

**THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this Prospectus you should consult a person authorised under the Financial Services and Markets Act 2000 (the “FSMA”) who specialises in advising on the listing and acquisition of shares and other securities. Your attention is drawn to the risk factors set out under the heading “Risk Factors” on pages 8 to 15 of this Prospectus.**

A copy of this document, which comprises a Prospectus with regard to Phaunos Timber Fund Limited (the “Company”), prepared in accordance with the Prospectus Rules made pursuant to section 73A of the FSMA, has been filed with the Financial Services Authority (the “FSA”) in accordance with Rule 3.2 of the Prospectus Rules.

An investment in the Company is only suitable for, and is only being offered to: (i) qualified investors and persons who have professional experience in matters relating to investments falling within the definition “investment professionals” as set out in Article 19(5) of the UK Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended; (ii) persons who fall within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations, etc”) of the UK Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended; (iii) persons in member states of the European Economic Area who are “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC); and/or (iv) persons who are permitted to purchase Shares pursuant to an exemption from the Prospectus Directive and other applicable legislation.

Applications will be made to the FSA in its capacity as competent authority for the purposes of the FSMA (the “UK Listing Authority”) for the Ordinary Shares to be admitted to the Official List by means of an introduction and to be admitted to trading on the London Stock Exchange’s main market for listed securities. It is expected that the admission will become effective and that dealings in the Ordinary Shares will commence on 11 June 2008. This document comprises the Prospectus in relation to the application for all the Ordinary Shares of the Company to be admitted to the Official List and to trading on the London Stock Exchange’s main market for listed securities.

Capitalised terms used in this Prospectus shall have the meanings set out in Parts VIII and Parts IX of this Prospectus.

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## **PHAUNOS TIMBER FUND LIMITED**

*(a closed ended investment company incorporated in Guernsey with registration number 45564)*

### **Migration of Ordinary Shares from the Alternative Investment Market to the London Stock Exchange**

**Sponsor  
Shore Capital and Corporate Limited**

**Investment Manager  
FourWinds Capital Management**

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The Directors of the Company, whose names appear on page 21, and the Company, accept responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The C Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “Securities Act”) or with any securities regulatory authority of any state or other jurisdiction of the United States. In addition, the Company has not, and will not be, registered under the United States Investment Company Act of 1940, as amended (the “Investment Company Act”). The C Shares may not be offered, sold, pledged or otherwise transferred or delivered, directly or indirectly, in or into the United States, or to or for the account or benefit of any US person (within the meaning of Regulation S under the Securities Act (“US Person”)) at any time. The C Shares will be offered and sold outside the United States to non-US Persons in reliance on Regulation S under the Securities Act. Prospective investors in the C Shares should carefully review the transfer restrictions and required representations described in the section headed “Important Notices” contained in this Prospectus.

Consent under the Control of Borrowing (Bailiwick of Guernsey) Ordinances 1959 to 1989 has been obtained for the issue of this Prospectus. In giving its consent, neither the Guernsey Financial Services Commission nor the States of Guernsey Policy Council accepts any responsibility for the financial soundness of the Company or for the correctness of any of the statements made or opinions expressed with regard to it.

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## SUMMARY

**This summary should be read as an introduction to this Prospectus. Any decision to invest in Shares should be based on the consideration of the Prospectus as a whole by prospective investors. Where a claim relating to the information contained in this Prospectus is brought before a court, a claimant investor may, under the national legislation of an EEA State, have to bear the costs of translating this Prospectus before the legal proceedings are initiated. Civil liability attaches to the Company and its Directors, who are responsible for this summary, including any translation of this summary, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus.**

### **Introduction**

Phaunos Timber Fund Limited is a closed ended investment company registered in Guernsey which aims to provide its Shareholders with attractive long term total returns through a diversified global portfolio of timberland and timber-related investments. FourWinds Capital Management has been appointed Investment Manager of the Company.

As at 30 May 2008, the Company had Gross Assets of \$485.2 million of which it had committed \$589.6 million (totalling 121.5 per cent.) to ten investments in seven countries. Of the total committed, as at 30 May 2008, a total of \$65.3 million had been drawn down.

In addition to the broadly diversified Portfolio, the Investment Manager has built a robust pipeline of potential investments all over the world, valued in total at over \$2.5 billion. The Investment Manager's goal is to enlarge commitments in the regions where investments were made in 2007 as well as continuing to incorporate new capital into the Company during 2008.

In order to take advantage of a number of potential investment opportunities which are or may become available to the Company, the Company intends to raise additional capital of up to approximately \$1.6 billion, by way of one or more issues of C Shares. The raising of such additional capital will also permit the Company to take larger investment participations in those existing investment opportunities considered to be sufficiently attractive to merit it.

The Ordinary Shares of the Company are currently admitted to trading on AIM and admitted to listing and trading on the CISX. The Company intends to migrate to the Main Market from AIM. Application has been made for the Ordinary Shares to be admitted to the Official List (by means of an introduction) and to trading on the Main Market. It is expected that Admission will become effective and that dealings will commence on 11 June 2008. Following the migration, the Ordinary Shares will remain admitted to listing and trading on the CISX.

### **Investment 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.

The Portfolio is 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 geographical timberland markets in order to provide sustainable returns, to control volatility and to manage risks. There are no predetermined geographical 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. 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. 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 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.

### **The Investment Manager**

The Investment Manager is a Cayman Islands exempted company with offices in Geneva, Boston, London and Hong Kong and wholly owned subsidiaries in the United States and England. The Investment Manager has authority to invest the Company's assets and is responsible for all investment decisions made on behalf of the Company, subject to the control and policies of the Board.

The Investment Manager and its team are experienced in commodity and commodity-focused investments, including timberland. The Investment Manager focuses on the development of, and risk management of, investment vehicles for commodities and real assets. The Investment Manager currently has two other products under management, namely the Zephyr Commodity Fund and Ceres Agricultural Fund Limited.

### **The Timber Market**

The traditional portfolio benefits of timberland investing include a low correlation to other asset classes and an empirical positive correlation to inflation. The traditional drivers of timberland returns include tree-derived income, land prices and other income. Other income from timberland might include revenue from hunting or recreational licensing, mineral or water rights, carbon credits or other timberland related secondary income.

Historically, the US has been the leading producer and consumer of global forest products and US timber investment vehicles have evolved rapidly. However acquisition prices have risen rapidly, making it more challenging to identify opportunities with attractive long term returns on investment.

Non-US timberlands can offer important diversification from the fast-growing plantations of non-indigenous species in Brazil to the intensive management of indigenous species in long established timber markets like Canada and Scandinavia. Growth rates for trees in Latin America and other tropical or semi-tropical latitudes are consistently higher than in temperate climates such as the US. Prime properties are also more likely to become available in less saturated markets than in highly mature markets such as the US.

### **Migration to the Official List and Main Market**

The Board believes that migrating from AIM to the Main Market will provide several advantages for the Company, including: widening the pool of potential investors which may assist in relation to future capital raisings; increasing liquidity in the Ordinary Shares; increasing the Company's profile within the financial and investment community and amongst timber managers and potential investee companies, funds or vehicles; and potentially, attracting greater analyst coverage.

In addition, the Board considers a migration to the Main Market appropriate for the Company given its current market capitalisation and its potential market capitalisation following future conversion of C Shares into Ordinary Shares.

### **The C Shares**

The Company intends to raise additional capital of up to approximately \$1.6 billion, by way of one or more issues of C Shares. It is expected that the initial issue of C Shares, the C Share Placing, will be a non-pre-emptive institutional placing of up to 1 billion C Shares (which will be unlisted) effected in tranches, at escalating prices commencing at \$1 per C Share, which are anticipated to occur quarterly from the end of June 2008 to the end of March 2009. It is anticipated that at least the first tranche of C Shares will be placed with a single institutional investor, DWS Access. The Company may not apply to list any C Shares issued to DWS Access over the course of the C Share Placing before 1 January 2009.

Subsequent issues of C Shares representing separate classes of C Shares (which may be listed) would be at the Directors' discretion. The Directors would not in any event issue more than 1 billion C Shares of the class to be issued under the C Share Placing until such time as 70 per cent. of the net proceeds of the C Share

Placing have been invested or committed. The Directors, subject to the Articles, will have the power to determine the detailed commercial terms of any issue of C Shares. In certain circumstances, the C Shares will convert into Ordinary Shares on the basis of a Conversion Ratio determined by reference to the net assets attributable to the C Shares in comparison to the net assets attributable to Ordinary Shares. The net proceeds of the issue of any C Shares will be accounted for as a separate pool of assets until Conversion.

Pending Conversion, C Shares will carry the right to any dividends or distributions in respect of the assets attributable to the relevant C Share class only, although it is not expected that any such dividends or distributions will be paid. C Shares will rank *pari passu* with the Ordinary Shares for the purpose of participating on a *pro rata* basis in commitments to new investments by the Company.

C Shares will carry the same rights as the Ordinary Shares in relation to attendance and receiving notice of any general meetings of the Company save that holders of C Shares that are unlisted will not have the right to vote in respect of resolutions proposed to meet certain specified obligations under the Listing Rules. The number of votes attaching to the Ordinary Shares as a class and to each class of C Shares will reflect the respective aggregate net asset value of the relevant classes. Pursuant to the Articles, C Shares will be transferable in the same manner as the Shares.

The Company has not been and will not be registered under the Investment Company Act. Accordingly, the C Shares may not be offered, sold, pledged or otherwise transferred or delivered, directly or indirectly, in or into the United States, or to or for the account or benefit of any U.S. Person.

### **Risk Factors**

The Directors consider that an investment in the Company should be regarded as long term in nature and is suitable only for sophisticated investors, investment professionals, high net worth bodies corporate, unincorporated associations and partnerships and trustees of high value trusts, in each case, who can bear the economic risk of a substantial or entire loss of their investment and who can accept that there may be limited liquidity in the Shares.

The performance of the Company and returns to Shareholders may be adversely affected by currency movement. The Company may enter into currency hedging transactions in respect of investments which are not denominated in US Dollars but appropriate mechanisms on acceptable terms are not expected to be readily available for all investments.

The Company operates in a highly competitive environment for investment opportunities and competition may lead to a delay in investment of the Company's assets and may increase the price at which investments can be made, thereby reducing the Company's potential profits.

Investors should be aware that DWS Access, through its acquisition of C Shares pursuant to the C Share Placing, may exert a significant degree of control over the Company without incurring any obligation under Rule 9 of the Takeover Code to make a general offer to Shareholders.

Due to the nature of the various types of commitments and investments which the Company will enter into, there can be no certainty that all of the assets of the Company will in fact be invested in due course or at all.

An investment in timber carries physical risks such as fire, insect infestation, extreme weather and other causes beyond the control of the Investment Manager.

The Company's operating revenues are dependent on prevailing market prices for wood products which fluctuate over time.

Demand for saw logs and pulpwood is affected by various factors in the world economy, such as regional growth rates, construction activity, changes in currency exchange rates and capital spending. Adverse conditions in the larger economy may result in lower investment in markets in which the Company intends to sell its timber.

Changes in law and government regulations and restrictions could adversely affect timber prices, operating results and the ability of the Company to successfully pursue its investment strategy.

The extent of use of alternative building materials, such as steel and plastics, by the industries that use wood products may affect the supply and demand for wood products.

The Company cannot be sure that the Investment Manager will be successful in obtaining suitable investments on financially attractive terms.

The performance of the Company is dependent upon its Directors, the expertise of the Investment Manager and the investment strategy followed by the Investment Manager for its future success. No assurance can be given that the strategy will be successful under all or any market conditions.

The Ordinary Shares may trade at a discount to the Net Asset Value per Ordinary Share and Ordinary Shareholders may be unable to realise their investments on the market at the Net Asset Value per Ordinary Share.

It may be difficult for holders of C Shares to realise their investment and there may not be a liquid market in the C Shares.

As the C Shares have not been and will not be registered under the Securities Act and the Company has not been and will not be registered under the Investment Company Act the C Shares are subject to transfer restrictions. These transfer restrictions may have an adverse impact on the value of the C Shares.

The Company is not subject to pre-emption rights and subsequent issues of Shares may have a detrimental effect on the market price of the Ordinary Shares and/or on the value of the C Shares.

## RISK FACTORS

Investment in the Company should be regarded as long-term in nature and involving a high degree of risk. The Shares are only suitable for investors who understand the potential risk of capital loss, for whom an investment in the Shares constitutes part of a diversified investment portfolio and who fully understand and are willing to assume the risks involved in investing in the Company. Accordingly, Shareholders should consider carefully all of the information set out in this Prospectus and the risks attaching to their investment in the Company including, in particular, the risks described below. The Directors believe that the risks described below are the material risks relating to the Shares at the date of this Prospectus. Additional risks and uncertainties not currently known to the Directors, or that the Directors deem to be immaterial at the date of this Prospectus, may also have an adverse effect on the performance of the Company and the value of the Shares. Shareholders should consider whether an investment in the Company is suitable for them in light of the information that is contained in this Prospectus and the financial resources available to them.

The Company's financial condition or operations could be materially and adversely affected by the occurrence of any of the risks described below. In such case, the market price of the Ordinary Shares and/or the value of the C Shares could decline due to any of these risks and investors could lose all or part of their investment. Additional risks and uncertainties not presently known to the Directors may also have an adverse effect on the Company.

### Risks relating to the Company

#### *The Company may not be able to make distributions as anticipated*

The Company's ability to achieve its investment objectives is dependent on the Investment Manager's ability to acquire suitable investments consistent with the investment criteria and to manage them profitably. If the Company is unable to achieve these objectives, it may not have the ability to distribute cash in the amounts anticipated, if at all.

The Company's ability to distribute cash could be affected by: (i) costs incurred in connection with acquisitions of timberlands; (ii) the availability of suitable investments; (iii) the Investment Manager's inability to identify a sufficient number of suitable investments; and (iv) other factors, some of which are beyond the Investment Manager's and the Company's control.

#### *The Net Asset Value is, to a degree, based on valuations of unquoted investments which may be inaccurate, out of date or in need of adjustment*

In calculating the Net Asset Value and the Net Asset Value per Share, the value of the Company's assets is determined in accordance with applicable accounting standards. There can be no guarantee that any such investments will ultimately be realised at any such valuation. In addition the unquoted nature of the Company's investments may mean that they may be difficult to realise in a timely manner or at all.

Valuations of the Portfolio may be made, in part, on valuation information provided by the third party local managers of investments in the Portfolio. Although the Investment Manager will evaluate all such information and data, the Investment Manager is generally not 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 are provided only on a half yearly basis and generally are issued 2 to 3 months after the respective valuation dates. Shareholders should bear in mind that the actual net asset values may be materially different from the estimated values when placing reliance on any valuations provided by the Company.

#### *The Company bears the risk of currency exposure and the Company and Shareholders may be adversely affected by currency movement*

The Shares are denominated in US Dollars and the Directors intend that all monies returned to Shareholders, and the reported Net Asset Value, will be denominated in US Dollars. 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. The Company may engage in currency hedging to limit its exposure to currency fluctuations. Currency hedging may be by means of spot or forward currency agreements, futures or options or other derivative instruments having similar effect. There can be no assurance that currency hedging will be effective and that the Company's financial condition will not be adversely affected by fluctuations in currency exchange rates.

***Changes in laws or regulations governing the Company's operations may adversely affect the Company's business***

Legal and regulatory changes could occur that may adversely affect the Company. Changes in the regulation of investment companies may adversely affect the value of the Company's investments and the ability of the Company to successfully pursue its investment strategy.

***Changes in taxation legislation may adversely affect the Company***

Any change in the Company's tax status, the tax status of any subsidiaries of the Company, or in taxation legislation in Guernsey, the United Kingdom, or elsewhere could affect the value of the Company's investments and the Company's ability to achieve its investment objective, or alter the post tax returns to Shareholders. Statements in this Prospectus concerning the taxation of the Company and United Kingdom resident Shareholders are based upon current Guernsey and UK tax law and practice and are in principle subject to changes that could adversely affect the ability of the Company to meet its investment objective.

**Shareholders are urged to consult their tax advisers with respect to their particular tax situations and the tax effects of holding Ordinary Shares and/or C Shares.**

***The Company operates in a highly competitive environment for investment opportunities***

Competition for a limited number of attractive investment opportunities may lead to a delay in investment of the Company's assets and may increase the price at which investments can be made, thereby reducing the Company's potential profits.

***The Company may at certain times hold a few relatively large investments***

The Company may at certain times hold a few relatively large investments. Any such concentration of investments subjects the Company to increased exposure to significant declines in the value of one investment. Such concentration may result in significant losses for the Company.

***Any gearing used by the Company may expose investors to risks***

The Company will not use gearing on top of direct investments, but gearing may be employed in a variety of ways including direct borrowing and the use of futures, warrants, options and other derivative products. Generally, gearing is used to increase the overall level of investment in a portfolio. Higher investment levels may offer the potential for higher returns. Gearing exposes investors to increased risk as it increases the Portfolio's market exposure and volatility.

***Majority Shareholder may exert significant degree of control***

Following the C Share Placing, DWS Access may hold more than 50 per cent. of the Company's voting share capital. Following approval from the Takeover Panel and Shareholders, DWS Access may increase its interest in Ordinary Shares or C Shares without incurring any obligation under Rule 9 of the Takeover Code to make a general offer to Shareholders. DWS Access will have the ability to exert a significant degree of control over the conduct of the Company. In particular, DWS Access will have the power to appoint or remove Directors and control the Company's dividend policy.

***Amounts committed by the Company to an investment may be different to the amount that is drawn down***

Commitments entered into by the Company may take a variety of different forms which can be legally binding or non-binding, or binding in part only. Commitments may be subject to pre-conditions for the

benefit of either or both of the Company and its counterparties including pre-conditions in respect of satisfactory due diligence, financing availability, taxation and/or regulatory and/or other consents and approvals and any other conditions whatsoever. Commitments may also be for variable amounts of investment (at the option of either or both of the Company and its counterparties) with any one or more of minimum specified investment amounts, variable investment amounts, specified maximum initial investment amounts and options, rights or obligations to participate in further investment or co-investment opportunities.

Commitments may be subject to call down/draw down requirements which arise over time such that investment of the full amount of any commitment may only be required to be funded over a number of years. The commitment may also be subject to a commitment period and the Company may not be required to pay the full amount of any commitment.

In consequence of the nature of the various types of commitment, there can be no certainty that the full amount of all funds committed by the Company will in fact be drawn down in due course or at all. In addition, the Company may from time to time increase its level of commitment and/or investment.

### ***Risks relating to investing in foreign and developing countries***

The Company will invest in assets and investments located in various jurisdictions throughout the world, including emerging or developing countries, some of which are highly controlled by governmental authorities.

Particularly in developing countries, laws governing transactions in investments, including land, and other contractual relationships are or may be new and largely untested. Investments in developing markets may, among other things, carry the risks of less publicly available information, more volatile markets, less favourable tax provisions, a greater likelihood of severe inflation, corruption, unstable currency, war and expropriation of personal property, inadequate investor protection, contradictory legislation, rudimentary, unpredictable, incomplete, unclear and changing laws, lack of established or effective avenues for legal redress, lack of standard financial or commercial practices, disclosure and confidentiality customs characteristic of developed markets, and lack of enforcement of existing laws and regulations. Investing in developing markets creates greater exposure to economic structures that are generally less diverse and mature. It may also be difficult to obtain and enforce a judgment in certain emerging countries. In addition, the Company's investment opportunities in certain developing markets may be restricted by legal limits on foreign investment. There can be no assurance that this difficulty in protecting and enforcing rights will not have a material adverse effect on the investments in the Portfolio and, therefore, on the Company.

There is also the possibility of expropriation or confiscatory taxation, imposition of withholding or other taxes on dividends, interest, capital gains or other income, limitations on the removal of funds or other assets of the Company, political changes, government regulation, social instability or diplomatic developments (including war), all of which could affect adversely the economies of such countries or the value of investments in those countries.

### ***Investment through an investment vehicle may have a higher degree of risk than a direct investment***

The Company makes both direct investments and investments through a variety of investment vehicles (including but not limited to investments through special purpose vehicles established specifically for a particular investment, region, or to address a specific portfolio objective) and by way of co-investment vehicles or joint venture partnerships with other developers and managers. When investment is made by way of a co-investment vehicle or a joint venture partnership, the investment vehicle may be structured in a way that reduces or limits the ability of the Company to direct and control the investment to the same degree as they would if they were making a direct investment.

## **Risks Relating to Timber Investments**

### ***Physical risks associated with timber***

Natural causes such as fire, insect infestation, extreme weather, disease and other causes beyond the control of the Investment Manager and the Company may have an impact on the timing of harvests, or reduce the

volume and value of timber harvested from the Company's timberlands. This in turn may adversely affect the Company's operations and financial condition. For example, infestation by certain insects could necessitate the early harvesting of affected trees. Extreme drought conditions could reduce the survival rate of trees planted within a year of the drought conditions. Ice storms and hurricanes could necessitate the early or unplanned harvesting of affected trees. Prolonged periods of adverse weather could negatively affect the quality of the timber produced, negatively affecting the value of the harvest. The Company will not maintain insurance for any loss to its timber from natural disasters or other similar causes, which is consistent with normal industry practices. Typically, total losses from all of these causes total less than one half of one per cent. annually in a managed forest.

