in paragraph 12 of Part VII of the Company's prospectus dated 4 June 2008. 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 Strategy

The Company's investment strategy is to build a diversified portfolio of timberland properties and timberland-related investments through a research-led ethically and socially responsible investment process designed to identify and acquire timberland, or forestry, or related investment vehicles or structures related to these vehicles. The strategy is intended to allow the Company to build an optimised timberland portfolio in terms of geographical allocation, age class and species that will maximise after-tax returns while seeking to control volatility and limit downside risk exposure. The Company believes that this approach generates both current income and long term capital appreciation for Shareholders.

Different age classes of tree provide harvestable timber over time and diversification by species and geography provide exposure to both different growth rates and different market segments/prices. Harvested land is generally either replanted or allowed to regenerate naturally, as appropriate. Where the Company disposes of its properties they will either be sold as timberlands or, where practicable, for an alternative use which commands a higher price, being the "Highest and Best Use".

The Company has sought exposure to larger tracts of commercial timberland, as well as reviewing opportunities for smaller tracts or groups of smaller tracts where those opportunities provide higher return potential or exposure to niche markets.

The Company works with market-leading, major timber management groups and experienced local forest managers in the selection, acquisition and management of its timber investments. Because of the broad international mandate of the Company and its ability to work with a diverse spectrum of leading timber managers and investors, the Investment Manager believes that the Company has the opportunity to evaluate and consider participation in both well-known, limited access investments or more exclusive specialist opportunities. This scope allows the Company to analyse and select both partners and investment opportunities that the Investment Manager considers best suit the needs of the Shareholders and allow the Company to build a well-diversified portfolio.

Investments in the Portfolio are currently, and will in the future be, made in currencies other than US Dollars and distributions and income from or the proceeds from the disposal of certain investments in the Portfolio will be realised in currencies other than US Dollars. Consequently, the value of non-US Dollar denominated investments in the Portfolio will be affected by currency movements and will fall if the US Dollar appreciates against the currency in which such investments are denominated. 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 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.

The Company expects to generate cash flow to meet working capital requirements, with any surplus net income potentially to be distributed by way of dividend payments, by the harvest and sale of timber growing on invested properties or investment vehicles, as well as through secondary sources of return from those properties and investment vehicles. Additional sources of return could include, but are not limited to, recreational licences, outsourced utilisation of mineral or water rights, or carbon credits.

GENERAL

The Shares may be dealt in directly through a stockbroker or professional adviser action on an investor's behalf. The buying and selling of Shares may be settled through CREST.

The Net Asset Value of the Company and hence the Net Asset Value per Share is calculated in US Dollars by the Company at the end of each half yearly period and audited annually at the end of each financial year and is based upon information supplied by a variety of sources including third party local managers, as described below.

The Net Asset Value will be the value of all assets of the Company less the liabilities to creditors (including the provisions for such 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 will be determined in accordance with applicable accounting standards.

If the Directors consider that any of the above bases of valuation are inappropriate in any particular case, or generally, they may, with the agreement of the Auditors, adopt such other valuation procedures as they consider is reasonable in the circumstances.

All valuations of the Company's investment portfolio will be made, in part, on valuation information provided by the third party managers of investments in the portfolio. Although the Investment Manager will evaluate all such information and data, neither the Investment Manager, the Administrator nor the Directors are generally in a position to confirm the completeness, genuineness or accuracy of such information or data. In addition, the financial reports typically provided to the Investment Manager will be provided only on a half yearly basis and generally will be issued two to three months after the respective valuation dates.

The Administrator will notify the CISX and LSE of the calculated Net Asset Value per Share as soon as practicable after the end of each financial year.

Any suspension in the calculation of the Net Asset Value of the Company, to the extent required under the Articles of Association of the Company or by the rules of the CISX and/or the LSE DTR (as the case may be) will be notified by the Administrator, to the CISX and/or LSE as soon as practicable after any such suspension occurs.

The CISX publishes the reported Net Asset Value of the Ordinary Shares on the CISX website www.cisx.com and via the Reuters network <CISXINDEX>.

The ISIN, SEDOL and the London Stock Exchange mnemonic of the Company's Ordinary Shares are:

ISIN	SEDOL	LSE mnemonic
GG00B1G3RS66	B1G3RS6	PTF

Shareholder Enquiries

The Company's CREST compliant registrar is Anson Registrars Limited in Guernsey who maintains the Company's register of shareholders. They may be contacted by telephone on (44) 01481 711301.

Further information regarding the Company can be found on its website at www.phaunostimber.com

For information about investing in the Company contact Kimberly Tara of FourWinds Capital Management, the Company's Investment Manager, info@fourwindscm.com

Directors	**Registered Office of the Company**
Keith Oates John Reginald Le Prevost Liane Luke Peter Niven Kimberly Tara	Anson Place Mill Court La Charroterie St Peter Port Guernsey GY1 1EJ Telephone +44 (0)1481 722260
Registrar, Paying Agent and Transfer Agent Anson Registrars Limited	**UK Transfer Agent**

PO Box 426 Anson Place Mill Court La Charroterie St Peter Port Guernsey GY1 3WX	Anson Administration (UK) Limited 3500 Parkway Whiteley Fareham Hampshire England PO15 7AL
Company Broker Shore Capital Stockbrokers Limited Bond Street House 14 Clifford Street London England W1S 4JU	**Sponsor to CISX Listing** Ozannes PO Box 186 1 Le Marchant Street St Peter Port Guernsey GY1 4HP
Auditor Ernst & Young LLP PO Box 9 14 New Street St Peter Port Guernsey GY1 4AF	**Administrator and Company Secretary** Anson Fund Managers Limited PO Box 405 Anson Place Mill Court La Charroterie St Peter Port Guernsey GY1 3GF

END