#### ***Economic risks associated with timber***

The Company's operating revenues are dependent on prevailing market prices for wood products, which can fluctuate over time. Prevailing wood product prices are affected by changes in supply and demand, especially within a particular geographic area. Decreases in demand, increases in supply, or both, may reduce timber prices, which in turn may reduce the Company's revenues and affect its ability to make distributions.

The industries that use these various wood products drive the demand for them. Each market prices the product in a manner that is largely independent from the other markets. It is possible that all markets could deteriorate simultaneously, and negatively affect the ability of the Company to make distributions.

The demand for most sawtimber and "chip-n-saw" depends on the level of construction, repair and remodelling activity occurring in the general economy. Interest rates and other local, national and international economic conditions affect the level of construction, repair and remodelling activity. A slowdown in construction and/or remodelling is likely to reduce demand for the Company's timber, which may reduce the Company's revenues. Wood substitutes and lower quality wood products may increasingly compete with higher quality sawtimber, which could also reduce demand for the Company's timber.

Demand for pulpwood is affected by the general level of economic activity. Pulpmills' output is primarily sold to large retail sellers of paper products. In the event of a decline in paper usage, these retailers may reduce their demand on pulpmills, and the market for the Company's pulpwood could be adversely affected. Additionally, if paper recycling were to become more widely practiced, reduced demand for new paper made from the Company's pulpwood could result.

The number of timber sellers and the volume of timber available for sale determine the supply of timber. Historically, increases in timber prices have caused owners of timberlands to increase their timber cutting. An increase in supply may partly offset price increases.

#### ***General market forces could adversely affect demand for timber***

Demand for saw logs and pulpwood is affected by various factors in the world economy, such as regional growth rates, construction activity, changes in currency exchange rates and capital spending. Adverse conditions in the larger economy may result in lower investment in any or all of the markets in which the Company intends to sell its timber.

#### ***Changes in government regulations and restrictions could adversely affect operating results***

Changes in government regulations and policies could adversely affect timber prices. Certain government agencies have the ability to affect the market for timber due to their timberland holdings. Any substantial increase in sales of timber from government lands could reduce timber prices. Alternatively, government imposed conservation and environmental restrictions, whether federal, state, or local, could result in a reduced ability to harvest from timberlands. Future and existing environmental laws and regulations could adversely affect the Company's revenues, as well as limit its ability to make periodic cash distributions. The supply of timber available for harvest is also affected by, among other things, environmental and other legal restrictions on harvesting. Regulations could also diminish the residual value of the assets of the Company.

The Company's operations may also be subject to laws and regulations specifically governing forestry operations and health and safety. These laws could impose significant costs, penalties and liabilities on the Company for violations, whether or not the Company caused or knew about them, which could adversely

affect operating results. Future regulations may cause the Investment Manager to alter certain aspects of its management plan and may adversely affect the Company's operating results and financial condition. Environmental laws and regulations may become more restrictive in the future.

***Competition from the use of alternative building materials***

The extent of use of alternative building materials, such as steel and plastics, by the industries that use various wood products may affect the supply and demand for wood products. Decreases in demand may reduce timber prices, which in turn may reduce the Company's revenues and affect its ability to make distributions.

***Competition from lands owned by the forest products industry***

Many of the major international pulp and paper industry processors own large tracts of timberland in areas adjacent to some lands which might be held as investments by the Company. In times of high timber prices in the local market, mills may give preference to timber cut from their own holdings.

***The risk profile for each investment will differ***

Shareholders should note that the risk profile of the investments in the Portfolio differs for each investment, taking into account the additional considerations of currency and tax exposure in addition to local forest management techniques.

**Risks Associated with the Investment Manager**

***There are potential conflicts of interest which could impact the investment return***

The Investment Manager may from time to time act for other clients who have a similar or different investment objective and policy to that of the Company. Circumstances may arise where investment opportunities will be available to the Company which are also suitable for one or more such clients of the Investment Manager. Where a conflict arises in respect of an investment opportunity, the Investment Manager will allocate the opportunity on a fair basis.

***The Investment Manager may be unable to find suitable investments in the future***

The Company cannot be sure that the Investment Manager will be successful in obtaining suitable investments on financially attractive terms in the future or that, if the Investment Manager makes investments on the Company's behalf, the investment objectives will be achieved.

***The performance of the Company is dependent upon its Directors and the investment strategy followed by the Investment Manager for its future success***

The success of the investment strategy followed by the Investment Manager depends upon its success in correctly interpreting market data. No assurance can be given that the strategy to be used will be successful under all or any market conditions.

The ability of the Company to achieve its investment objective is significantly dependent upon the expertise of the Investment Manager. The Company is also reliant upon the skills of its non-executive Directors and the loss of any of these persons could reduce the Company's ability to achieve its planned investment objectives. The Company and the Investment Manager have endeavoured to ensure that the principal members of their management teams are suitably incentivised, but the retention of such persons cannot be guaranteed.

After the seventh anniversary of the date the Ordinary Shares were first admitted to AIM, being 20 December 2006, the Amended Investment Management Agreement can be terminated by the Investment Manager or the Company with three years' notice in writing. Shareholders should note that (save as set out above or in certain other circumstances, including where the Investment Manager has committed a material breach of its obligations under the agreement or the Company has a genuine and material concern regarding the performance of the Investment Manager) if the Investment Manager is acting in accordance with the terms of the Amended Investment Management Agreement, the Investment Manager can only be removed by Shareholders approving a winding-up of the Company.

If the Amended Investment Management Agreement is terminated, no assurance can be given that the Company will find a replacement investment manager of similar experience and calibre or that any delay in engaging a new investment manager will not adversely impact the value of the Company's investments.

***The departure of the Investment Manager's key personnel may negatively impact the ability of the Company to achieve its investment objective***

The ability of the Company to achieve its investment objective is dependent to a significant degree upon the ability of the Investment Manager to attract and retain suitable staff. The Company does not currently have employees or own any facilities and depends on the Investment Manager for the management of its assets and the day-to-day management and operation of the business.

The key personnel are not subject to restrictions on their departure from the Investment Manager. The future ability of the Company to achieve its investment objective may depend on the ability of the Investment Manager to recruit individuals of a similar experience and calibre. There is no guarantee that the Investment Manager would be able to do so or that any delay in doing so would not adversely impact the performance of the Company.

***Performance fees may create incentives for speculative investment***

The performance fees payable to the Investment Manager may result in substantially higher payments to the Investment Manager than alternative arrangements in other types of investment vehicles. The existence of the performance fees may create an incentive for the Investment Manager to make riskier or more speculative investments than it would otherwise make in the absence of such fees.

***The success of the Company depends on the ability of the Investment Manager***

The success of the Company will depend on the Investment Manager's ability to identify, acquire and realise investments in accordance with the Company's investment objective. There can be no assurance that the Investment Manager will be able to do so or that the Company will be able to invest its capital on attractive terms or generate returns for Shareholders.

***The Investment Manager may lack experience in certain areas***

There is a risk that investments made may be in areas where the Investment Manager may lack experience or knowledge.

**Risks associated with the Ordinary Shares**

***General***

An investment in the Ordinary Shares carries the risk of loss of capital. The value of an Ordinary Share can go down as well as up and Ordinary Shareholders may receive back less than the value of their initial investment and could lose all of the investment.

***The Ordinary Shares may trade at a discount to the Net Asset Value per Ordinary Share and Ordinary Shareholders may be unable to realise their investments on the market at the Net Asset Value per Ordinary Share***

Following Admission, the Ordinary Shares may trade at a discount to the Net Asset Value per Ordinary Share for a variety of reasons. There can be no guarantee that any strategy implemented to seek to mitigate any such discount will be successful.

***The Company is not subject to pre-emption rights and subsequent issues of Ordinary Shares may have a detrimental effect on the market price of the Ordinary Shares***

Under the laws of Guernsey, to which the Company is subject, there are no rules restricting the ability of the Directors to issue additional Ordinary Shares on a non pre-emptive basis at any time. In the event that the Directors were to issue further Ordinary Shares in the future, or if a perception arises that such issues will occur, the trading price of the Ordinary Shares may be adversely affected.

Under the current provisions of the Listing Rules, upon Admission, the Company is under an obligation not to issue further Ordinary Shares in the same class as existing Ordinary Shares for cash at a price below the Net Asset Value per Ordinary Share.

#### ***Realisation of investments and illiquidity***

The price at which the Ordinary Shares will be traded and the price at which Shareholders may realise their investment will be influenced by a large number of factors, some specific to the Company and its investments and some which may affect companies generally. The market price may be subject to greater fluctuation on small volumes of Ordinary Shares and the Ordinary Shares may be difficult to sell at a particular price. The market price of the Ordinary Shares may not reflect the underlying value of the Company's net assets.

The Company does not have a fixed winding-up date and, therefore, unless Shareholders vote to wind up the Company, Ordinary Shareholders will be able to realise their investment only through selling their Ordinary Shares in the market.

#### ***Existing Ordinary Shareholders may suffer cash drag***

Where Conversion of the C Shares would occur as a result of the Early Investment Criteria being satisfied, there is a risk that existing Ordinary Shareholders would suffer cash drag if conversion occurred before the C Share asset pool has been substantially invested and drawn down.

### **Risks associated with the C Shares**

#### ***General***

An investment in the C Shares carries the risk of loss of capital. The value of a C Share can go down as well as up and holders of C Shares may receive back less than the value of their initial investment and could lose all of their investment.

#### ***It may be difficult for holders of C Shares to realise their investment and there may not be a liquid market in the C Shares***

Prior to the Company being wound up, or the C Shares being admitted to listing or trading on a major international exchange, holders of C Shares will only be able to realise their investment through off market sales of the C Shares. There is no guarantee that the Company will satisfy the criteria for listing of the C Shares on a major international exchange in due course or that such listing will even occur. Any investment in the C Shares should therefore be viewed as a long term investment. Liquidity in the C Shares will be limited to privately agreed sales.

Although the Company may apply for admission to listing of C Shares in due course there can be no assurance that an active trading market for the C Shares will develop or, if developed, be sustained. If an active trading market is not established or maintained, the liquidity and trading price of the C Shares could be adversely affected. Even if an active trading market develops, the market price for the C Shares may not reflect their underlying Net Asset Value.

#### ***The Company is not subject to pre-emption rights and subsequent issues of C Shares may have a detrimental effect on the Net Asset Value per C Share***

Under the laws of Guernsey, to which the Company is subject, there are no rules restricting the ability of the Directors to issue additional C Shares on a non pre-emptive basis at any time. In the event that the Directors were to issue further C Shares in the future, the Net Asset Value per C Share of the existing C Shares then in issue may be adversely affected.

#### ***As the C Shares have not been and will not be registered under the Securities Act and the Company has not been and will not be registered under the Investment Company Act, the C Shares are subject to transfer restrictions. These transfer restrictions may have an adverse impact on the value of the C Shares***

The C Shares have not been and will not be registered under the Securities Act. In addition the Company has not been and will not be registered under the Investment Company Act. Accordingly, the C Shares may not

be offered, sold, pledged or otherwise transferred or delivered, directly or indirectly, in or into the United States, or to or for the account or benefit of any US Person. The Directors reserve the right to require, in their sole discretion, the transfer of any Shares as soon as possible which are owned, directly or indirectly, by a US Person. Shareholders are required to notify the Administrator and Registrar immediately in the event that they become, or hold their shares on behalf of, US Persons. Prospective investors in the C Shares should carefully review the transfer restrictions and required representations described in the section headed “Important Notices” contained in this Prospectus.

These restrictions may make it difficult to resell the C Shares and this could have an adverse impact on the value of the C Shares.

## IMPORTANT NOTICES

The Company is a closed ended investment fund. Investors should rely only on the information contained in this Prospectus. No broker, dealer or other person has been authorised by the Company, its Directors, the Investment Manager or the Sponsor to issue any advertisement or to give any information or to make any representation in connection with Admission other than those contained in this Prospectus and, if issued, given or made, any such advertisement, information or representation must not be relied upon as having been authorised by the Company, its Directors, the Investment Manager or the Sponsor.

The attention of investors is drawn to the Risk Factors set out on pages 8 to 15 of this Prospectus. Investment in the Company involves certain risks and special considerations. Investors should be able and willing to withstand the loss of their entire investment. The investments of the Company are subject to normal market fluctuations and the risks inherent in all investments and there can be no assurance that an investment will retain its value or that appreciation will occur. The price of Ordinary Shares and the value of C Shares and the income from such Shares can go down as well as up and investors may not realise the value of their initial investment.

Investors should not treat the contents of this Prospectus as advice relating to legal, taxation, investment or any other matters. Investors should inform themselves as to: (a) the legal requirements within their own countries for the purchase, holding, transfer or other disposal of Shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer or other disposal of Shares which they might encounter; and (c) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer or other disposal of Shares. Investors must rely upon their own representatives, including their own legal advisers and accountants, as to legal, tax, investment or any other related matters concerning the Company and an investment therein.

Statements made in this Prospectus are based on the law and practice currently in force in Guernsey and England and Wales and are subject to changes therein.

This Prospectus should be read in its entirety. All Shareholders are entitled to the benefit of, and are bound by and are deemed to have notice of, the provisions of the Memorandum and Articles of Association of the Company.

All times and dates referred to in this Prospectus are, unless otherwise stated, references to London times and dates.

This Prospectus contains certain forward-looking statements based on assumptions and expectations of future performance, taking into account currently available information. These assumptions and expectations may change as a result of many possible events or factors, not all of which are known. These forward-looking statements speak only as at the date of this Prospectus. The Company is not obliged, and does not intend, to update or revise any forward looking statements, whether as a result of new information, future events or otherwise except to the extent required by any applicable law or regulation, including the Prospectus Rules, the Listing Rules and the Disclosure and Transparency Rules.

This Prospectus does not constitute, and may not be used for the purposes of, an offer or an invitation to subscribe for any Shares by any person: (i) in any jurisdiction in which such offer or invitation is not authorised; or (ii) in any jurisdiction in which the person making such offer or invitation is not qualified to do so; or (iii) to any person to whom it is unlawful to make such offer or invitation. In particular, this Prospectus may not be distributed in or into the United States or to or for the account of any US Person. The Company has not been and will not be registered under the Investment Company Act, and investors will not be entitled to the benefits of the Investment Company Act. In addition, the Shares have not been and will not be registered under the US Securities Act 1933, as amended (the "Securities Act"), or with any securities regulatory authority of any State or other jurisdiction of the United States. Accordingly, the Ordinary Shares may not be offered, sold, pledged or otherwise transferred or delivered, directly or indirectly, in or into the United States, or to or for the benefit of any US Person, except in transactions that are exempt from registration under the Securities Act and under circumstances which will not require the Company to register under the Investment Company Act.

The Company has elected to impose the restrictions described below on the offer and on the future trading of the C Shares so that the Company will not be required to register the offer and sale of the C Shares under the Securities Act, so that the Company will not have an obligation to register as an investment company under the Investment Company Act and other considerations. These transfer restrictions, which will remain in effect until the Company determines in its sole discretion to remove them, may adversely affect the ability of holders of the C Shares to trade such securities.

Each purchaser of the C Shares in any placing by the Company represents, acknowledges and agrees as follows (terms used below that are defined in Regulation S under the Securities Act have the meanings given to them in Regulation S) and each subsequent transferee of C Shares will be deemed to have represented, acknowledged and agreed as follows:

1. It and the person, if any, for whose account it is acquiring the C Shares are not US Persons and are acquiring the C Shares outside the United States in an offshore transaction meeting the requirements of Regulation S.
2. The C Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and may not be offered or sold in the United States or to US Persons.
3. The Company has not registered and will not register under the Investment Company Act and that the Company has put in place restrictions for transactions not involving any public offering in the United States, and to ensure that the Company is not required and will not be required to be registered under the Investment Company Act.
4. If in the future it decides to offer, resell, pledge or otherwise transfer such C Shares, such C Shares will be offered, resold or otherwise transferred only (i) to the Company or an affiliate of the Company or (ii) in an offshore transaction in accordance with Regulation S to a person outside the United States and not known by the transferor to be a US Person by pre-arrangement or otherwise.
5. On each day from the date on which such purchaser acquires the C Shares or any interest therein through and including the date on which it disposes of such C Shares or interest therein, it (a) is not (i) a benefit plan investor (including employee benefit plans (as defined in Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "Code"))) including plans to which Section 4975 of the Code applies and entities whose underlying assets include plan assets) or (ii) any other plan subject to other federal, state, local or other law or regulation that is substantially similar to the prohibited transactions provisions of Section 406 of ERISA and/or Section 4975 of the Code, unless the acquisition of the C Shares would not violate the applicable provisions of any such similar law under this subsection (ii) only, and (b) is not acting on behalf of or using the assets of any entity described in (a) with respect to the purchase, holding or disposition of any C Shares or interest therein, unless otherwise permitted under subsection (a)(ii).
6. It will and each subsequent holder is required to notify any subsequent transferee of the C Shares from it of the resale restrictions referred to herein.
7. It acknowledges that the Company reserves the right to make inquiries of any holder of the C Shares or interests therein at any time as to such person's status under the federal US securities laws, including without limitation whether it is a qualified purchaser as defined in Section 2(a)(51)(A) of the Investment Company Act.
8. It agrees to notify the Administrator and the Registrar immediately in the event that it becomes, or hold C Shares on behalf of, US Persons and acknowledges that the Directors reserve the right to require the transfer of any C Shares, in their sole discretion, which are or become owned, directly or indirectly, by a US Person.
9. It understands that each C Share in certificated form will contain a legend substantially to the following effect unless otherwise agreed by the Company and the holder of the C Share in accordance with applicable law:

THE COMPANY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE “INVESTMENT COMPANY ACT”). IN ADDITION, THE C SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”). CONSEQUENTLY, THIS SECURITY MAY ONLY BE OFFERED OR SOLD OR OTHERWISE TRANSFERRED (I) TO THE COMPANY OR AN AFFILIATE OF THE COMPANY OR (II) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH REGULATIONS TO A PERSON OUTSIDE THE UNITED STATES AND NOT KNOWN BY THE TRANSFEROR TO BE A US PERSON (WITHIN THE MEANING OF REGULATIONS UNDER THE SECURITIES ACT) BY PREARRANGEMENT OR OTHERWISE. THE HOLDER ACKNOWLEDGES THAT THE ISSUER RESERVES THE RIGHT TO (A) MAKE ENQUIRIES OF ANY HOLDER OF THESE C SHARES OR INTEREST THEREIN AT ANY TIME AS TO SUCH PERSONS’ STATUS UNDER THE US SECURITIES LAWS AND (B) TO REQUIRE TRANSFER OF SUCH C SHARES OR INTEREST THEREIN WHICH ARE OWNED, DIRECTLY OR INDIRECTLY, BY A US PERSON. THE HOLDER AGREES TO, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY TRANSFEREE OF THESE C SHARES OF THE TRANSFER RESTRICTIONS REFERRED TO ABOVE.

10. It acknowledges that the Company, the Investment Manager and the Sponsor and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations or agreements made by it are no longer accurate or have not been complied with, it will immediately notify the Company and, if it is acquiring any C Shares as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make such foregoing acknowledgements, representations and agreements on behalf of each such account.

The Shares have not been approved or disapproved by the US Securities and Exchange Commission, any State securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of any offering of the Shares or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States and the re-offer or resale of any of the Shares in the United States or to US Persons may constitute a violation of US law.

### **European Economic Area**

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), an offer to the public of the Shares may only be made once the Prospectus has been passported in such jurisdiction in accordance with the Prospectus Directive as implemented by such jurisdiction. Where the Prospectus has not been passported into a Relevant Member State, an offer to the public in that Relevant Member State of any Shares may only be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of: (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) in such Relevant Member State; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares shall result in a requirement for the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any offer of Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

During the period up to but excluding the date on which the Prospectus Directive is implemented in member states of the European Economic Area, this Prospectus may not be used for, or in connection with, and does not constitute, any offer of Shares or an invitation to purchase or subscribe for any Shares in any member state of the European Economic Area in which such offer or invitation would be unlawful.

The distribution of this Prospectus in other jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes should inform themselves about and observe such restrictions.

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

<i>Event</i>	<i>2008</i>
Admission and commencement of unconditional dealings in the Ordinary Shares	11 June
Delisting from AIM	11 June
Proposed issue of first tranche of C Shares	30 June

## DIRECTORS, SECRETARY AND ADVISERS

### Directors of the Company

Keith Oates (Chairman)  
John Le Prevost (Non-executive Director)  
Liane Luke (Non-executive Director)  
Peter Niven (Non-executive Director)  
Kimberly Tara (Non-executive Director)  
Anson Place  
Mill Court  
La Charroterie  
St Peter Port  
Guernsey GY1 1EJ  
Tel: +44 (0) 1481 722 260

### Investment Manager

FourWinds Capital Management  
Scotiabank Building  
P.O. Box 268GT  
George Town  
Grand Cayman  
Cayman Islands  
Tel: +41 22 786 6948

### Sponsor

Shore Capital and Corporate Limited  
Bond Street House  
14 Clifford Street  
London W1S 4JU

### Stockbroker

Shore Capital Stockbrokers Limited  
Bond Street House  
14 Clifford Street  
London W1S 4JU

### Solicitors to the Company

*as to English Law*  
Herbert Smith LLP  
Exchange House  
Primrose Street  
London EC2A 2HS

### Advocates to the Company

*as to Guernsey Law*  
Ozannes  
1 Le Marchant Street  
St Peter Port  
Guernsey GY1 4HP

### Administrator and the Company

#### Secretary

Anson Fund Managers Limited  
PO Box 405  
Anson Place  
Mill Court  
La Charroterie  
St. Peter Port  
Guernsey GY1 3GF

### Registrar, Transfer Agent and

#### Paying Agent

Anson Registrars Limited  
PO Box 426  
Anson Place  
Mill Court  
La Charroterie  
St Peter Port  
Guernsey GY1 3WX

### Auditors of the Company

Ernst & Young LLP  
PO Box 9  
14 New Street  
St Peter Port  
Guernsey GY1 4AF

### UK Transfer Agent

Anson Administration (UK) Limited  
3500 Parkway  
Solent Business Park  
Whiteley  
Fareham  
Hampshire PO15 7AL

# PART I

## INFORMATION ON THE COMPANY

### 1. INTRODUCTION

Phaunos Timber Fund Limited is a closed ended investment company registered in Guernsey.

The Company aims to provide its Shareholders with attractive long term total returns through a diversified portfolio of timberland and timber-related investments. The Company seeks to provide tax-efficient access to opportunities historically available only to the largest (generally US-based) institutional investors. In addition, most investment products have historically focused on US timberlands, whereas the Company seeks global timber investment opportunities.

As at the Latest Practicable Date, the Company's total issued share capital consisted of 470,919,230 Ordinary Shares. The Ordinary Shares are currently admitted to trading on AIM and admitted to listing and trading on the CISX. It is intended that, the Ordinary Shares will be delisted from AIM, subject to admission of the Ordinary Shares to the Official List and to trading on the Main Market. The Ordinary Shares, with ISIN number GG00B1G3RS66, will remain listed on the CISX.

On 10 January 2008, the Company resolved to increase its authorised share capital through the creation of up to 1,600,000,000 C Shares. The Company intends to raise additional capital of up to approximately \$1.6 billion, by way of one or more issues of C Shares, in order to take advantage of a number of potential investment opportunities which are or may become available to the Company. It is anticipated that the initial issue of C Shares will be a non pre-emptive institutional placing of up to 1 billion C Shares (which will be unlisted) effected in tranches, at escalating prices commencing at \$1 per C Share, anticipated to occur quarterly from the end of June 2008 to the end of March 2009. Subsequent issues of C Shares (which may be listed) would be at the Directors' discretion. For more information on the C Shares see paragraph 20 of this Part I and Part V of this Prospectus.

Application has been made for the Ordinary Shares to be admitted to the Official List (by means of an introduction) and to trading on the Main Market. It is expected that Admission will become effective and that dealings will commence on 11 June 2008.

The Directors consider that an investment in the Company should be regarded as long term in nature and is suitable only for sophisticated investors, investment professionals, high net worth bodies corporate, unincorporated associations and partnerships and trustees of high value trusts, in each case, who can bear the economic risk of a substantial or entire loss of their investment and who can accept that there may be limited liquidity in the Shares.

### 2. PORTFOLIO

As at 30 May 2008, the Company had Gross Assets of \$485.2 million of which it had committed \$589.6 million (totalling 121.5 per cent.) to ten investments in seven countries. Of the total committed, as at 30 May 2008, a total of \$65.3 million has been drawn down.

In addition to the broadly diversified Portfolio, the Investment Manager has built a robust pipeline of potential investments all over the world, valued in total at over \$2.5 billion. The Investment Manager's goal is to enlarge commitments in the regions where investments were made in 2007 as well as continuing to incorporate new capital into the Company during 2008.

Going forward the Investment Manager will continue to place an emphasis on those markets where the Company can benefit from change, change in market dynamics, change in political conditions, and change in regional and local economic prospects.

Because the Company has a long-term perspective, the Company and the Investment Manager have been able to invest alongside families and companies who have been in the timber business for years and who are committed to their countries' economic and social development, and whose reputations are important to them.

For more information on the Portfolio, see Part IV of this Prospectus.

### 3. HISTORICAL FINANCIAL PERFORMANCE AND NET ASSET VALUE

A summary of the key financial information for the Company for the period from its incorporation on 28 September 2006 to 31 December 2007 is set out below. Save where expressly stated to the contrary below, the information has been extracted without material adjustment from the statutory accounts of the Company for the period ended 31 December 2007 extracts of which are set out in Part VI(B) of this Prospectus. The information below should be read in conjunction with the financial information appearing in Part VI(B) of this Prospectus, in particular the accounting policies and notes which accompany that financial information set out in Part VI(B).

<i>Capital</i>	<i>as at 31 December 2007</i>
Total assets	\$478,787,724
Unquoted financial assets designated as fair value through profit or loss	\$50,197,810
Total assets less current liabilities	\$478,599,632
Net assets	\$478,599,632
Net Asset Value per Ordinary Share	\$1.02

<i>Earnings and Dividends</i>	<i>for the 15 month period ended 31 December 2007</i>
Earnings per Ordinary Share	\$0.0354
Dividends per Ordinary Share	N/A

Over the period from launch of the Company on 20 December 2006 to 31 December 2007, the Net Asset Value of the Company increased from \$0.96\* per Ordinary Share to \$1.02 per Ordinary Share, equivalent to a total return of 6.3 per cent.

<i>Date</i>	<i>NAV per Ordinary Share</i>
As at 20 December 2006	\$0.96*
As at 30 June 2007	\$1.00**
As at 31 December 2007	\$1.02

\* This value is unaudited and is estimated and is obtained from the records of the Company.

\*\* This value is unaudited and is estimated and is obtained from the unaudited financial report of the Company for the period to 30 June 2007.

### 4. SHARE PRICE

During the period from launch of the Company on 20 December 2006 to the Latest Practicable Date, the Ordinary Share price has increased from \$1.00 per Ordinary Share to \$1.09 per Ordinary Share. Set out below are middle market quotations for an Ordinary Share, as derived from the London Stock Exchange's Daily Official List, for the first business day of each of the six months preceding, and on, the Latest Practicable Date:

<i>Date</i>	<i>Price per Ordinary Share (\$)</i>
2 January 2008	0.98
1 February 2008	1.08
3 March 2008	1.06
1 April 2008	1.06
1 May 2008	1.06
2 June 2008	1.09
3 June 2008 (being the Latest Practicable Date)	1.09

## **5. INVESTMENT MANAGER**

FourWinds Capital Management has been appointed Investment Manager of the Company. The Investment Manager's management team has a proven track record of generating competitive returns from timberland and timber-related investments across multiple geographical locations. The Directors consider such broad timberland and timber-related experience to be beneficial as the Company seeks to execute its investment strategy. Further details of the Investment Manager and its management team are set out in Part II of this Prospectus.

## **6. INVESTMENT POLICY**

### ***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 diversified range of geographical timberland markets in order to provide sustainable returns, control volatility and manage risk.

In order to maintain flexibility, there are no predetermined geographical 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 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 geographical 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 borrow, save for short term liquidity, 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 in paragraph 12 of Part VII of this Prospectus. 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.

## **7. 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.

## **8. REASONS FOR THE MIGRATION**

The Board believes that moving from AIM to the Main Market will provide several advantages for the Company, including:

- widening the pool of potential investors which may assist in relation to future capital raisings;
- potentially, attracting greater analyst coverage;
- increasing liquidity in the Ordinary Shares;
- increasing the Company's profile within the financial and investment community and amongst timber managers and potential investee companies, funds or vehicles; and
- providing a more appropriate platform for the Company to trade on given its current market capitalisation and its potential market capitalisation following future conversions of C Shares into Ordinary Shares.

Accordingly, application has been made for all the Ordinary Shares currently issued to be admitted to the Official List (by means of an introduction) and to be admitted to trading on the Main Market. The Ordinary Shares will remain listed on the official list of the CISX.

It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on 11 June 2008.

## **9. COMPETITIVE STRENGTHS**

### **9.1 *Experienced management***

The Investment Manager and its team are experienced in commodity and commodity-focused investments, including timberland. The Investment Manager works exclusively in the commodities and commodity-related real assets sectors. The Investment Manager conducts research, designs customised risk management tools and structures portfolio allocation tools that are specific to the particular characteristics of this asset class.

Liane Luke, who heads the management team responsible for the Portfolio, has a proven track record of generating substantial returns from timberland and timber-related investments across multiple geographic regions, as a member of the Hancock Timber Resources Group, and, later, at Resource Management Service, where she set up their registered investment advisory practice. Both companies manage significant portfolios for US institutional investors and are leaders in the timber investment management industry. Later, she founded Greenway Investments LLC to work with an institutional client to design innovative investment structures based on timberland investments.

The Directors consider the broad timber experience of Liane Luke, the members of the Timber Investment Committee and the Investment Manager's timber team to be beneficial to the Company in the execution of its investment strategy.

### **9.2 *Established industry relationships***

The Investment Manager, through its timber team, has long-term relationships with well-known international timber management companies and timber investment advisers within the main markets

in which the Company operates and is expected to operate. Historically, these investment opportunities have been available exclusively to large institutional clients. The combined assets of the Company, paired with the Investment Manager's extensive knowledge of principals in the timber management industry, provide access to opportunities previously available only to the largest institutional investors.

### 9.3 *Investment rationale*

Forests and the products that are derived from their resources, are one of the oldest sources of income and drivers of economic value to both developed and developing economies. Whether used for construction, furniture, paper, heat, or any number of other uses, wood from timberlands continues to be an essential commodity. As an investment, timberlands have the potential to offer attractive income and annualised returns at a low volatility, as well as potentially offering a hedge against inflation non-correlated to equity and debt instruments.

## 10. DIVERSIFICATION OF PORTFOLIO

### 10.1 *General*

The Investment Manager believes that the construction of a global timberland investment portfolio requires a broad range of investment strategies and vehicles to provide sustainable returns, control volatility and manage risk. Each investment opportunity is evaluated for tax efficiency, cash flow and exit options. Individual properties, investment vehicles, or investment structures are selected to maximise a single objective or to enhance a specific segment of the Portfolio.

Some properties, such as young tree plantations, tend to have lower acquisition prices than more mature timber plantations and might be selected for their capital appreciation opportunities with little anticipated near-term harvesting but higher internal rates of return. More mature properties might provide higher short-term capital flows and offer the alternative to replant or to resell depending on market conditions and portfolio needs. The same analysis would apply to structured investments.

Alternative investment structures may be used to provide tax protection or to maximise a specific portfolio objective.

The Company has set target guidelines which are designed to ensure the development of a well diversified portfolio. These guidelines assume availability of appropriate properties on the market.

The Company may move outside of the guidelines due to: (i) changes in relative value of investments during the period that the Company is not fully invested; and (ii) identification of exceptional investment opportunities. The Board is responsible for evaluating whether any of these changes are material and determining how to best rebalance the Portfolio.

Generally, no single investment or investment in the securities of 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.

Unanimous approval of the Board is required to invest outside the guidelines set out below.

### 10.2 *Geographical diversification*

The Company has sought to construct a diverse portfolio of global investments and evaluates them on an after-tax basis. The Company invests in at least four major regions of the world and no single country (or region of the US, being the Southern US, the Pacific North West, or the North East) represents more than 40 per cent. of the Gross Assets and no continent more than 60 per cent.. It is intended that the Portfolio will include investments in well-established timber markets (such as Canada, Australia, the US, Scandinavia or certain parts of Latin America) and also investments in developing timberland markets or countries where the Investment Manager believes the benefits of the

timberland investment does outweigh country-risk (including, but not limited to, certain parts of Latin America, Eastern Europe and Asia). Geographical diversification can assist in managing regional regulatory risk, environmental policy risk and natural disaster risks (weather, fire, insects, disease) and can also provide exposure to local timber management expertise, climate zones with unique growing conditions and regional timber market prices.

### 10.3 *Species diversification*

The Company has sought investments in both hardwoods (deciduous trees, such as oaks and aspens) and softwoods (conifers and evergreens, such as pines, spruces and firs) and evaluates market conditions, end-use and regional pricing to adjust species exposure in the Portfolio. Species mix can offer diversification in terms of growth rates, rotation cycle, wood use, price exposure, growing conditions, physical risks and timing of harvests. Species diversification can assist in reducing exposure to price movements in specific product markets, in reducing species-specific disease, pest, regulatory or environmental risks and in generating distinct risk/return profiles within the Portfolio.

### 10.4 *Age class diversification*

The Company seeks investments that provide the Portfolio with exposure to different age classes of trees including, when appropriate, exposure to both young growth and merchantable timber. Age class diversification can reduce exposure to market price risk and price dependence within a certain harvest period and can assist in controlling volatility and cash flow.

## 11. INVESTMENT PROCESS

### 11.1 *Investment Manager*

The Investment Manager sources investments through leading timber managers and other timber investment advisers, as well as directly through market research. Timber managers are evaluated on experience and reputation as well as on appropriate timber-specific skills potentially including but not limited to: acquisition/divestiture experience (research, sourcing, selection, negotiation); forest management planning (development, implementation, price trend modelling); active forest management track record and expertise (use of Silviculture best practices and local knowledge); harvest management and planning processes (growth/yield modelling, price trend modelling); replanting (selection process, productivity management); environmental stewardship; access controls (boundaries, road maintenance); and external relations (government agencies, mills, logging contractors).

Investment opportunities are first evaluated relative to the Company's investment objective, investment policy and guidelines. Extensive due diligence is conducted on appropriate investment opportunities and will include, as appropriate, but will not be limited to, evaluation of: property location; total acreage (in addition to productive acreage); current growing stock (stand composition, stand health and quality, timber inventories, allowable cut, growth to harvest ratio); productivity (site index); operability (slope and soil conditions); proximity to mills (estimated transport costs); accessibility (quality of infrastructure); regulatory and environmental constraints; other revenue sources; local forester or timberland manager qualifications/experience; ethical management principles; acquisition price and conditions and exit options. This due diligence may be conducted by the Investment Manager directly or in part or in whole by external contractors, including qualified appraisers or consultants selected by the Investment Manager. The cost of any and all external timber managers, consultants, or other advisers used in the selection, acquisition, management, or divestiture of the Company's investments are paid directly by the Company or reimbursed to the Investment Manager.

Selected investments are then reviewed for tax efficiency. Local tax consultants may be used when appropriate to provide in-depth review of potential tax liabilities and to assist in developing alternative structures or investment vehicles to maximise tax efficiency on income, timber and land both for the short and the long term.

Timberland investing is management intensive. Institutional investors typically have a dedicated staff for the management of their timberland portfolios. Particularly when investing directly (either by purchasing a 100 per cent. interest in a property for the portfolio, or jointly with a limited number of sophisticated investors in a “club” investment) sourcing deals and evaluating them requires intensive due diligence and the analysis of technical, scientific, and financial data. Due diligence typically requires the coordination of a large team of specialists. In addition, once a property is acquired, the Investment Manager will develop the harvesting regime to achieve return objectives, plan and implement capital improvements, for example, road construction, develop and implement reforestation plans; and provide ongoing direction of the sale of timber and land on an opportunistic basis. In short, the Investment Manager is actively engaged in the actual operations of the property.

Additionally, the Investment Manager must develop tax-efficient structures to access all of the investments within the Portfolio. The Investment Manager expects to use sophisticated investment structures to realise timberland investment returns and to manage that portfolio actively in order to achieve the highest risk-adjusted returns. In this way, the Investment Manager intends to provide unique access to this asset class, previously unavailable to most investors.

The Board may, from time to time, approve criteria for investments which would enable the Investment Manager to commit the Company to certain investments without further Board approval. Full Board approval is required for the Investment Manager to enter into any investment which falls outside such approved criteria. The Board has already approved certain such criteria in respect of investment acquisitions and will keep such criteria under review from time to time. Any changes to the criteria are at the sole discretion of the Board.

#### 11.2 *Timber Investment Committee*

The Investment Manager has an internal Timber Investment Committee that is responsible for reviewing projects for compatibility with the investment objective and policy of the Company and the guidelines and criteria set by the Board. The Timber Investment Committee is comprised of individuals with financial and business backgrounds combined with extensive investing and investment management experience. The current members of the Timber Investment Committee are Liane Luke, Mason Browne and Dr. Jack Lutz (also secretary to the Committee) whose details are set out in paragraphs 1 and 2 of Part II of this Prospectus.

At the time of AIM Admission, it was intended that the Timber Investment Committee would be advised by a Timber Advisory Board from time to time consisting of significant investors and external experts with experience in different segments of the timber business (Silviculture, forest selection and management, tax, exit strategies, or others as appropriate). Since AIM Admission, the timber team at the Investment Manager has expanded significantly and the Investment Manager no longer considers it necessary to have an external Timber Advisory Board.

The Investment Manager will prepare a report covering the key aspects of any proposed investment and its potential contribution to the Portfolio that is submitted to the Timber Investment Committee for review. The prospective investment will be subject to review by all members of the Investment Manager’s timber team before it is submitted to the Timber Investment Committee. At least two-thirds approval of the Timber Investment Committee must be secured for any potential investment.

In the case of an acquisition, the Investment Manager will coordinate final due diligence prior to making the approved investment and will have the ability to retain, if and as it considers necessary, external accounting, tax, legal, operational, environmental or other consultants to complete due diligence on the investment at the expense of the Company.

In the case of a disposal, the Investment Manager will seek approval from the Timber Investment Committee by presenting a detailed report covering the key aspects of the proposed disposal and, in the event that the potential value of the investment to be disposed of has a value equal to, or exceeding, ten per cent. of the NAV of the Company, Board approval will also be required.

Once the Company has committed to an investment, following Timber Investment Committee and, where required, Board approval, the Investment Manager will supervise the development process. The Investment Manager will, among other things, undertake to monitor the ongoing process and quality

of the development and provide the Board with regular update reports on the progress of the investment. The Investment Manager will take a hands-on management approach towards all investments made by the Company and will work with any external advisers with the objective of creating maximum value throughout the development and realisation process.

## 12. NATURE OF INVESTMENTS

In order to facilitate efficient structuring and management of investments, both from a commercial and tax perspective, the Company is permitted to engage in all forms of timberland and timber-related investment and development as allowed under the laws of each jurisdiction in which it invests.

An investment may be selected for its potential to make a specific contribution to the Portfolio or for other more general characteristics. New acquisitions may be to access opportunistically high quality tracts coming to the market or to access new markets, or simply to meet diversification needs of the Portfolio. Selective carve-outs may focus on investments that meet specific investment criteria, may be designed to selectively invest in the high potential components of a manager's holdings, or may be designed to exclude non-core positions. Standard manager products, joint ventures, or co-investments may be used to provide exposure to well-managed properties in major regions or to access larger tracts. Tailored structures, special purpose vehicles or financial engineering may be used to respond to taxation issues, to manage property-specific characteristics, or to utilise capital efficiently. This list provides only examples and is not exhaustive nor is it intended to limit the scope or purpose of investments made by the Company.

Investments are typically made by way of direct investment from the Company. The Company may also make an investment through a wide variety of investment vehicles including, but not limited to: investments through or together with other timber fund managers or into their existing timber-related investment products; co-investment with other institutional investors or timber managers; investments through special purpose vehicles established specifically for a particular investment, region, or to address a specific portfolio objective, by way of co-investment vehicles or joint venture partnerships with other reputable developers and managers; or through derivatives or other structures designed to provide timber-related exposure as deemed appropriate by the Board.

The Company may make investments with third party investors which have investment objectives and policies that differ from those of the Company. Although the Company may not have control over these investments and, therefore, may have a limited ability to protect its position therein, the Investment Manager will seek to ensure that appropriate rights are negotiated to protect the Company's interests.

The Company also invests in fixed income instruments to manage cash positions. The Company may also use derivative instruments to hedge estimated currency exposure, interest rate risk, or as appropriate and in line with the investment objective and policy of the Company and guidelines set by the Board from time to time.

The Company may also use timber-related instruments such as financial futures, options and warrants. Such timber-related instruments may be used either for cash management purposes or as part of the Company's investment structure.

## 13. OVER COMMITMENT POLICY

The attention of investors is drawn to the meanings of the terms **committed/commitments**, **invested/investments** and **draw down/drawn down/called down** in the Glossary of Terms set out in Part VIII of this Prospectus.

Following the completion of the C Share Placing it is expected that the Company will have significantly increased assets available for investment.

In addition, the types of investment targeted by the Company are typically structured in a manner in which the Company commits to fund a defined level of capital over a period of time. When committing to an investment, the Company is aware that there are number of ways in which it can satisfy its obligations upon future draw down or call down by the investment target. These include, payments from the uninvested funds

raised from investors in the Company, use of liquid assets retained in cash or near cash investments for working capital purposes, use of proceeds of realisations of other investments, use of returns generated from other investments and disposal or syndication to third parties of part of the investment or commitment in respect of which capital is called down.

For the above reasons and due to the nature of the various types of commitments which the Company will enter into (including in particular the non-binding and/or pre-conditional nature of certain commitments and the flexible amounts of commitments), it is possible for the Company to follow an over-commitment strategy whereby commitments may exceed the cash available to the Company to satisfy draw downs at the time of commitment.

In order for the Company to maximise the percentage of total assets invested in the Portfolio at any given period of time, the Investment Manager intends to follow an over commitment strategy, subject to any guidelines set by the Board. The Board has set a guideline that the Company's total commitments should not exceed 150 per cent. of the current Gross Assets of the Company (as determined by the Directors and the Investment Manager at the time of acquisition or commitment) and such commitments must otherwise be in accordance with the investment policy of the Company. Whilst the Board may increase or reduce this percentage in its discretion in the future, it has no current intention to do so.

#### **14. RISK MANAGEMENT**

Significant emphasis is put on risk management and on adherence to risk management and diversification parameters. The Investment Manager oversees the measurement and control of all aspects of the financial and associated risk management processes.

However, market conditions can be expected to change over time, sometimes quite rapidly, and the Investment Manager may change diversification parameters from time to time in response to changes it perceives in market conditions.

The Investment Manager has at its disposal proprietary models designed to identify the nature of the risks embedded in any investment. Various risk models are used that are both backward looking and forward looking (dynamic) as appropriate.

The Investment Manager has internal guidelines for diversification specifically designed to ensure an embedded hedge against dramatic movements in any single risk factor that affects this asset class.

The Investment Manager believes that it is more important to monitor and control risk than merely to passively measure it.

#### **15. DEVELOPMENT AND RISKS**

The development of an investment strategy is a continuous process and the Company's investment strategy and methods may therefore be modified from time to time. The Company's investment methods are confidential and the descriptions of them in this Prospectus are not exhaustive. The Company's investment strategies may differ from those used with respect to other accounts or funds managed by the Investment Manager or its affiliates. Investment decisions require the exercise of judgment by the Investment Manager and the Board. The Investment Manager and/or the Board may, at times, decide not to make certain investments, thereby foregoing participation in price movements which would have yielded profits or avoided losses. Shareholders cannot be assured that the strategies or methods utilised by the Investment Manager and/or the Board will result in profitable trading for the Company.

The Company's investment programme entails substantial risks and there can be no assurance that its investment objective will be achieved. The investment techniques employed by the Company could, in certain circumstances, maximise the adverse impact to which the Portfolio may be subject.

## **16. GROUP STRUCTURE**

As at the Latest Practicable Date, the Company has the following, direct and indirect, wholly owned subsidiaries: Phaunos US Inc, USA (Delaware) incorporated; Caldrey S.A., incorporated in Uruguay; Tura Holding Limited and Hamar Holdings Limited, both incorporated in the British Virgin Islands; WoodNRG Limited, incorporated in Cyprus; Forest Enterprise d.o.o., incorporated in Serbia; Forest Enterprise BV, incorporated in the Netherlands; Pradera Roja, incorporated in Uruguay; Eucateca S.A., incorporated in Brazil; and Romfor Timber SRL, incorporated in Romania. The Company also holds 18.5 per cent. of the ownership interest in Aurora Forestal S.A., which is incorporated in Uruguay. Liane Luke is a director of all the above subsidiaries other than WoodNRG Limited and Forest Enterprise BV.

The Company may, from time to time, incorporate or acquire intermediate holding companies or other vehicles for the acquisition and holding of investments.

## **17. DIVIDEND POLICY**

The Directors do not expect to declare any dividends until the Company has generated significant profits. Any dividends declared may reflect capital profits to the extent that net income profits are not earned in respect of the relevant period. Dividends, if any, are expected to be paid in US Dollars.

Holders of Ordinary Shares may elect to receive scrip dividends in lieu of cash dividends on their Ordinary Shares under the Company's scrip dividend option. Ordinary Shareholders making this election will receive new, fully paid Ordinary Shares or Ordinary Shares reissued from treasury having an aggregate value, at the most recent NAV per Ordinary Share published by the Company, equal to the amount of the dividend which they would otherwise have received. Ordinary Shareholders electing for the scrip dividend option will accordingly accrue additional capital growth at a rate equivalent to the rate of dividends payable on the Ordinary Shares. The tax consequences of making such elections are described in paragraph 6 of Part VII of this Prospectus. Ordinary Shareholders who make no such election will receive cash dividends in the normal way.

Ordinary Shareholders wishing to elect to receive scrip dividends as described above must give notice to the Registrar of the Company in writing. Such election, or any change in respect of such election, must be received by the Registrar not later than fourteen days before the record date for the payment of the dividend in respect of which the election or change in election is to take effect.

Holders of C Shares cannot elect to receive scrip dividends in lieu of cash dividends on their C Shares.

## **18. REPURCHASE OF SHARES**

As the Company is a closed ended company whose Ordinary Shares are to be traded on the Main Market, the Ordinary Shares may trade at a discount to their Net Asset Value per Ordinary Share on occasion. However, in structuring the Company, the Directors have given detailed consideration to the discount risk and how this may be managed.

At the first annual general meeting of the Company, held on 23 May 2008, the Directors were granted authority to buy back up to 14.99 per cent. of the shares of each class in issue. The Company's authority to make purchases of its own issued shares will expire at the conclusion of the next annual general meeting of the Company. A renewal of such authority to make purchases of shares will be sought from Shareholders at each annual general meeting of the Company. 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 Net Asset Value per share of that class where the Directors believe such purchases will result in an increase in the Net Asset Value per share of the remaining shares of that class and to assist in narrowing any discount to the Net Asset Value per share at which the shares of that class may trade. Any shares bought back by the Company will either be held by the Company in treasury (and may be reissued) or forthwith be cancelled.

## **19. FURTHER SHARE ISSUES**

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

There are no provisions of the Companies Laws or the Articles of Association of the Company providing pre-emption rights for existing Shareholders on the allotment of equity securities for cash or on the reissue of equity securities out of treasury.

Unless authorised by Shareholders, the Company will not issue further Ordinary Shares or reissue Ordinary Shares out of treasury for cash at a price below the prevailing Net Asset Value per Ordinary Share unless they are first offered *pro rata* to existing Ordinary Shareholders.

The Directors are authorised to issue C Shares of such classes, of such number of tranches and on such terms as they determine provided that such terms are consistent with the provisions of Article 3A of the Articles of Association. If there are in issue at the same time C Shares carrying different rights, each shall be deemed to be a separate class of shares. The Directors may, if they so decide, designate each class of C Shares in such manner as they see fit in order that each class of C Shares can be separately identified.

## **20. THE C SHARE PLACING**

At an Extraordinary General Meeting of the Company held on 10 January 2008 a resolution was passed increasing the authorised share capital of the Company by the creation of up to 1,600,000,000 C Shares (having attached thereto the rights and privileges, and being subject to the restrictions, contained in the Articles, as summarised at paragraph 5.2 of Part VII of this Prospectus).

The Company intends to raise additional capital of up to approximately \$1.6 billion, by way of one or more issues of C Shares, in order to take advantage of a number of potential investment opportunities which are or may become available to the Company. The raising of such additional capital will also permit the Company to take larger investment participations in those existing investment opportunities considered to be sufficiently attractive to merit it.

The initial issue of C Shares, the C Share Placing, is expected to be a non pre-emptive institutional placing of up to 1 billion C Shares which will be effected in tranches, at escalating prices commencing at \$1 per C Share, which are anticipated to occur quarterly from the end of June 2008 to the end of March 2009. It is anticipated that at least the first tranche of C Shares will be placed with a single institutional investor, DWS Access (a Luxembourg based multi-compartment authorised securitisation vehicle managed by DWS Investment S.A., the mutual fund arm of Deutsche Asset Management). Pursuant to the terms of the C Share Side Letter (further details of which are set out in paragraph 7.3 of Part VII of this Prospectus) the Company may not apply to list any C Shares issued to DWS Access over the course of the C Share Placing before 1 January 2009.

Subsequent issues of C Shares representing separate classes of C Shares (which may be listed) would be at the Directors' discretion. The Directors would not in any event issue more than 1 billion C Shares of the class to be issued under the C Share Placing until such time as 70 per cent. of the net proceeds of the C Share Placing have been invested or committed.

The Directors, subject to the Articles, will have the power to determine the detailed commercial terms of any issue of C Shares.

### ***Conversion***

The C Shares are convertible into Ordinary Shares on the Conversion Date. The net proceeds of the issue of any C Shares will be accounted for as a separate pool of assets until the Conversion Date.

As at the Calculation Date, the net assets attributable to the C Shares and, hence, the Conversion Ratio, will be calculated. Holders of C Shares will receive such number of Ordinary Shares as results from applying the

relevant Conversion Ratio to their holdings of C Shares at the Calculation Date. The Directors may deal in such manner as they think fit with fractional entitlements to new Ordinary Shares arising on Conversion.

The Calculation Date will be the earlier of:

- (a) the close of business on a date specified by the Directors occurring on or after the day on which the Investment Manager has given notice to the Directors, and the Directors agree, that the Specified Proportion of the assets attributable to the C Shares has been invested or committed to timberland and timber-related investments;
- (b) the close of business on such date as the Directors may decide is necessary to enable the Company to comply with its obligations in respect of Conversion;
- (c) the close of business on the Back Stop Date; and
- (d) the date specified by the Directors falling after the day on which the Directors resolve that any Early Investment Condition has been satisfied.

The Company will specify by a RNS announcement prior to the issue of each C Share tranche of a relevant share class: the relevant issue price, the Specified Proportion, the Back Stop Date and the Early Investment Condition.

At the point where the earlier of the events described in (a) to (d) above has occurred, the Conversion Ratio for the C Shares into Ordinary Shares will be calculated on the basis of the published audited annual accounts of the Company or an estimated net asset value calculated by the Directors. Once the Conversion Ratio has been calculated (which may take up to twenty days), the C Shares will convert into Ordinary Shares on the basis referred to above.

Pending Conversion, C Shares will carry the right to any dividends or distributions in respect of the assets attributable to the relevant C Share class only, although it is not expected that any such dividends or distributions will be paid. C Shares will rank *pari passu* with the Ordinary Shares for the purpose of participating in commitments to new investments by the Company. The amount to be invested from each C Share class and the Ordinary Shares in a new investment will be calculated *pro rata* by reference to the aggregate net assets relating to each of the relevant classes of C Shares and Ordinary Shares respectively, as reflected in the most recently available interim accounts or audited annual accounts, prior to the date on which the Company is required to commit funds to each such new investment.

Further details concerning Conversion are contained in Part V of this Prospectus.

At the Conversion Date, each C Share holder will be deemed to have represented, acknowledged and agreed that (i) it and the person, if any, for whose account it is holding the C Shares, are not US Persons; (ii) it acknowledges that the Company reserves the right to make inquiries of any holder of the C Shares or interests therein at any time as to such person's status under the federal US securities laws, including without limitation whether it is a qualified purchaser as defined in Section 2(a)(51)(A) of the Investment Company Act, and to require any such person that has not satisfied the Company that holding by such person will not violate or require registration under US securities laws to transfer such C Shares or interests immediately under the direction of the Company; and (iii) it will promptly notify the Company if it is holding in contravention of the transfer restrictions as set out in this Prospectus.

#### ***Voting rights and restrictions***

C Shares will carry the same rights as Ordinary Shares in relation to attendance and receiving notice of any general meetings of the Company. The number of votes attaching to the Ordinary Shares as a class and to each class of C Shares will reflect the respective aggregate net asset value of the relevant classes. Holders of C Shares that are unlisted will not have the right to vote on Shareholder votes staged to meet certain specified obligations under the Listing Rules (including but not limited to, approving class 1 transactions, authorising the dis-application of statutory pre-emption rights and approving a material change to the Company's investment policy). In the event the Directors exercise their discretion to issue a class of C Shares that are to

be listed, these voting restrictions will not apply to such listed class of C Shares. For more information see paragraph 5 of Part VII of this Prospectus.

### ***Specified Class Consent Event***

Under the Articles and the C Share Side Letter, the rights to convert C Shares into Ordinary Shares are conditional on a certain percentage of the Company's assets being invested or committed in timberland and timber-related assets. Accordingly, C Shareholders' conversion rights could be affected if there was a change to the Company's investment policy prior to such conditions being met.

In order to address this issue, the Company has agreed with DWS Access that the Specified Class Consent Event in respect of the C Shares issued pursuant to the C Share Placing shall have the following meaning:

"Any Shareholders' resolution authorising a change to the Company's published investment policy which would result in conversion of C Shares into Ordinary Shares in accordance with the Articles not occurring because the conditions relating to the percentage of the Company's assets that must be invested in timberland and timber-related assets as specified under the definition of Calculation Date (which for the avoidance of doubt includes the modified meaning given to it by the C Share Side Letter) will not be met."

### ***Transfers***

C Shares will be transferable in the same manner as the Ordinary Shares.

The Company has not been and will not be registered under the Investment Company Act. Accordingly, the C Shares may not be offered, sold, pledged or otherwise transferred or delivered, directly or indirectly, in or into the United States, or to or for the account or benefit of any US Person at any time. See the section headed "Important Notices" in this Prospectus for more information.

## **21. WAIVER OF TAKEOVER CODE REQUIREMENT**

Under Rule 9 of the Takeover Code, any person who acquires an interest (as such term is defined in the Takeover Code) in shares which, taken together with the shares in which he and persons acting in concert with him are interested, carry 30 per cent. or more of the voting rights in a company which is subject to the Takeover Code is normally required to make a general offer to all of the remaining shareholders to acquire their shares. Similarly, when any person together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30 per cent. but does not hold shares carrying more than 50 per cent. or more of the voting rights of such a company, a general offer will normally be required if any further interest in shares is acquired by any such person.

Under Rule 37 of the Takeover Code, any increase in the percentage holding of a shareholder which results from a company buying back its own shares will also be treated as an acquisition for the purposes of Rule 9 of the Takeover Code.

An offer under Rule 9 must be made in cash at the highest price paid by the person required to make the offer or any person acting in concert with him, for any interest in shares in the company during the 12 months prior to the announcement of the offer.

Depending on the level of subscriptions in the various tranches of the C Share Placing, DWS Access (whether or not acting in concert with others) may acquire 30 per cent. or more of the voting rights in the Company and may potentially acquire 50 per cent. or more of the total voting rights in the Company.

Subject to approval of the same by the Shareholders, the Takeover Panel agreed to waive the obligation of DWS Access to make a general offer under Rule 9 of the Takeover Code that would otherwise arise as a result of the C Share Placing. The requisite Shareholder approval was obtained at an extraordinary general meeting of the Company held on 21 April 2008.

The Company currently has authority to buy back up to 14.99 per cent. of the Ordinary Shares in issue which expires at the conclusion of the next annual general meeting of the Company. The Company has no current intention to buy back any Ordinary Shares. However, if the Company conducts a buy-back of Ordinary Shares and DWS Access would, following such buy-back exceed the limits set out above, DWS Access

would be obliged to make a general offer for the Company in the absence of a waiver. The Company anticipates that it will seek fresh authority to buy back Ordinary Shares and C Shares at each annual general meeting of the Company. At the time of utilising the current or any future buy back authority and/or at the time of seeking fresh authority, the Company will consider whether it is necessary (taking account of the circumstances at the time) to seek a waiver of any obligation which might otherwise arise for DWS Access to make a general offer under Rule 9 of the Takeover Code.

## **22. NET ASSET VALUE**

The Net Asset Value of the Company (and hence the Net Asset Value per Ordinary Share and the Net Asset Value per C Share) is calculated in US Dollars by the Company semi-annually, at half year (on an estimated basis) and at financial year end. Only the Net Asset Value which is calculated at financial year end is audited. The calculations are based upon information supplied by a variety of sources including appraisers, auditors, consultants and third party local managers. The Net Asset Value is 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.

Until the Conversion Date, the net proceeds of the issue of any C Shares will be accounted for as a separate pool of assets from the pool of assets attributable to the Ordinary Shares. A Net Asset Value per C Share and a Net Asset Value per Ordinary Share will be calculated in each case to the extent attributable to each respective asset pool.

Under current valuation guidelines adopted by the Directors, such values are 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 adopt such other valuation procedures as they consider reasonable in the circumstances.

Valuations of the Portfolio may be made, in part, on valuation information provided by the third party local managers of investments in the Portfolio and on information provided by appraisers, auditors and consultants. Although the Investment Manager will evaluate all such information and data, the Investment Manager is generally not 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 by the local managers are provided only on a half yearly basis and generally are issued 2 to 3 months after the respective valuation dates.

The Administrator will notify the LSE, the CISX and the public (by way of a Regulatory Information Service announcement) of the Net Asset Value per Ordinary Share and Net Asset Value per C Share as soon as practicable after calculation at the end of the half year and each financial year end.

Any suspension in the calculation of the Net Asset Value of the Company, to the extent required under the Articles of Association, by the rules of the CISX, by the Listing Rules or by the Disclosure and Transparency Rules (as the case may be) will be notified by the Administrator to the LSE, the CISX and/or the public (via a Regulatory Information Service announcement) as soon as practicable after any such suspension occurs.

## **23. SHARES AND CREST**

The Ordinary Shares are in registered form and are issued in both certificated and uncertificated form. It is intended that the C Shares will be in registered form and issued in both certificated and uncertificated form.

## **24. BORROWINGS**

The Company may, from time to time, use borrowings for short-term liquidity purposes and, if the Directors deem prudent, for longer term purposes. In any event, the Company's power to borrow is limited to 25 per cent. of the Net Asset Value of the Company under the Articles.

## **25. RISK FACTORS**

The Company's business is dependent on many factors and Shareholders should read the whole of this Prospectus and in particular the section entitled "Risk Factors" on pages 8 to 15 of this Prospectus.

## PART II

### DIRECTORS, MANAGEMENT AND ADMINISTRATION

#### 1. DIRECTORS OF THE COMPANY

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 of the Directors are non-executive and, save for Kimberly Tara and Liane Luke, are independent of the Investment Manager. Kimberly Tara and Liane Luke do not receive a directors' fee payable by the Company.

The Directors are as follows:

**Keith Oates**, (Chairman) aged 65, was Executive Deputy Chairman of Marks & Spencer plc from 1994-1999, having joined as Finance Director in 1984 and having been 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 Thyssen-Bornemizsa Group. A Governor of the BBC from 1988 to 1993, he has also been a non-executive director of B.T. plc, Microwave Communications, Inc., the Financial Services Authority, the Great Britain 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. Keith graduated with a B.Sc (Econ) from the London School of Economics, a business diploma at Umist and a 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. Mr. Oates is resident in the United Kingdom and Monaco.

**John Le Prevost**, aged 56, is an executive director of Anson Fund Managers Limited, the Company's administrator and secretary, and of Anson Registrars Limited, the Company's registrars. He has spent over 30 years working in offshore trusts and investment business during which time he was managing director of County NatWest Investment Management (Channel Islands) Limited, Royal Bank of Canada's mutual fund company in Guernsey and Republic National Bank of New York's international trust company. He is a director of a number of companies associated with the Anson group's business as well as being a non-executive director of Louvre Fiduciary Group Limited and a trustee of the Guernsey Sailing Trust. Mr. Le Prevost is resident in Guernsey.

**Liane Luke**, aged 57, is chief timber officer at the Investment Manager and heads timberland investment and timber portfolio management at the Investment Manager. Ms. Luke has more than 20 years experience in real asset investing and has spent the last 12 years working exclusively in timberland investing. As a vice president of Hancock Timber Resources Group from 1996 to 1998, Ms. Luke developed timber investment products for US tax-exempt institutional investors with first investments made within six months. From 1998 to 2005, Ms. Luke was a principal and managing director of Resource Management Services, one of the largest privately held timber investment management organisations in the United States, where she designed tax efficient structures for US and international clients. In 2005, Ms. Luke formed Greenway Investments to focus on structured finance and other novel timberland investment projects for a major US insurance company. In her capacity at FourWinds, she sits on several forestry-related companies' boards of directors internationally. Ms. Luke earned her BA magna cum laude from the University of New Hampshire and her MBA in finance from the Yale University School of Management. Ms. Luke is resident in the United States.

**Peter Niven**, aged 53, has worked in the financial services industry in the UK and offshore for 32 years. His career with the Lloyds TSB Group spanned 29 years where latterly he was chief executive of the Group's offshore banking operations, until his retirement from the bank in June 2004. A Fellow of the Institute of Bankers and a Chartered Director, he is currently a director of a number of Guernsey based investment funds

and captive insurance companies. This includes his role as chairman of F&C Commercial Property Trust Limited, a £1 billion+ UK listed property investment trust and a director of Dexion Trading Limited, a UK listed fund of hedge funds. He is also director, finance sector development for the States of Guernsey and chief executive of Guernsey Finance LBG, the promotional body for Guernsey's finance industry. Mr. Niven is a resident of Guernsey.

**Kimberly Tara**, aged 38, has spent the last 17 years negotiating, executing and managing investments and projects, with a focus on cross-border transactions. Ms. Tara has executed deals in Europe, the US, Latin America and Asia. Ms. Tara began her career in mergers and 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 CFO for a US-based biotech company focusing on Central Nervous System drug development and memory enhancement. Since 2005, as chief executive officer of the Investment Manager, Ms. Tara has successfully raised and managed more than \$1 billion in commodities and natural resources. Ms. Tara graduated magna cum laude from Brown University with a degree in Business Economics and received her MBA from INSEAD in France. Ms. Tara is resident in France.

## **2. INVESTMENT MANAGER**

FourWinds has been appointed Investment Manager pursuant to the Amended Investment Management Agreement, a summary of which is set out in paragraph 7.8 of Part VII of this Prospectus. The Investment Manager is responsible for advising the Company on the overall management of the Company's investments and for managing the Company's cash and investments in fixed income instruments in accordance with the Company's investment objective and policy and subject to the overall control and supervision of the Board.

The Investment Manager is a Cayman Islands exempted company with offices in Geneva, Boston, London and Hong Kong and wholly owned subsidiaries in the United States and England. The Investment Manager was incorporated in the Cayman Islands on 14 March 2005 with registration number CB-146307. The Investment Manager has authority to invest the Company's assets and is responsible for all investment decisions made on behalf of the Company, subject to the control and policies of the Board.

The Investment Manager is 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 policies and control of the Board.

The Investment Manager focuses on the development of, and risk management of, investment vehicles for commodities and real assets. The Investment Manager currently has two other products under management, namely the Zephyr Commodity Fund and Ceres Agricultural Fund Limited.

The Zephyr Commodity Fund is a broadly diversified multi-manager, multi-strategy fund of funds that covers energy, metals and agriculture.

Ceres Agricultural Fund Limited invests in an actively managed portfolio of primarily exchange-traded agricultural commodity contracts and derivatives and its ordinary shares are admitted to the Official List and to trading on the Main Market.

In addition to Kimberly Tara and Liane Luke, the key personnel within the timber team of the Investment Manager who are responsible for the day-to-day management of the Portfolio are as follows:

**Mason Browne**, director of Global Investments and Acquisitions of the Investment Manager, was formerly director of US Investments for Global Forest Partners where he managed a \$300 million North American-based portfolio, responsible for acquisition, management, property disposition, and all aspects of portfolio management. Mr. Browne also served on Global Forest Partner's investment committee reviewing both US and international opportunities. He has over 29 years of experience in timber and timberland investment management, including: serving as chief forester and manager of stewardship for Hancock Timber Resource Group ("HTRG"); vice president for acquisitions at Timberland Growth Corporation; and regional forester for ITT Rayonier. Mr. Browne has a BS from Middlebury College, VT; a MS in Forestry from the University of Washington; and an MBA from City University, Bellevue Washington. He is also a CFA Charterholder.

**Michael Clasby**, director of Investments and Acquisitions at the Investment Manager, is managing director of Forest, LLC., a company that he established in 2005 to coordinate investment into sustainable forest management projects. From 1999 through 2004 he was a partner at GMO Renewable Resources in Boston, a prominent timberland investment management organisation, where he had a lead role in Latin American forest investment acquisitions (Brazil, Uruguay) and in the raising of forest investment funds (over \$500 million of capital). Previously, Mr. Clasby was engaged for 12 years in management positions by Pacific Lumber and Shipping Company (PLS), Seattle, Washington. He began his career in 1980 as a commission timber trading for Davenport, Peters Company, Boston. Mr. Clasby has a Master of Forest Resources from the University of Washington and graduated from Harvard University with a BA in history.

**Rory L. Eckardt**, Senior Investment Analyst at the Investment Manager, was formerly principal of, and forest operations analyst for, RE Consulting LLC., a forestry business consultancy specialising in forest operations and transportation. At RE Consulting LLC., Mr. Eckardt developed information systems and proprietary algorithms to analyse the efficiency and costs of timber harvest operations and to optimally schedule transport activities. He has worked as an operations analyst for Prentiss & Carlisle Co. Inc; a project analyst for Nicols Brothers Inc.; and a research assistant for the Forest Resources Association and University of Maine School of Forest Resources. He has been involved in strategic planning; market research and analysis; operations research and cost analyses; information system design; statistical modelling and analysis; and forest management. Mr. Eckardt has a B.S. in Forest Operations Science (magna cum laude) and a MBA-Finance, both from the University of Maine.

**Joanne Higgins**, Chief Financial Officer of the Investment Manager, is a highly accomplished and experienced financial executive. Prior to joining the Investment Manager, Ms. Higgins worked as a consultant for Robert Half International. She has held various directorships and the role of vice president of finance for numerous companies, both in the United States and overseas. Ms. Higgins has served as operations manager of cash management for a major insurance company. She has an extensive corporate tax and auditing background from more than ten years of experience with KPMG, Ernst & Young, and other accounting firms. Ms. Higgins has an MBA from the Whittemore School of Business and Economics at the University of New Hampshire and a BS in Business Administration with a concentration in accounting from Trinity College in Burlington, Vermont.

**Kristen Kleiman**, director of Investments and Acquisitions at the Investment Manager, worked for HTRG from 1996 to 2001 as acquisitions analyst, and later as acquisitions manager, recommending potential timberland acquisitions for the portfolios of major institutional investors. During her tenure she was involved in just over \$1 billion of timberland acquisitions in North America and Australia. Ms. Kleiman has experience managing and developing investment models to determine valuation, developing bid negotiation strategies for potential acquisitions and coordinating intelligence-gathering on forest products and timber investment companies. She has worked on developing new timberland investment products for high net worth and taxable clients. Ms. Kleiman has an MS in Forest Ecology from the University of Michigan and as BS in Finance & Investments from Basbon College.

**Dr. Jack Lutz**, director of Global Research and Valuations at the Investment Manager, is principal and forest economist of the Forest Research Group and has over 25 years of experience in timberland investments in academic, industry, research and consulting positions. He is editor of Forest Research Notes, a quarterly newsletter on timberland investments and market dynamics, a contributor of timberland articles to the Pacific Rim Wood Market Report and a speaker internationally at timberland investment seminars and conferences. Dr. Lutz worked as a resource economist for James W. Sewall Company from 1998-2004. He was a senior forest economist at HTRG from 1994-1998. Dr. Lutz was a natural resources consultant from 1990-1994 and a research forester at the University of New Hampshire from 1985-1990. He received his PhD in Natural Resources and his BS Forestry from the University of New Hampshire. He also has an MBA from the Kellogg Graduate School of Management.

**Henry Whittemore**, director of Investments and Acquisitions at the Investment Manager, was formerly northeast regional manager for HTRG from 1993 to 2004. At HTRG he held acquisition, forest management, stewardship and disposition responsibilities on 685,000 acres in Maine, New Hampshire, Vermont and New York. Mr. Whittemore was HTRG's Australian regional manager in 1998 and 1999 and portfolio manager,

based in Boston in 2005 and 2006. He has extensive experience in land acquisitions, conservation planning, forest management, forest certification, biofuels/renewable energy and financial analysis. Additionally, he was a senior associate in the Hallowell, Maine consulting firm of Maine Tomorrow. Mr. Whittemore is a Maine licensed forester, Society of American Foresters certified forester and serves as chair-elect for the Maine chapter of the Society of American Foresters. He serves on several non-profit boards including the Forest Society of Maine, Northern Woodlands Magazine and the Mainewatch Institute. Mr. Whittemore holds a BA from Williams College and a Masters of Forestry from Yale University.

**Qinhai Xia**, Senior Financial Analyst at the Investment Manager, was formerly strategy and development manager at Sikorsky, a subsidiary of United Technologies Corporation (UTC). During his tenure there, he was involved in an acquisition project in Eastern Europe that exceeded \$100 million and he has co-led two potential acquisition projects in North America that totalled over \$1 billion. Mr. Xia's experience includes initial strategy development, acquisition target identification and valuation, and leading a large due diligence team of more than 30 people. Before UTC, Mr. Xia designed and developed large scale software systems for high-tech firms utilising stimulation and database technologies. He earned his BS in Computer Science (magna cum laude) from Gordon College, his MS of Computer Science from the University of Pennsylvania and an MBA in Finance from Yale University. He is a native Chinese speaker, fluent in both Mandarin and Shanghainese.

### **3. ADMINISTRATOR AND SECRETARY**

Anson Fund Managers Limited has been appointed as Administrator and Secretary to the Company pursuant to the Administration and Secretarial Agreement, a summary of which is set out in paragraph 7.9 of Part VII of this Prospectus. In such capacity, the Administrator is responsible for the day-to-day administration of the Company and general secretarial functions required by the Companies Laws. The Administrator is responsible for the Company's general administrative functions such as the calculation of the Net Asset Value and the maintenance of accounting records.

### **4. REGISTRAR, TRANSFER AGENT AND PAYING AGENT**

Anson Registrars Limited has been appointed as Registrar, Transfer Agent and Paying Agent to the Company pursuant to the Registrar Agreement, a summary of which is set out in paragraph 7.10 of Part VII of this Prospectus. In such capacity, the Registrar maintains the share registers of the Company, processes all share transfers in both paper form and electronic form received via CREST and calculates and effects payment of dividends to Shareholders. Anson Registrars Limited is a private limited company incorporated in Guernsey on 7 June 2000 and is a member of the same group of companies as the Administrator.

With the consent of the Company, the Registrar has retained Anson Administration (UK) Limited as the Company's UK Transfer Agent, pursuant to the UK Transfer Agent Agreement, a summary of which is set out in paragraph 7.11 of Part VII of this Prospectus, to receive notices and documents of transfer from Shareholders in the United Kingdom for onward transmission to the Registrar in Guernsey. Anson Administration (UK) Limited is a member of the same group of companies as the Administrator.

### **5. POTENTIAL CONFLICTS OF INTERESTS**

The Investment Manager may from time to time act for other clients who have a similar or different investment objective and policy to that of the Company. Circumstances may arise where investment opportunities are available to the Company which are also suitable for one or more such clients of the Investment Manager. The Directors have satisfied themselves that the Investment Manager has procedures in place to address potential conflicts of interest and that, where a conflict arises, the Investment Manager will allocate the opportunity on a fair basis.

## 6. FEES AND EXPENSES

### 6.1 *Expenses of Admission and the C Share Placing*

The expenses of Admission and the C Share Placing are those which are necessary for Admission and the C Share Placing. Registration and admission fees, printing costs, legal fees and any other applicable expenses will be payable by the Company. These fees will be paid on or around the date of Admission and/or the tranches of the C Share Placing.

The total costs and expenses of and incidental to Admission will be approximately \$968,000, with costs and expenses in respect of the first tranche of the C Share Placing approximately \$282,000. The costs and expenses relating to the C Share Placing will be treated by the Company as liabilities attributable to the C Shares. The Gross Assets of the Company following Admission will be approximately \$479 million and the estimated assets net of expenses of the Company will be approximately \$478 million. Following the first tranche of the C Share Placing, if \$200 million of C Shares are placed, the Gross Assets of the Company will be approximately \$679 million and the estimated assets (net of expenses of the first tranche of the C Share Placing) will be approximately \$678 million.

### 6.2 *Ongoing annual expenses*

The Company also incurs ongoing annual expenses. These expenses include the following:

#### **Investment Manager**

Under the terms of the Amended Investment Management Agreement, the Investment Manager is entitled to a base fee together with reimbursement of reasonable expenses incurred by it in the performance of its duties.

The base fee is equal to 0.375 per cent. per quarter of the Net Asset Value of the Company. The base fee is calculated quarterly and is payable in advance, using an implied straight-line increase in Net Asset Value of 10 per cent. per annum on a basis which increases 2.5 per cent. per quarter. As the quarterly calculation is based on an estimated Net Asset Value, following the calculation of the audited Net Asset Value 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 to the Investment Manager, any such amount will be deducted from the payment due to the Investment Manager in respect of the subsequent quarter or quarters, up until the amount equal to the excess has been repaid.

#### *Ordinary Share performance fee*

In addition to the base fee, the Investment Manager is entitled to a performance fee in respect of each Ordinary Share Performance Period (as detailed below) if the Net Asset Value of an Ordinary Share at the end of such performance period exceeds the Ordinary Share Performance Hurdle for such performance period. The first Ordinary Share Performance Period is the period from the date on which the Ordinary Shares were first admitted to AIM, (being 20 December 2006) to such 31 December on which the audited annual Net Asset Value per Ordinary Share exceeds 108 per cent. of the \$1.00 placing price at which the Ordinary Shares were placed on the initial admission of the Company to AIM. Thereafter, the Ordinary Share Performance Periods are each 12 month period ending on 31 December. The Ordinary Share Performance Hurdle is as follows:

- 6.2.1 for the first Ordinary Share Performance Period, an amount equal to 108 per cent. of the initial \$1.00 placing price; and
- 6.2.2 for each of the second and subsequent Ordinary Share Performance Periods, the figure which is 8 per cent. above the audited Net Asset Value per Ordinary Share at the end of the previous Ordinary Share Performance Period.

Where an Ordinary Share Performance Hurdle is met in respect of an Ordinary Share Performance Period, a performance fee will be payable in an amount equal to 20 per cent. of any outperformance in respect of the Net Asset Value per Ordinary Share over and above the highest previously recorded audited Net Asset Value per Ordinary Share at the end of any Ordinary Share Performance Period in respect of which a performance fee was paid (or, in the case of the first Ordinary Share Performance Period, above 108 per cent. of the \$1.00 initial placing price) multiplied by the time-weighted average number of Ordinary Shares in issue over the relevant Ordinary Share Performance Period.

For the purposes of calculating the performance fee in respect of any Ordinary Share Performance Period the Net Asset Value per Ordinary Share at the end of that Ordinary Share Performance Period shall be adjusted so as to: (i) include the gross amount of any dividends per Ordinary Share declared or announced in respect of such Ordinary Share Performance Period and any undistributed net revenue in respect of such Ordinary Share Performance Period not otherwise taken into account for the purposes of calculating such Net Asset Value per Ordinary Share; (ii) not take account of any accrual made in respect of the performance fee itself for that Ordinary Share Performance Period; and (iii) not take into account any increase in Net Asset Value per Ordinary Share attributable to the issue of Ordinary Shares at a premium to Net Asset Value per Ordinary Share or any buy-back of any Ordinary Shares at a discount to Net Asset Value per Ordinary Share. Finally, there shall be included any other adjustments which the Audit and Management Engagement Committee of the Board and the Investment Manager agree is appropriate.

For the purposes of calculating the Net Asset Value per Ordinary Share as at the end of the immediate relevant prior Ordinary Share Performance Period, such Net Asset Value shall: (i) exclude the gross amount of any dividends declared or announced in respect of the immediate relevant Ordinary Share Performance Period(s); and (ii) take account of any accrual made in respect of the performance fee for any prior Ordinary Share Performance Period.

#### *C Share performance fee*

A performance fee shall also be paid to the Investment Manager in respect of each C Share Performance Period (as detailed below) if the Net Asset Value per C Share at the end of such performance period exceeds the C Share Performance Hurdle (as detailed below) for such performance period.

The C Share Performance Period means: (i) the 12 month period ending on 31 December in each year; or (ii) such shorter period ending on the date C Shares convert into Ordinary Shares in accordance with the Articles, save that the first C Share Performance Period shall commence on the Placing Date and end on: (i) such 31 December on which the audited annual Net Asset Value per C Share is greater than 108 per cent. of the C Share Placing Price; or (ii) the date on which C Shares convert into Ordinary Shares in accordance with the Articles and the last C Share Performance Period will begin on 1 January prior to the termination of this Agreement and will end on: (i) the date of termination of this Agreement; or (ii) the date on which C Shares convert into Ordinary Shares in accordance with the Articles.

The C Share Performance Hurdle is as follows:

- 6.2.3 for the first C Share Performance Period, an amount equal to 108 per cent. of the C Share Placing Price;
- 6.2.4 for each of the second and subsequent C Share Performance Periods, the figure which is 8 per cent. above the audited Net Asset Value per C Share at the end of the previous C Share Performance Period.

Where a C Share Performance Hurdle is met in respect of a C Share Performance Period, a performance fee will be payable in an amount equal to 20 per cent. of any outperformance in respect of the Net Asset Value per C Share over and above the highest previously recorded audited Net Asset Value per C Share at the end of any C Share Performance Period in respect of which a performance fee was paid (or, in the case of the first C Share Performance Period, above 108 per cent. of the

C Share Placing Price) multiplied by the time-weighted average number of C Shares in issue over the C Share Performance Period.

For the purposes of calculating the performance fee in respect of any C Share Performance Period the Net Asset Value per C Share at the end of the relevant C Share Performance Period shall be adjusted so as to: (i) include the gross amount of all dividends per C Share declared or announced in respect of such C Share Performance Period and any undistributed net revenue in respect of such C Share Performance Period not otherwise taken into account for the purposes of calculating such Net Asset Value per C Share; (ii) not take account of any accrual made in respect of the performance fee itself for that C Share Performance Period; and (iii) not take into account any increase in Net Asset Value per C Share attributable to the issue of C Shares at a premium to Net Asset Value per C Share or any buy-back of any C Shares at a discount to Net Asset Value per C Share. Finally, there shall be included any other adjustments which the Audit and Management Engagement Committee of the Board and the Investment Manager agree is appropriate.

For the purposes of calculating the Net Asset Value per C Share as at the end of the immediate relevant prior C Share Performance Period(s) such Net Asset Value per C Share shall: (i) exclude the gross amount of all dividends declared or announced in respect of C Shares in the relevant prior C Share Performance Period(s); and (ii) take account of any accrual made in respect of the performance fee attributable to the C Shares in any prior C Share Performance Period.

### **Administrator and Secretary**

Under the terms of the Administration and Secretarial Agreement, Anson Fund Managers Limited is entitled to an annual administration and secretarial fee of £33,000 and a value fee of 0.01 per cent. of the Gross Assets of the Company which are in excess of \$100,000,000 in each financial period, all payable *pro-rata* monthly in arrears. In addition, Anson Fund Managers Limited is entitled to time charge and to any activity fees incurred in connection with subsidiaries of the Company subsequently acquired and the acquisition and disposal of timberland investments. Where administrators and domiciliary agents in other jurisdictions are retained by the Company in respect of foreign structures and subsidiaries of the Company subsequently acquired, their fees and expenses will be payable by the Company. The Administrator and any of its delegates will also be entitled to reimbursement of certain expenses incurred by them in connection with their duties.

### **Registrar**

Under the terms of the Registrar Agreement, the Registrar is entitled to receive a fee of £2.00 per Shareholder per annum or £2,500 per register per annum subject to a minimum annual fee of £4,000 together with other agreed transaction charges.

## **7. MEETINGS, REPORTS AND ACCOUNTS**

All general meetings of the Company are held in Guernsey. The Company will hold an annual general meeting each year.

The annual report and audited accounts of the Company are made up to 31 December in each year with copies to be sent to Shareholders within the following four months. Shareholders will also receive an unaudited half year financial report for the six months to 30 June in each year which is to be sent to Shareholders within the following two months. Pursuant to the Disclosure Rules and Transparency Rules, the Company will also issue interim management statements in respect of the quarter periods ending on 31 March and 30 September in each year, which will provide Shareholders with an explanation of material events and transactions undertaken by the Company and a general description of the financial position and performance of the Company. The first financial period of the Company commenced on 28 September 2006 (the date of incorporation of the Company) and ended on 31 December 2007.

The audited accounts of the Company are prepared under International Financial Reporting Standards which the Directors believe is an acceptable body of generally accepted accounting practice. Under International

Financial Reporting Standards, the Company prepares an income statement which will disclose revenue and capital results including net investment gains.

The audited accounts of the Company are published in US Dollars.

## **8. TAXATION**

Shareholders are referred to paragraph 6 of Part VII of this Prospectus for details of the taxation of the Company and of Shareholders resident in the UK and Guernsey.

**Shareholders who are in any doubt as to their tax position or who are subject to tax in jurisdictions other than the UK and Guernsey are strongly advised to consult their own professional advisers immediately.**

## **PART III**

### **THE TIMBER MARKET**

The traditional portfolio benefits of timberland investing include a low correlation to other asset classes and an empirical positive correlation to inflation. Consequently, consistent with the principles of modern portfolio theory, timberland investments have the potential to shift upward the efficient frontier of a portfolio composed predominantly of equity, debt and real estate investments.

#### **1. US AND NON-US TIMBER INVESTING**

US timberland is often taken by professionals as the point of reference in discussion of timberland investing. The US is the leading producer and consumer of global forest products. US timberlands have to date set the standard for Silviculture management techniques and US timber investment vehicles have evolved rapidly. However acquisition prices have risen rapidly, making it more challenging to identify opportunities with attractive long term returns on investment.

Non-US timberlands can offer important diversification from the fast-growing plantations of non-indigenous species in Brazil, to the intensive management of indigenous species in long established timber markets like Canada and Scandinavia. Growth rates for trees in Latin America and other tropical or semi-tropical latitudes are consistently higher than in temperate climates such as the US. Prime properties are also more likely to become available in less saturated markets than in highly mature markets such as the US.

Investors should note that the risk profile for the investments in the Portfolio is slightly different for each investment, taking into account the additional considerations of currency and tax exposure as well as local forest management techniques.

#### **2. TIMBER AS AN ETHICAL AND SOCIALLY RESPONSIBLE INVESTMENT**

Forests are a critical source of oxygen and a key consumer of carbon dioxide. It is estimated that an acre of trees can grow an average of 4,000 pounds of wood per year. At this rate, the trees on that acre of land would be consuming 5,800 pounds of carbon dioxide and releasing 4,280 pounds of oxygen each year. This natural cycle is augmented with the cutting of trees and the subsequent replanting of new forests. Younger, professionally managed forests have been shown to absorb more carbon dioxide and produce more oxygen than older, unmanaged natural forestlands. Managed forests absorb 15.6 pounds of carbon dioxide per cubic foot of tree growth. As a consequence, total growth in US managed forests alone removes almost 17 per cent. of total US greenhouse gas emissions.

Moreover, the alternatives or substitutes to wood are primarily fossil fuel-based compounds that release carbon dioxide, sulphur dioxide, methane and other gases during processing (in addition to requiring higher consumption of energy). Carbon dioxide emissions, for example, are three times higher when producing steel than processing wood. In addition, wood and wood products are 100 per cent. recyclable and biodegradable and timberlands are a renewable resource (while providing at the same time a habitat for wildlife and for other plant species).

Timberlands themselves are naturally socially responsible investments, but some managers will also choose to focus specifically on projects that comply materially with one of the many timber specific guidelines for responsible investing that have been developed in different parts of the world. One of the oldest and most well-known is the Sustainable Forestry Initiative (the "SFI") created in 1994. The SFI calls for "a land stewardship ethic which integrates the reforestation, nurturing and harvesting of trees for useful products with the conservation of soil, air and water resources, wildlife and fish habitat and forest aesthetics".

The Directors believe that replanting and properly maintaining a timberland investment is important for both the environment and for the long term value of the investment.

Shareholders should note that each timberland investment is unique and the definition of ethical or socially responsible investments may not be the same for all investors.

### **3. DRIVERS OF TIMBERLAND RETURNS**

The traditional drivers of timberland returns include tree-derived income, land prices and other income.

#### **3.1 *Tree-derived income***

The largest component of timberland returns is from the trees themselves and is driven by biological growth (the “factory” component), in-growth (the “warehouse” component) and timber prices (the market value).

Biological tree growth generates an automatic, and largely consistent, absolute return on every timberland property. This component of timberland returns can be likened to a factory that operates 24 hours a day, 365 days a year, without substantial investments in machinery, technology or personnel. These returns have many characteristics, such as steady growth and low volatility, which liken them to a bond. It is important to note, however, that growth rates can vary substantially with species and climate. There are widely varying growth rates associated with different countries, regions and species, which can offer a natural diversifier in a timber portfolio, since the return profile and the rotation ages can also vary significantly.

In-growth is another component of the tree-derived revenue associated with timberland investing. In-growth is the increase in value created by the growth of a tree from one size or age-class to another, reflecting the potential for higher value use. The progression of higher value uses of wood for large trees means that the price-points increase exponentially.

Since trees can be left to grow into higher price-points, harvesting is not the only option and timber managers can use a strategy of “storing on the stump” during periods in which prices for certain segments or for specific regions of the world are less attractive than future price expectations. This strategy exploits the natural “warehouse” component of timberlands and the combination of biological growth and in-growth means that timber typically offers a negative cost of carry and, accordingly a positive carry to investors.

Timber prices are relevant for harvested timber. Most timber is sold to mills that are located less than 150 miles from where the timber is grown. As a result, timber prices vary on a regional basis with each local market influenced by its own local supply and demand dynamics.

#### **3.2 *Land prices***

The underlying property has value in its own right, although on average it represents less than 20 per cent. of the overall return from timberland investments. The land value can be estimated on an annual basis, but is only truly captured by the difference between the acquisition price and the exit sale value and can be significantly impacted by tax management issues. Acquisition price and exit price are therefore both important.

While this may not be appropriate for all investors, either due to timeframe or to investment objectives, one option for an exit strategy is to evaluate the possibility of accessing options which provide “Highest and Best Use” returns upon exit and may include alternative uses for the property.

#### **3.3 *Other income***

Other income will vary by property but might include revenue from hunting or recreational licensing, mineral or water rights, carbon credits or other timberland-related secondary income.

## PART IV

### THE PORTFOLIO

#### 1. INTRODUCTION

This section describes the Portfolio of the Company as at 30 May 2008 which is the latest practicable date prior to the publication of this Prospectus for which information in respect of the committed amounts and drawn down amounts is available. Unless expressly stated to the contrary, all amounts referred to in this Part IV are unaudited and are extracted from the financial records of the Company. Investors' attention is drawn to the descriptions of **commitment, committed, investment, invested, draw down, drawn down and called down** as set out in the Glossary of Terms in Part VIII of this Prospectus, for the meaning of those terms as used in this Part IV. All amounts are stated in US Dollars. Where amounts have been committed or drawn down in currencies other than US Dollars the relevant amounts have been converted into US Dollars at the spot exchange rate at the time of commitment. All amounts are rounded to one decimal place. Any aggregate or total amount given or percentage calculation is calculated using unrounded amounts and is then rounded to one decimal place.

#### 2. PORTFOLIO OVERVIEW

As at 30 May 2008, the Company had Gross Assets of \$485.2 million. The Company has made commitments in respect of ten investments in seven different countries. As at 30 May 2008, the maximum total value of commitments in respect of these ten investments is \$589.6 million, being 121.5 per cent. of the Gross Assets. Of the \$589.6 million committed, a total of \$65.3 million (13.5 per cent. of the Gross Assets) has been drawn down.

#### 3. PORTFOLIO DETAIL

##### 3.1 *Greenwood Tree Farm Fund, LP*

On 29 March 2007 Phaunos US, Inc. ("**Phaunos US**"), a wholly owned subsidiary of the Company entered into a subscription agreement and a limited partnership agreement in respect of Greenwood Tree Farm Fund, LP, a Delaware limited partnership ("**GTFF**"), whereby Phaunos US agreed to become a limited partner in GTFF and to make cash contributions up to the amount of \$30 million (the "**GTFF Capital Amount**") over a specified period to the capital of GTFF.

Phaunos US has agreed to pay an amount or amounts up to the GTFF Capital Amount in accordance with written notices from the general partner of GTFF. Amounts so requested will be determined by the general partner in light of the reasonably anticipated investment needs and expenses of GTFF.

As at 30 May 2008, a total of \$25.2 million of the GTFF Capital Amount has been drawn down.

GTFF's primary purpose is to acquire, own and operate poplar tree farms principally in the Pacific Northwest and to construct one or more mills to mill the lumber grown at these tree farms. To date GTFF has purchased 35,000 acres of hybrid poplar tree farms in Washington and Oregon. The tree farms are certified under the stringent forest practice guidelines of the FSC. In addition, construction of a poplar lumber mill was started in September 2007 and is anticipated to become operational in 2008. The mill will be owned by GTFF and will be operated by Collins Companies of Portland, Oregon.

##### 3.2 *National Timber Partners*

On 11 May 2007, the Company entered into a subscription agreement with NTP Timber Plus+Fund I, L.P., a Delaware limited partnership ("**NTP Fund**") whereby it agreed to purchase an interest as a limited partner in NTP Fund (the "**NTP Subscription Agreement**"). Upon entry into the NTP Subscription Agreement the Company agreed to be bound by the terms and provisions of the amended

and restated limited partnership agreement of NTP Fund dated 10 April 2006 and agreed to make a commitment of up to \$10 million to NTP Fund (the “**NTP Capital Amount**”).

The Company has agreed to pay an amount or amounts up to the NTP Capital Amount to NTP over a specified time period (the “**Commitment Period**”), for the purpose of making portfolio investments and for expenses.

As at 30 May 2008, a total of \$3.9 million (net of fees and distributions) of the NTP Capital Amount has been drawn down.

NTP Fund is organised to make senior fixed-rate mortgages loans to affiliates of its general partner to provide monies for the purchase of timberland properties to realise the “higher-and-better-use” values of timberland properties. The investment properties are predominantly located near major metropolitan areas in the US South, where property values have risen to the level that the timber revenue is no longer adequate to justify investment. Typically, the properties are converted to residential, recreational and conservation uses, versus their historic use and rural industrial timberland.

### 3.3 *Aurora Forestal S.A. Joint Venture*

The Company has established Aurora Forestal S.A. (“**AF**”), a joint venture with a Uruguayan industrialist family led by Lorenzo Balerio (“**Balerio**”). The Company entered into a shareholder’s agreement with Balerio, which has an effective date of 30 June 2007.

Balerio contributed assets of pine plantations and saw mill operations in Rivera and Tacuarembó to AF in exchange for ordinary and preferred fixed dividend shares in AF. The plantations include over 18,500 hectares of land which are managed in accordance with the stringent forest practice guidelines of the FSC.

The Company has committed an aggregate amount of \$21 million (the “**AF Capital Amount**”) to be contributed in phased investments to AF in exchange for ordinary shares in AF. As at 30 May 2008, a total of \$19 million of the AF Capital Amount has been drawn down.

In addition to contributing the assets referred to above, Balerio, who are a leading family in the timber industry in Uruguay, will provide management services to AF. It is anticipated that lumber will be exported primarily to Chile, the US and to Europe and that there will be additional investment by AF in both timberland and facilities.

### 3.4 *Caldrey S.A. – Subsidiary Investment*

The Company has established a wholly owned subsidiary, Caldrey S.A. (“**Caldrey**”) which is incorporated in Uruguay and is to be operated out of Montevideo. Caldrey, in conjunction with a local partner, Faneray S.A. (“**Faneray**”), will provide timber harvesting and road building services to forestry owners and operators. Capital invested by the Company in Caldrey will be used to purchase harvesting and other equipment and will provide the initial working capital necessary to establish the operations. It is anticipated that this investment will provide the Company with access to further timberland investment opportunities in Uruguay.

Caldrey and Faneray entered into a management agreement on 31 August 2007 (the “**Management Agreement**”) which outlined the management services to be provided by Faneray to Caldrey. On the same date, both parties entered into a shareholder’s agreement (the “**Shareholder’s Agreement**”) which outlined the contemplated equity participation of Faneray in Caldrey and matters relating to the administration of Caldrey.

Under the Shareholder’s Agreement, the Company (as the sole shareholder in Caldrey) has agreed to make a phased capital contribution to Caldrey of \$6.8 million. As at 30 May 2008, a total of \$4.8 million has been drawn down.

It is intended that over time, subject to the achievement of certain performance targets and the satisfactory performance of Faneray under the Management Agreement, Faneray will earn an equity interest in Caldrey.

### 3.5 *Pradera Roja S.A. – Subsidiary Investment*

The Company has allocated \$7.3 million for the purchase of land in Uruguay. To date, the Company has purchased two parcels of land for \$6.4 million and is currently in negotiations for the purchase of two adjoining parcels of land for approximately \$1.7 million. The Company will allocate additional capital as needed. This investment will be owned by a wholly-owned subsidiary of the Company, Pradera Roja S.A., and will be managed by U.C.G. (an affiliate of Faneray). The properties will be planted with specially selected species of eucalyptus to be grown on short rotations for the fiber market.

As at 30 May 2008, \$7.4 million has been drawn down for the land purchases, land preparation fees and working capital.

### 3.6 *Forest Enterprise d.o.o. – Subsidiary Investment*

The Company is intending to invest approximately \$9.0 million in Serbia to build the first of several wood pellet processing facilities. The investment is to be made through the Company's wholly owned subsidiary, Forest Enterprise d.o.o., a Serbian incorporated company. The initial wood pellet plant is to be built in Southern Serbia and will use waste wood fibre to create high density wood pellets that provide a highly efficient alternative fuel for residential heating applications. In addition to wood pellet manufacturing, it is anticipated that this project will help provide the Company with access to further timberland investment. Of the amounts committed by the Company to this project, as at 30 May 2008, approximately \$2.0 million has been drawn down.

The Company has entered into two agreements in relation to this investment. The first, an equipment contract for the supply of a complete wood pellets production plant dated 7 December 2007 and the second, a management agreement with EMAS Partners LLC to manage the construction phase of the project dated 1 February 2008. The Company has finalised the acquisition of property of approximately 2.3 hectares for this project, for a purchase price of \$160,000. Other draw downs have been for architect fees, power supply to the land and for working capital requirements.

### 3.7 *Masarang Foundation*

On 4 September 2007, the Company entered into an agreement to acquire a 5 year Euro note (the "**Note**") which is secured by the Indonesian timberland and timber-related assets of the Masarang Foundation, a non-profit foundation in the Netherlands. This investment will be used by the scientific team working with the Masarang Foundation to assist in the development and expansion of a novel closed-system of tropical forestry where local communities are integrally involved in creating sustainable forestry solutions including both timber and bio-fuel related applications from the forest. Other key objectives of this project include an emphasis on biodiversity and poverty alleviation, in addition to creating economic viability for these communities.

The Company has agreed to commit a principal amount under the Note of \$5.5 million (the "**MF Capital Amount**"). \$2.8 million of the MF Capital Amount was payable as an initial investment and was drawn down in September 2007. Under the terms of the Note, the Masarang Foundation has the right, in its sole discretion, to call on the Company to invest additional amounts provided that the aggregate of the initial investment and all additional investments do not exceed the MF Capital Amount.

As at 30 May 2008, a total of \$2.8 million of the MF Capital Amount has been drawn down.

### 3.8 *Eucateca S.A. – Joint Venture*

The Company has signed a letter of intent dated 29 February 2008 with Nemus S.A. ("**Nemus**") which states the intentions of each party to transfer assets or make equity contributions to a joint venture.

The joint venture company, Eucateca S.A. (“**Eucateca**”), has been incorporated and is currently wholly owned by subsidiaries of the Company. It is intended that Eucateca will develop and undertake a series of brownfields and greenfields investments, initially in teak and eucalyptus plantations, in the state of Mato Grosso.

The Company will make an initial commitment to Eucateca of \$150 million which is to be invested according to an agreed timetable (anticipated to be the period of three years from the date of execution of a shareholder’s agreement between the parties). Nemus will contribute its existing plantations of eucalyptus and teak to Eucateca and may contribute capital. The plantations to be contributed by Nemus are managed in accordance with the stringent forest practice guidelines of the FSC.

The joint venture will be owned by the Company and Nemus with the ownership proportionate to their relative contributions in the form of assets and/or cash.

The investments by each of the Company and Nemus are conditional upon the completion of final legal documentation (which is yet to occur). As at 30 May 2008, \$250,000 of the Company’s commitment has been drawn down to this investment.

### 3.9 ***Greenwood Joint Venture***

The Company has entered into an arrangement with Greenwood Resources, Inc., a Nevada corporation, acting for and on behalf of its subsidiaries (“**Greenwood**”) for investment in both existing plantations and new development opportunities for fast-growing tree species in several regions across China. The primary focus of this investment will be fast growing tree farms in China, with the primary species being poplar. However, investments may be made into other tree farm species as well as other timber-related investments in China or other regions that are mutually agreed by the Company and Greenwood.

The Company and Greenwood entered into a memorandum of understanding dated 16 January 2008 outlining the nature of the arrangement between the parties. It is intended that the Company will form a wholly owned new company (“**China Newco**”) to hold the investment assets in China. The Company will contribute capital and timber investment management expertise and Greenwood will contribute acquisition targeting, due diligence and negotiation, investment and resource management expertise and capital. Greenwood will externally manage China Newco.

The Company has agreed to an initial commitment of \$200 million, with additional allocations as mutually agreed upon between the Company and Greenwood. In addition, the Company will have a right of first option to participate in any additional Greenwood projects in other regions under terms to be mutually agreed upon. China Newco intends to invest its capital over the next five years or less.

As at 30 May 2008, none of the Company’s commitment has been drawn down.

### 3.10 ***Romfor Timber SRL***

The Company has entered into an agreement dated 8 April 2008 with the Investment Manager and Aitchesse Limited (“**Aitchesse**”) relating to the formation and management of a new company to hold forest investments in Eastern Europe. The new company, Romfor Timber SRL (“**Romfor**”), has been incorporated and is currently wholly owned by the Company.

It is anticipated that the Company will initially capitalise Romfor with up to \$150 million as and when properties and investments are acquired. Aitchesse, which has an office in Eastern Europe and has been building a pipeline of forest investments there since 2006, will commit resources including access to its current research, most notably in legal and network issues, access to its current pipeline and access to its Eastern European office and workforce.

As at 30 May 2008, none of the Company’s commitment has been drawn down.

#### 4. PORTFOLIO SUMMARY

4.1 As at 30 May 2008, the Company had committed \$589.6 million to investment of which \$65.3 million had been drawn down and \$524.3 million remained committed and undrawn. Details are as set out in the table below:

		<i>Committed value as at 30 May 2008 (\$US million)</i>	<i>Amounts drawn down as at 30 May 2008 (\$US million)</i>	<i>Committed value as a percentage of Gross Assets as at 30 May 2008</i>
Greenwood Tree Fund, LP	United States	30.0	25.2	6.2
National Timber Partners	United States	10.0	3.9 <sup>1</sup>	2.1
Aurora Forestal SA	Uruguay	21.0	19.0	4.3
Caldrey SA	Uruguay	6.8	4.8	1.4
Pradera Roja SA	Uruguay	7.3	7.4	1.7
Forest Enterprise doo	Serbia	9.0	2.0	1.6
Masarang Foundation	Indonesia	5.5	2.8	1.1
Eucateca SA	Brazil	150.0	0.3	30.9
Greenwood Joint Venture	China	200.0	0	41.2
Romfor Timber SRL	Eastern Europe	150.0	0	30.9
<b>Total</b>		<u>589.6</u>	<u>65.3</u>	<u>121.4<sup>2</sup></u>
<b>Total committed and not drawn down</b>		<u>524.3</u>		

1 Net of fees and distributions.

2 For details of the Company's over commitment policy, see paragraph 13 of Part I of this Prospectus.

## PART V

### TERMS OF THE C SHARES AND CONVERSION RATIO

The following definitions apply (for the purposes of this Part V of this Prospectus only) in addition to, or (where applicable) in substitution for, the definitions applicable elsewhere in this Prospectus:

“**AIM**” means the AIM market of the London Stock Exchange;

“**Auditor**” means Ernst & Young LLP or such other firm of chartered accountants as the Directors may appoint for the purpose;

“**Back Stop Date**” means such date as determined by the Directors and set out in the Specified Conversion Criteria;

“**Business Day**” means any day other than a Saturday or Sunday or a day on which the major clearing banks are not open for business in London and Guernsey;

“**C Share Surplus**” means the net assets of the Company attributable to the relevant C Share class (including, for the avoidance of doubt, any income and/or revenue (net of expenses) arising from or relating to such assets) less such proportion of the Company’s liabilities as shall reasonably be allocated by the Directors to the assets of the Company attributable to that C Share class;

“**C Share**” means a C Share of no par value in the capital of the Company;

“**Calculation Date**” means the earliest of:

- (a) the close of business on a date specified by the Directors occurring on or after the day on which the Investment Manager shall have given notice to the Directors, and the Directors agree, that the Specified Proportion of the assets attributable to the relevant C Share class has been invested in timberland and timber-related assets in accordance with the investment policy of the Company;
- (b) the close of business on such date as the Directors may decide is necessary to enable the Company to comply with its obligations in respect of Conversion of the relevant C Share class;
- (c) the close of business on the Back Stop Date; and
- (d) the date specified by the Directors falling after the date on which the Directors resolve that any Early Investment Condition in respect of a particular class of C Shares has been satisfied;

“**Companies Laws**” means the Companies (Guernsey) Laws, 1994 to 1996 and every statutory modification or re-enactment thereof for the time being in force and any other legislation from time to time relating to companies and affecting the Company;

“**Conversion**” means, in relation to any class of C Shares, conversion of that class of C Shares in accordance with paragraph 8 of this Part V;

“**Conversion Ratio**” is A divided by B calculated to four decimal places (with 0.00005 being rounded upwards) where:

$$A = \frac{C - D}{E}$$

and

$$B = \frac{F - G}{H}$$

and where “C” is the aggregate of:

- (a) the value of the timberland and timber-related investments of the Company attributable to a relevant C Share class calculated by reference to (i) the most recently published audited annual accounts; or

- (ii) at the Directors' discretion (unless or until otherwise agreed in writing by the Directors in relation to a particular C Share class), accounts (whether audited or unaudited) drawn up as at such date as may be specified by the Directors, including any income accruing on the investments of the Company attributable to the C Shares of that class, from the date on which such investments are acquired for the benefit of the holders of C Shares of that class up to and including the Calculation Date;
- (b) the value of any investments of the Company attributable to a relevant C Share class which are listed or dealt on a stock exchange or on a similar market:
- (i) calculated by reference to the middle-market quotations of, or, if appropriate, the daily average of the prices marked for, those investments at the Calculation Date on the principal stock exchange or market where the relevant investment is listed or dealt in as derived from the relevant stock exchange's or market's recognised method of publication of prices for such investments where such published prices are available; or
- (ii) where such published prices are not available, calculated by reference to the Directors' belief as to a fair current trading price for those investments, after taking account of any other price publication services reasonably available to the Directors;
- (c) all other investments of the Company attributable to a relevant C Share class as reflected in the most recently published audited annual accounts of the Company, subject to such adjustments as the Directors may deem appropriate to be made for any variations in the value of such investments between the date of acquisition and the Calculation Date; and
- (d) the amount which, in the Directors' opinion, fairly reflects, at the Calculation Date, the value of the other assets of the Company attributable to a relevant C Share class (including cash and deposits with or balances at bank and including any accrued income and other items of a revenue nature less accrued expenses);

"D" is the amount (to the extent not otherwise deduced in the calculation of "C") which, in the Directors' opinion, fairly reflects the amount of the liabilities attributable to a relevant C Share class at the Calculation Date (including, for the avoidance of doubt, the costs of acquisition of the relevant C Share class investments referred to above);

"E" is the number of C Shares of the relevant class in issue at the Calculation Date;

"F" is the aggregate of:

- (a) the value of the timberland and timber-related investments of the Company attributable to Ordinary Shares, other than any investments attributable to C Shares, calculated by reference to (i) the most recently published audited annual accounts; or (ii) at the Directors' discretion (unless or until otherwise agreed in writing by the Directors in relation to a particular C Share class), accounts (whether audited or unaudited) drawn up as at such date as may be specified by the Directors, of such investments as at the Calculation Date;
- (b) the value of any investments of the Company attributable to Ordinary Shares, other than any investments attributable to C Shares, which are listed or dealt in on a stock exchange or on a similar market:
- (i) calculated by reference to the middle-market quotations of, or, if appropriate, the daily average of the prices marked for, those investments at the Calculation Date on the principal stock exchange or market where the relevant investment is listed or dealt in as derived from the relevant stock exchange's or market's recognised method of publication of prices for such investments where such published prices are available; or
- (ii) where such published prices are not available, calculated by reference to the Directors' belief as to a fair current trading price for those investments, after taking account of any other price publication services reasonably available to the Directors;

- (c) the value of all other investments of the Company as reflected in the most recently published audited annual accounts, attributable to Ordinary Shares, subject to such adjustments as the Directors may deem appropriate to be made for any variations in the value of such investments between the date of acquisition and the Calculation Date; and
- (d) the amount which, in the Directors' opinion, fairly reflects, at the Calculation Date, the value of the other assets of the Company (including cash and deposits with or balances at bank and including any accrued income or other items of a revenue nature less accrued expenses), attributable to Ordinary Shares;

“G” is the amount (to the extent not otherwise deducted in the calculation of “F”) which, in the Directors' opinion, fairly reflects the amount of the liabilities of the Company less the amount of “D” representing the portion thereof as may be attributable to C Shares and the full amount of all dividends declared but not paid on the Ordinary Shares, at the Calculation Date;

“H” is the number of Ordinary Shares in issue at the Calculation Date;

“**Conversion Date**” means, in relation to any class of C Shares, a time falling after the Calculation Date at which the admission of the Ordinary Shares arising on Conversion to trading on one or more of: (i) AIM; (ii) the Official List of the UK Listing Authority; (iii) the Channel Islands Stock Exchange; or (iv) any other stock exchange on which the Ordinary Shares are listed at the Conversion Date, becomes effective and which is the opening of business on such Business Day as is selected by the Directors provided that such day shall not be more than 20 days after the Calculation Date;

“**Disclosure Document**” means any relevant disclosure document, or Prospectus (as the case may be) issued by the Company from time to time in connection with the issue of C Shares;

“**Early Investment Condition**” means the condition specified in the Specified Conversion Criteria;

“**Investment Manager**” means the manager from time to time of the Company's investments;

“**Issue Date**” means the date on which the Company receives the net proceeds of the issue of the relevant class of C Shares;

“**Ordinary Share**” means an ordinary share of no par value in the capital of the Company and an ordinary share of no par value in the capital of the Company arising on Conversion, as the context requires;

“**Ordinary Share Surplus**” means the net assets of the Company less the C Share Surplus of all C Share classes;

“**Prospectus**” means a prospectus prepared in accordance with the Listing Rules and the Prospectus Rules of the UK Listing Authority issued by the Company from time to time in connection with the issue of C Shares;

“**RNS**” means a Regulatory News Service which is the Regulatory Information Service provided by the London Stock Exchange for the distribution to the public of company announcements;

“**Specified Class Consent Event**” means an event which is, in relation to any class of C Shares, determined by the Directors upon the issue of that class of C Shares to be a Specified Class Consent Event for the purpose of the Articles and which is set out in the Board resolution issuing the relevant class of C Shares;

“**Specified Conversion Criteria**” means such criteria as determined by the Directors and announced by the Company through a RNS, setting out, among other things, the Specified Proportion, the Back Stop Date and the Early Investment Condition; and

“**Specified Proportion**” means a specified percentage of the assets attributable to the C Shares of the relevant class as determined by the Directors and set out in the Specified Conversion Criteria.

References in this Part V of this Prospectus to “Ordinary Shareholders” and “C Shareholders” shall be construed as references to holders for the time being of Ordinary Shares and C Shares (or, if there is more than one class of C Shares in issue at the relevant time, C Shares of the relevant class).

References in this Part V of this Prospectus to the Auditor certifying any matter shall be construed to mean certification of their opinion as to such matter, whether qualified or not.

For the purposes of this Part V of this Prospectus, other than in paragraph 4 below, assets or investments attributable to the C Shares of a particular class or the C Shareholders of a particular class shall mean the net cash proceeds (after all expenses relating thereto) of the issue of such C Shares as invested in or represented by investments or cash or other assets from time to time.

For the purposes of paragraph (a) of the definition of Calculation Date, the assets attributable to a relevant C Share class shall be treated as having been “invested” if they have been expended by or on behalf of the Company in the acquisition or making of an investment (whether by subscription or purchase) or if an obligation to make such payment has arisen or crystallised (in each case unconditionally or subject only to the satisfaction of normal pre-issue conditions) in relation to which the consideration amount has been determined or is capable of being determined by operation of an agreed contractual mechanic.

## **1. ISSUES OF C SHARES**

- 1.1 Subject to the Companies Laws, the Directors are authorised to issue C Shares of such classes, of such number of tranches and on such terms as they determine provided that such terms are consistent with the provisions described in paragraphs 1 to 8 of this Part V.
- 1.2 If there are in issue at the same time C Shares carrying different rights, each shall be deemed to be a separate class of shares. The Directors may, if they so decide, designate each class of C Shares in such manner as they see fit in order that each class of C Shares can be separately identified.

## **2. DIVIDENDS AND *PARI PASSU* RANKING OF C SHARES AND ORDINARY SHARES**

- 2.1 Pending Conversion, the C Shareholders of a particular class shall be entitled to receive any dividends and other distributions declared in respect of the assets attributable to that class of C Shares only.
- 2.2 Pending Conversion, the Ordinary Shareholders shall be entitled to receive any dividends and other distributions declared in respect of the assets attributable to the Ordinary Shares only.
- 2.3 The new Ordinary Shares arising on Conversion shall rank in full for all dividends and other distributions declared, made or paid after the Conversion Date and otherwise *pari passu* with the Ordinary Shares in issue at the Conversion Date, save to the extent of any dividend limitation which may be specified by the Directors in the Specified Conversion Criteria.

## **3. CO-INVESTMENT RIGHTS**

- 3.1 Any class of C Shares shall rank *pari passu* with the Ordinary Shares for the purpose of participating in commitments to new timberland and timber-related investments by the Company.
- 3.2 The amount to be invested from each of the relevant classes of C Shares and the Ordinary Share pools in a new timberland and timber-related investment shall be calculated *pro rata* by reference to the aggregate net asset value of the assets attributable to each of the Ordinary Shares and to the relevant classes of C Shares respectively, as reflected in the most recently published interim accounts or audited annual accounts (as the case may be), prior to the date on which the Company is required to commit funds to such new investment provided that the respective proportions to be invested will not exceed the value of the assets respectively attributable to the Ordinary Shares and to the relevant class of C Shares which is available for investment.
- 3.3 Co-investment rights will continue until such a time as the Ordinary Shares are fully committed, after which all new commitments (or portions of commitments above full commitment of the Ordinary

Shares) will be allocated fully to the C Shares and apportioned as between any different classes of C Shares on the basis set out in paragraph 3.2 above.

#### **4. RIGHTS AS TO CAPITAL**

4.1 The capital and assets of the Company shall, on a winding-up or on a return of capital prior, in each case, to Conversion, be applied as follows:

4.1.1 the Ordinary Share Surplus shall be divided amongst the Ordinary Shareholders *pro rata* according to their holdings of Ordinary Shares; and

4.1.2 the C Share Surplus attributable to each class of C Shares shall be divided amongst the C Shareholders *pro rata* according to their holdings of C Shares of that class.

4.2 The capital and assets of the Company on a winding-up or on a return of capital (other than by way of purchase or redemption of own shares) after Conversion of all outstanding classes of C Shares, shall be divided amongst the Ordinary Shareholders *pro rata* according to their holdings of Ordinary Shares.

#### **5. VOTING AND TRANSFER**

5.1 Except as provided in paragraph 5.1.3 and 6 below:

5.1.1 the C Shares shall have the same rights as Ordinary Shares in relation to attendance at, and receiving notice of, any general meetings of the Company;

5.1.2 in relation to voting at general meeting, except in the circumstances listed in 5.1.3 below:

(A) each holder of C Shares shall on a show of hands, have one vote; and

(B) on a poll, each holder of C Shares attending in person, by proxy or by corporate representative shall have such number of votes as results from all the C Shares of the relevant class in issue having in aggregate, such number of votes as is the same percentage or multiple of the votes attributable to all the Ordinary Shares then in issue as the net assets attributable to such C Shares bears to the net assets attributable to such Ordinary Shares, as determined by the Directors in their absolute discretion and stated in the circular accompanying the notice given to Shareholders of the relevant meeting;

5.1.3 where the C Shares or any class of C Shares is unlisted, the C Shares, or such class (as the case may be) shall not have the right to vote at a general meeting in relation to any of the following matters:

(A) approving the cancellation of listing of any shares;

(B) authorising a general dis-application of statutory pre-emption rights;

(C) approving an employee share scheme or long term incentive scheme;

(D) approving a grant to a director or employee of the Company or a subsidiary undertaking of the Company of an option to subscribe, warrant to subscribe or other similar right to subscribe for Shares in the Company or any of the Company's subsidiary undertakings if the price per Share payable on the exercise of the option, warrant or other similar right to subscribe is less than the exercise price;

(E) specifically approving the terms of an open offer, placing, vendor consideration placing, offer for subscription of equity shares or an issue out of treasury of a class already listed (other than in respect of an employees' share scheme) for a price which is at a discount of more than ten per cent. to the middle market price of those shares at the time of announcing the terms of the offer or agreeing the placing;

- (F) approving a “class one transaction” as defined under the Listing Rules;
- (G) approving the Company entering into a “related party transaction” as defined under the Listing Rules;
- (H) giving prior approval to any material change to the Company’s published investment policy;
- (I) giving prior approval to the conversion of an existing listed class of equity securities into a new class or an unlisted class;
- (J) authorising the Company to issue further shares of the same class as existing shares (including issues of treasury shares) for cash at a price below the net asset value per share of those shares without those shares being first offered *pro rata* to existing holders of shares of that class; and

5.1.4 the C Shares shall be transferable in the same manner as the Ordinary Shares.

The Company has not been and will not be registered under the Investment Company Act. Accordingly, the C Shares may not be offered, sold, pledged or otherwise transferred or delivered, directly or indirectly, in or into the United States, or to or for the account or benefit of any US Person at any time. See the section headed “Important Notes” in this Prospectus for more information.

## **6. CLASS CONSENTS AND VARIATION RIGHTS**

6.1 Without prejudice to the generality of the Articles, until Conversion the consent of the holders of the relevant C Shares as a class shall be required for and, accordingly, the special rights attached to any class of C Shares shall be deemed to be varied, *inter alia*, by:

- 6.1.1 any alteration to the Memorandum or the Articles; or
- 6.1.2 any alteration, increase, consolidation, division, sub-division, cancellation, reduction or purchase by the Company of any issued or authorised share capital of the Company (other than on the issue of further C Shares of the same or any other class, or on Conversion); or
- 6.1.3 the passing of any resolution to wind up the Company; or
- 6.1.4 the selection of any accounting reference date other than that declared in the Disclosure Document; or
- 6.1.5 the occurrence of a Specified Class Consent Event.

## **7. UNDERTAKINGS**

7.1 Until Conversion, and without prejudice to its obligations under the Companies Laws, the Company undertakes in relation to each class of C Shares to:

- 7.1.1 procure that the Company’s records and bank accounts shall be operated so that the assets attributable to the C Shares of the relevant class can, at all times, be separately identified and, in particular but without prejudice to the generality of the foregoing, the Company shall procure that separate cash accounts shall be created and maintained in the books of the Company for the assets attributable to the C Shares of the relevant class;
- 7.1.2 allocate to the assets attributable to the C Shares such proportion of the expenses or liabilities of the Company incurred or accrued between the Issue Date and the Calculation Date (both dates inclusive) as the Directors fairly consider to be attributable to the C Shares of the relevant class including, without prejudice to the generality of the foregoing, those liabilities specifically identified in the definition of “Conversion Ratio” above; and
- 7.1.3 give appropriate instructions to the Investment Manager to manage the Company’s assets so that such undertakings can be complied with by the Company.

## 8. CONVERSION

- 8.1 The Directors shall procure that:
- 8.1.1 the Administrator shall be requested to calculate, within 10 Business Days after the Calculation Date, the Conversion Ratio as at the Calculation Date and the number of Ordinary Shares to which each holder of C Shares of that class shall be entitled on Conversion; and
- 8.1.2 the Auditor shall be requested to certify, within 15 Business Days after the date on which the Conversion Ratio has been calculated, that such calculations:
- (A) have been performed in accordance with the Articles; and
- (B) are arithmetically accurate,
- whereupon such calculations shall become final and binding on the Company and all holders of Ordinary Shares and the relevant C Share class.
- 8.2 The Directors shall procure that, as soon as practicable following such certification, a RNS announcement is made advising holders of C Shares of that class of the Conversion Date, the Conversion Ratio and the aggregate number of new Ordinary Shares to which holders of C Shares of that class are entitled on Conversion.
- 8.3 The Ordinary Shares arising upon Conversion shall be divided amongst the former holders of the C Shares of the relevant class *pro rata* according to their respective former holdings of C Shares of the relevant class (provided always that the Directors may deal in such manner as they think fit with fractional entitlements to Ordinary Shares, including, without prejudice to the generality of the foregoing, selling any such shares representing such fractional entitlements and retaining the proceeds for the benefit of the Company) and for such purposes any Director is hereby authorised as agent on behalf of the former C Shareholders, in the case of a share in certificated form, to execute any stock transfer and to do any other act or thing as may be required to give effect to the same including, in the case of a share in uncertificated form, the giving of directions to or on behalf of the former C Shareholder who shall be bound by them.
- 8.4 Forthwith upon Conversion, any certificates relating to the C Shares of the relevant class shall be cancelled and the Company shall issue to each such former C Shareholder new certificates in respect of the Ordinary Shares which have arisen upon Conversion unless such former C Shareholder elects to hold their Ordinary Shares in uncertificated form.
- 8.5 The Company will not apply for any class of C Shares to be admitted to (i) the AIM; (ii) the Official List of the UK Listing Authority; (iii) the Channel Islands Stock Exchange; or (iv) any such other stock exchange prior to 1 January 2009.
- 8.6 The Company will use its reasonable endeavours to procure that, upon Conversion, the Ordinary Shares are admitted to (i) the AIM; (ii) the Official List of the UK Listing Authority; (iii) the Channel Islands Stock Exchange; or (iv) any such other stock exchange on which the Ordinary Shares are listed at that time.
- 8.7 In connection with any issue of a C Share class, the Directors shall state the Specified Conversion Criteria in:
- 8.7.1 any relevant Disclosure Document or press announcement published; and
- 8.7.2 in a RNS release,
- at the time of offer of such C Shares for subscription.

## PART VI (A)

### OPERATING AND FINANCIAL REVIEW

**The following commentary and analysis is derived from, and should be read in conjunction with, the consolidated financial information appearing in Part VI(B) of this Prospectus and the information on the Portfolio contained in Part IV of this Prospectus. Investors should read the whole of this Prospectus and should not rely on the key or summarised information contained within this Part VI(A).**

#### Overview

The Company is a closed ended investment company 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. On incorporation, two founder Ordinary Shares were issued by the Company. On 20 December 2006, the Company raised approximately \$115 million through a placing of 115,150,000 Ordinary Shares at a price of \$1 each. In connection with this placing the two founder Ordinary Shares were transferred to one of the placees as part satisfaction of the placee's application for Ordinary Shares. The Ordinary Shares were admitted to listing and trading on AIM and the CISX.

The Company raised a further US\$370 million by a secondary equity fund raising in June 2007 through a placing of 355,769,230 Ordinary Shares at a placing price of \$1.04 per share. These Ordinary Shares commenced trading on AIM on 5 June 2007.

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.

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

#### Operating Review

As at 30 May 2008, the Company has committed \$589.6 million of funds to ten investments in seven countries representing 121.5 per cent. of funds raised to date. The Company has achieved a diversified portfolio geographically and by species, age class and end market use, in line with the Company's investment policy. As summarised in paragraph 13 of Part I of this Prospectus, the Investment Manager intends to follow an over commitment strategy subject to any guidelines set by the Board. Therefore, the capital raised is effectively fully committed.

As at 30 May 2008, a total of \$65.3 million of the total committed amount has been drawn down. For a more detailed overview, investors should refer to the summary of the Portfolio in Part IV of this Prospectus.

As at 31 December 2007, Net Asset Value per Ordinary Share was \$1.02, representing an increase of 6.3 per cent. over Net Asset Value per Ordinary Share of \$0.96 at the time of AIM Admission.

#### *Investments to date*

During the period from incorporation to 31 December 2007, the Company committed to the following projects totalling approximately \$240 million:

- \$30 million in a partnership 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. The tree farms are certified under the stringent forest practices guidelines of the FSC. \$24.4 million was drawn down as at 31 December 2007 and \$25.2 million as at 30 May 2008;
- \$10 million to an investment partnership investing in the south-eastern United States designed to realise the "higher-and-better-use" values of timberland properties. \$3.9 million (net of fees and

distributions) was drawn down as at 31 December 2007 and \$3.9 million (net of fees and distributions) as at 30 May 2008;

- \$21 million in a joint venture in northern Uruguay with an experienced family-run business in pine plantations and sawmill. The tree farms are managed under the stringent forest practices guidelines of the FSC. \$19.0 million was drawn down as at 31 December 2007 and \$19.0 million as at 30 May 2008;
- \$6.8 million to a new company designed to provide forestry services to the growing timber management industry in Uruguay. \$4.8 million was drawn down as at 31 December 2007 and \$6.8 million as at 30 May 2008;
- In addition, an in-country partner of the Company in Uruguay has identified a series of investment opportunities for participation in the vibrant fibre market there, growing short-rotation eucalyptus. As at 31 December 2007, commitments to these investment opportunities totalled \$7.3 million, with several more in the pipeline and under due diligence. \$2.4 million was drawn down as at 31 December 2007 and \$7.4 million as at 30 May 2008;
- \$9 million to a wholly-owned wood pellet plant in Serbia that will produce wood pellets for the residential heating market in Europe. The establishment of this plant, and the Company's plans for future plants similarly using wood waste that otherwise ends up a pollutant in the local environment, is entirely congruent with the Company's goal of maintaining the highest environmental standards wherever it operates. \$1,471 had been drawn down to this investment as at 31 December 2007 and \$2.0 million as at 30 May 2008. Additionally, because of the Company's participation in Serbia, the Investment Manager has been able to identify additional land-based opportunities in Eastern Europe;
- \$5.5 million by way of a loan to a prominent Dutch foundation operating in Indonesia, which is secured by tropical hardwood plantation of which \$2.8 million was drawn down as at 31 December 2007 and \$2.8 million as at 30 May 2008; and
- \$150 million in a joint venture partnership with a very experienced company in Brazil for the purchase and establishment of teak and eucalyptus plantations in Mato Grosso. The Company has identified a strong in-country partner which will contribute assets and expertise to allow the Company to grow its investment base under the daily management of a partner with whom the Company's interests are closely aligned. \$250,000 had been drawn down to this investment as at 30 May 2008.

Since 31 December 2007, the Company has committed:

- \$200 million to a joint venture partnership in China with an international timberland investment company with whom the Company has worked in the past that will invest in existing plantations and new development opportunities for fast growing tree species in several regions across China; and
- \$150 million to a joint venture with Aitchesse Limited aimed at investing in forestry assets across Eastern Europe. Investments could begin as early as the second quarter of 2008.

For a more detailed discussion on the commitments and amounts drawn down to-date, investors should refer to the summary of the Portfolio in Part IV of this Prospectus.

### **Results of operations**

A summary of the key financial information for the Company for the period from its incorporation on 28 September 2006 to 31 December 2007 is set out below. The information has been extracted without material adjustment from the statutory accounts of the Company for the period ended 31 December 2007 extracts of which are set out in Part VI(B) of this Prospectus. The information set out below should be read in conjunction with the financial information appearing in Part VI(B) of this Prospectus, in particular the accounting policies and notes which accompany that financial information.

<i>Capital</i>	<i>as at 31 December 2007</i>
Total assets	\$478,787,724
Unquoted financial assets designated as fair value through profit or loss	\$50,197,810
Total assets less current liabilities	\$478,599,632
Net assets	\$478,599,632
Net asset value per Ordinary Share	\$1.02

<i>Earnings and Dividends</i>	<i>for the 15 month period ended 31 December 2007</i>
Earnings per Ordinary Share	\$0.0354
Dividends per Ordinary Share	N/A

### **Significant factors affecting results of operations and financial conditions**

The Company has a limited operating history and has made the majority of its commitments during the latter part of 2007 and beginning of 2008. There are a number of factors or risks which could adversely affect the Company's performance going forward. In particular, the Company's activities expose it to market price risk, liquidity risk, interest rate risk and credit risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The risk management objectives and policies of the Company are discussed in detail in Note 20 of the statutory accounts of the Company for the period ended 31 December 2007 extracts of which are set out in Part VI(B) of this Prospectus.

### **Critical accounting policies**

#### ***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.

#### ***Net Asset Value***

The Net Asset Value (and hence the Net Asset Value per Ordinary Share and the Net Asset Value per C Share) is calculated in US Dollars by the Company semi-annually, at half year (on an estimated basis) and at the financial year end. Only the Net Asset Value which is calculated at financial year end is audited. The calculations are based upon information supplied by a variety of sources including appraisers, auditors, consultants and third party local managers. The Net Asset Value is 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 are 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 adopt such other valuation procedures as they consider is reasonable in the circumstances. Valuations of the Portfolio are made, in part, on valuation information provided by the third party managers of investments in the Portfolio and on information provided by appraisers, auditors and consultants. Although the Investment Manager will evaluate all such information and data, the Investment Manager is generally not 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 by third party managers are provided only on a half yearly basis and generally are issued 2 to 3 months after the respective valuation dates. At the year end, the valuations are checked by an independent auditor. Each investment in the Portfolio is appraised or valued approximately once a year and where considered appropriate by the Investment Manager, external valuers are engaged for this purpose.

## **PART VI (B)**

### **HISTORICAL FINANCIAL INFORMATION**

#### **1. STATUTORY ACCOUNTS FOR THE PERIOD ENDED 31 DECEMBER 2007**

Statutory accounts of the Company prepared in accordance with International Financial Reporting Standards for the financial period since its incorporation on 28 September 2006 to 31 December 2007, in respect of which the Company's auditors, Ernst & Young LLP of 14 New Street, St. Peter Port, Guernsey GY1 4AF, made a report, have been delivered to the Guernsey Financial Services Commission and such report did not contain any qualifications.

#### **2. HISTORICAL FINANCIAL INFORMATION**

The financial information set out below has been extracted without material adjustment from the published annual report and audited accounts of the Company for the financial period ended 31 December 2007.

# REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF PHAUNOS TIMBER FUND LIMITED

**We have audited the Company's and the Group's financial statements for the period ended 31 December 2007 which comprise the Income Statements, Balance Sheets, Statements of Changes in Equity, Cash Flow Statements and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.**

This report is made solely to the Company's members, as a body, in accordance with Section 64 of the Companies (Guernsey) Law, 1994. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of directors and auditors**

The Directors are responsible for the preparation of the financial statements in accordance with applicable Guernsey law, as set out in the Statement of Director's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Guernsey) Law, 1994. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises About the Company, Investment Objective and Policy, Directors, Manager, Administrator and Secretary, the Chairman's Statement, the Report of the Investment Manager, Report of the Directors, Schedule of Investments, Shareholder Information and Directors and Service Providers. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examinations, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion**

In our opinion the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Company's and the Group's affairs as at 31 December 2007 and of its profit for the period then ended and have been properly prepared in accordance with the Companies (Guernsey) Law, 1994.

## **Ernst & Young LLP**

Guernsey, Channel Islands  
24 April 2008

The financial statements are published on websites maintained by the Company's Investment Manager, FourWinds Capital Management.

The maintenance and integrity of these websites are the responsibility of Phaunos Timber Fund Limited; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**PHAUNOS TIMBER FUND LIMITED**  
**CONSOLIDATED INCOME STATEMENT**  
**for the period from incorporation to 31 December 2007**

		<i>28 September 2006 to 31 December 2007</i>
	<i>Note</i>	<i>USD</i>
Net gains on financial assets designated at fair value through profit or loss	11	89,282
Operating income	4	<u>15,351,262</u>
Total income		15,440,544
Operating expenses	5	<u>(5,820,489)</u>
Net operating income before taxation		9,620,055
Taxation on ordinary activities		<u>–</u>
Net gain for the period attributable to shareholders		<u>9,620,055</u>
		<i>Cents</i>
Earnings per share for the period – Basic and Diluted	7	3.54

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 72 to 87 form an integral part of the audited financial statements

**PHAUNOS TIMBER FUND LIMITED**  
**CONSOLIDATED BALANCE SHEET**  
**as at 31 December 2007**

	<i>Note</i>	<i>31 December 2007 USD</i>
<b>NON-CURRENT ASSETS</b>		
Unquoted financial assets designated as fair value through profit or loss	11	50,197,810
Intangible assets	8	2,087
Plant and equipment	9	121,263
		<u>50,321,160</u>
<b>CURRENT ASSETS</b>		
Debtors	13	2,602,669
Cash and cash equivalents	12	425,863,895
		<u>428,466,564</u>
<b>TOTAL ASSETS</b>		<u>478,787,724</u>
<b>CURRENT LIABILITIES</b>		
Creditors – due within one year	14	188,092
<b>TOTAL LIABILITIES</b>		<u>188,092</u>
<b>EQUITY</b>		
Share capital	15	–
Share premium	16	358,560,982
Retained earnings	17	9,620,055
Distributable reserves	18	110,418,595
<b>TOTAL EQUITY</b>		<u>478,599,632</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>478,787,724</u>
<b>SHARES IN ISSUE</b>		<u>470,919,230</u>
		<i>USD</i>
<b>NAV PER SHARE</b>		1.02

The financial statements were approved by the Board of Directors on 23 April 2008 and were signed on its behalf by Keith Oates and Peter Niven.

The notes on pages 72 to 87 form an integral part of the audited financial statements

**PHAUNOS TIMBER FUND LIMITED**  
**INCOME STATEMENT**  
**for the period from incorporation to 31 December 2007**

		<i>28 September 2006 to 31 December 2007</i>
	<i>Note</i>	<i>USD</i>
Net gains on financial assets designated at fair value through profit or loss	11	89,282
Operating income	4	<u>15,333,567</u>
Total income		15,422,849
Operating expenses	5	<u>(5,648,949)</u>
Net operating income before taxation		9,773,900
Taxation on ordinary activities		<u>–</u>
Net gain for the period attributable to shareholders		<u>9,773,900</u>
		<i>Cents</i>
Earnings per share for the period – Basic and Diluted	7	3.60

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.

**PHAUNOS TIMBER FUND LIMITED**  
**BALANCE SHEET**  
**as at 31 December 2007**

		<i>31 December</i>
		<i>2007</i>
	<i>Note</i>	<i>USD</i>
<b>NON-CURRENT ASSETS</b>		
Investments in subsidiaries	10	29,251,429
Unquoted financial assets designated as fair value through profit or loss	11	25,769,238
		<u>55,020,667</u>
<b>CURRENT ASSETS</b>		
Debtors	13	1,720,066
Cash and cash equivalents	12	422,103,181
		<u>423,823,247</u>
<b>TOTAL ASSETS</b>		<u>478,843,914</u>
<b>CURRENT LIABILITIES</b>		
Creditors – due within one year	14	90,437
<b>TOTAL LIABILITIES</b>		<u>90,437</u>
<b>EQUITY</b>		
Share capital	15	–
Share premium	16	358,560,982
Retained earnings	17	9,773,900
Distributable reserves	18	110,418,595
<b>TOTAL EQUITY</b>		<u>478,753,477</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>478,843,914</u>
<b>SHARES IN ISSUE</b>		470,919,230
		<i>USD</i>
<b>NAV PER SHARE</b>		1.02

The notes on pages 72 to 87 form an integral part of the audited financial statements

**PHAUNOS TIMBER FUND LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**for the period ended 31 December 2007**

	<i>31 December</i>
	<i>2007</i>
	<i>USD</i>
	<i>Note</i>
<b>Operating activities</b>	
Net gain for the period attributable to shareholders	9,620,055
Less: Net gains on financial assets designated at fair value through profit or loss	(89,282)
Less: Interest income	(15,216,801)
Less: Investment income	(134,461)
Add: Increase in creditors	188,092
Less: (Increase) in debtors excluding accrued income	(995,627)
<b>Net cash outflow from operating activities before income</b>	<u>(6,628,024)</u>
Interest received	13,609,759
Investment income received	134,461
<b>Net cash inflow from operating activities</b>	<u>7,116,196</u>
<b>Investing activities</b>	
Purchase of financial assets	(50,108,528)
Purchase of intangible assets	(2,087)
Purchase of property, plant and equipment	(121,263)
<b>Net cash outflow from investing activities</b>	<u>(50,231,878)</u>
<b>Financing activities</b>	
Proceeds of issue of shares	485,150,000
Costs of issue of shares	(16,170,423)
<b>Net cash inflow from financing activities</b>	<u>468,979,577</u>
<b>Cash and cash equivalents at beginning of period</b>	–
Increase in cash and cash equivalents	425,863,895
<b>Cash and cash equivalents at end of period</b>	12 <u>425,863,895</u>

The notes on pages 72 to 87 form an integral part of the audited financial statements

**PHAUNOS TIMBER FUND LIMITED**  
**STATEMENT OF CASH FLOWS**  
**for the period ended 31 December 2007**

	<i>31 December</i>
	<i>2007</i>
	<i>USD</i>
	<i>Note</i>
<b>Operating activities</b>	
Net gain for the period attributable to shareholders	9,773,900
Less: Net gains on financial assets designated at fair value through profit or loss	(89,282)
Less: Interest income	(15,199,106)
Less: Investment income	(134,461)
Add: Increase in creditors	90,437
Less: (Increase) in debtors excluding accrued income	(113,024)
<b>Net cash absorbed in operations</b>	<u>(5,671,536)</u>
Interest received	13,592,064
Investment income received	134,461
<b>Net cash outflow from operating activities</b>	<u>8,054,989</u>
<b>Investing activities</b>	
Purchase of financial assets	(25,679,956)
Investments in subsidiaries	(29,251,429)
<b>Net cash outflow from investing activities</b>	<u>(54,931,385)</u>
<b>Financing activities</b>	
Proceeds of issue of shares	485,150,000
Costs of issue of shares	(16,170,423)
<b>Net cash inflow from financing activities</b>	<u>468,979,577</u>
<b>Cash and cash equivalents at beginning of period</b>	–
Increase in cash and cash equivalents	422,103,181
<b>Cash and cash equivalents at end of period</b>	12 <u>422,103,181</u>

The notes on pages 72 to 87 form an integral part of the audited financial statements

**PHAUNOS TIMBER FUND LIMITED**  
**STATEMENTS OF CHANGES IN EQUITY**  
**for the period ended 31 December 2007**

**GROUP**

	<i>31 December 2007</i> <i>USD</i>
Opening balance	–
Issue of shares	485,150,000
Share issue costs	(16,170,423)
Net gain for the period attributable to shareholders	9,620,055
Closing balance as at 31 December 2007	<u>478,599,632</u>

**COMPANY**

	<i>31 December 2007</i> <i>USD</i>
Opening balance	–
Issue of shares	485,150,000
Share issue costs	(16,170,423)
Net gain for the period attributable to shareholders	9,773,900
Closing balance as at 31 December 2007	<u>478,753,477</u>

The notes on pages 72 to 87 form an integral part of the audited financial statements

**PHAUNOS TIMBER FUND LIMITED**  
**Notes to the Financial Statements**  
**as at 31 December 2007**

**1. ACCOUNTING POLICIES**

(a) ***Basis of Preparation***

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable Guernsey law. The consolidated 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 following Standards or Interpretations have been issued but not yet adopted by the Group:

IFRS 2 (revised 2008) *Share-based Payment* effective for annual periods beginning on or after 1 January 2009

IFRS 3 (revised 2008) *Business Combinations* effective for annual periods beginning on or after 1 July 2009

IFRS 8 *Operating Segments* effective for annual periods beginning on or after 1 January 2009

IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* effective for annual periods beginning on or after 1 March 2007

IFRIC 12 *Service Concession Arrangements* effective for annual periods beginning on or after 1 January 2008

IFRIC 13 *Customer Loyalty Programmes* effective for annual periods beginning on or after 1 July 2008

IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* effective for annual periods beginning on or after 1 January 2008

IAS 1 (revised 2007) *Presentation of financial statements* effective for annual periods beginning on or after 1 January 2009

IAS 23 (revised 2008) *Borrowing Costs* effective for annual periods beginning on or after 1 January 2009

IAS 27 (revised 2008) *Consolidated and Separate Financial Statements* effective for annual periods beginning on or after 1 July 2009

Amendments to IAS 32 and IAS 1 *Puttable Financial Instruments* effective for annual periods beginning on or after 1 January 2009

These Standards and Interpretations are expected to require additional disclosure in future financial statements.

(b) ***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (the Group) made up to 31 December 2007. 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.

**PHAUNOS TIMBER FUND LIMITED**  
**Notes to the Financial Statements (Continued)**  
**as at 31 December 2007**

**1. ACCOUNTING POLICIES (continued)**

(b) ***Basis of consolidation (continued)***

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 recognition 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.

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 funds.

(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.

**PHAUNOS TIMBER FUND LIMITED**  
**Notes to the Financial Statements (Continued)**  
**as at 31 December 2007**

**1. ACCOUNTING POLICIES (continued)**

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

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

(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.

Costs associated with maintaining computer software, that is 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 over the following periods:

Machines and Vehicles	5 years
Computers	3 years

**PHAUNOS TIMBER FUND LIMITED**  
**Notes to the Financial Statements (Continued)**  
**as at 31 December 2007**

**1. ACCOUNTING POLICIES (continued)**

(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.

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 formal 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.

**PHAUNOS TIMBER FUND LIMITED**  
**Notes to the Financial Statements (Continued)**  
**as at 31 December 2007**

**1. ACCOUNTING POLICIES (continued)**

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 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.

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 per cent. 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 Timber 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 and Asia. The following is an analysis of various items analysed by geographical area in which the assets are located:

	<i>USA</i> <i>USD</i>	<i>South</i> <i>America</i> <i>USD</i>	<i>Asia</i> <i>USD</i>	<i>Unallocated</i> <i>USD</i>	<i>Total</i> <i>USD</i>
Net gains on financial assets designated at fair value through profit or loss	(3,388)	–	92,670	–	89,282
Operating income	–	–	–	15,351,262	15,351,262
Net gain for the period attributable to shareholders	–	–	–	9,620,055	9,620,055
Total equity	–	–	–	478,599,632	478,599,632
Total assets	28,279,810	19,123,350	2,918,000	428,466,564	478,787,724
Plant, equipment and intangible assets expenditure	–	123,350	–	–	123,350

**PHAUNOS TIMBER FUND LIMITED**  
**Notes to the Financial Statements (Continued)**  
**as at 31 December 2007**

**4. OPERATING INCOME**

	<i>Company</i>	<i>Group</i>
	<i>31 December</i>	<i>31 December</i>
	<i>2007</i>	<i>2007</i>
	<i>USD</i>	<i>USD</i>
Investment income	134,461	134,461
Bank interest	15,199,106	15,216,801
	<u>15,333,567</u>	<u>15,351,262</u>

**5. OPERATING EXPENSES**

	<i>Company</i>	<i>Group</i>
	<i>31 December</i>	<i>31 December</i>
	<i>2007</i>	<i>2007</i>
	<i>USD</i>	<i>USD</i>
Investment managers' fees	4,835,483	4,835,483
Directors' remuneration	267,017	267,017
Directors' expenses	4,432	4,432
Directors & Officers insurance	40,487	40,487
Directors & Officers insurance (Phaunos US Inc)	58,648	58,648
Employee compensation and benefits	–	66,293
Employee training	–	6,000
Audit fees	81,786	81,786
Regulatory fees	15,952	15,952
Administration fees	95,658	95,658
Registration fees	24,181	24,181
Nominated Advisor Fees	99,881	99,881
Legal and professional fees	68,976	98,813
Foreign exchange revaluations	17,916	17,916
Rentals	–	6,621
Other taxes	–	56,800
Other operating expenses	38,532	44,521
	<u>5,648,949</u>	<u>5,820,489</u>

**6. DIRECTORS' REMUNERATION**

Each Director receives a fee of £20,000 per annum from the Company, except for the Chairman, who receives £40,000 per annum. Liane Luke and Kimberly Tara have waived their entitlement to receive a fee. On 31 December 2007, a further amount of \$75,000 was received by the Chairman in the form of share based remuneration.

	<i>Company</i>	<i>Group</i>
	<i>31 December</i>	<i>31 December</i>
	<i>2007</i>	<i>2007</i>
	<i>USD</i>	<i>USD</i>
Fees	192,017	192,017
Share-based awards	75,000	75,000
	<u>267,017</u>	<u>267,017</u>

**PHAUNOS TIMBER FUND LIMITED**  
**Notes to the Financial Statements (Continued)**  
**as at 31 December 2007**

**7. EARNINGS PER SHARE**

Earnings per share is based on the net gain for the period attributable to shareholders of Group \$9,620,055 and Company \$9,773,900 and on 271,719,465 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**

	<i>USD</i>
<b>Cost:</b>	
Cost at 28 September 2006	–
Additions	2,087
Cost at 31 December 2007	<u>2,087</u>
<b>Amortisation:</b>	
Amortisation at 28 September 2006	–
Charge for the period	–
Amortisation at 31 December 2007	<u>–</u>
<b>Net book value:</b>	
At 31 December 2007	<u>2,087</u>
At 28 September 2006	<u>–</u>

**9. PLANT AND EQUIPMENT**  
**GROUP**

	<i>USD</i>
<b>Cost:</b>	
Cost at 28 September 2006	–
Additions	121,263
Cost at 31 December 2007	<u>121,263</u>
<b>Depreciation:</b>	
Depreciation at 28 September 2006	–
Charge for the period	–
Depreciation at 31 December 2007	<u>–</u>
<b>Net book value:</b>	
At 31 December 2007	<u>121,263</u>
At 28 September 2006	<u>–</u>

**PHAUNOS TIMBER FUND LIMITED**  
**Notes to the Financial Statements (Continued)**  
**as at 31 December 2007**

**10. INVESTMENTS IN SUBSIDIARIES**

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

<i>Company</i>	<i>Place of Incorporation</i>	<i>Percentage of shares</i>	<i>31 December 2007 USD</i>
Phaunos US Incorporated	USA	100%	24,451,429
Caldrey	Uruguay	100%	4,800,000
			<u>29,251,429</u>

Phaunos Timber Fund Limited owns 100 per cent. 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 investment.

**11. INVESTMENTS  
GROUP**

<i>UNQUOTED FINANCIAL ASSETS DESIGNATED THROUGH PROFIT OR LOSS AT FAIR VALUE</i>	<i>31 December 2007 USD</i>
Opening portfolio cost	–
Additions at cost	50,108,528
Unrealised appreciation on valuation brought forward	–
Unrealised appreciation/(depreciation) on valuation for the period	(3,388)
Unrealised foreign exchange movement brought forward	–
Unrealised foreign exchange movement for the period	92,670
	<u>89,282</u>
Unrealised appreciation/(depreciation) and foreign exchange movement on valuation carried forward	89,282
Closing valuation	<u>50,197,810</u>

**COMPANY**

<i>UNQUOTED FINANCIAL ASSETS DESIGNATED THROUGH PROFIT OR LOSS AS FAIR VALUE</i>	<i>31 December 2007 USD</i>
Opening portfolio cost	–
Additions at cost	25,679,956
Unrealised appreciation on valuation brought forward	–
Unrealised appreciation/(depreciation) on valuation for the period	(3,388)
Unrealised foreign exchange movement brought forward	–
Unrealised foreign exchange movement for the period	92,670
	<u>89,282</u>
Unrealised appreciation/(depreciation) and foreign exchange movement on valuation carried forward	89,282
Closing valuation	<u>25,769,238</u>

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

**PHAUNOS TIMBER FUND LIMITED**  
**Notes to the Financial Statements (Continued)**  
**as at 31 December 2007**

**12. CASH AND CASH EQUIVALENTS**

	<i>Company</i> <i>31 December</i> <i>2007</i> <i>USD</i>	<i>Group</i> <i>31 December</i> <i>2007</i> <i>USD</i>
Cash at bank	203,332	3,964,046
Money market fund	421,899,849	421,899,849
	<u>422,103,181</u>	<u>425,863,895</u>

In the directors' opinion, the risk of changes in market value of the money market fund is insignificant.

**13. DEBTORS**

	<i>Company</i> <i>31 December</i> <i>2007</i> <i>USD</i>	<i>Group</i> <i>31 December</i> <i>2007</i> <i>USD</i>
Prepayments	36,557	884,545
Accrued income	1,607,042	1,607,042
Sundry debtors	76,467	111,082
	<u>1,720,066</u>	<u>2,602,669</u>

**14. CREDITORS**

(amounts falling due within one year)

	<i>Company</i> <i>31 December</i> <i>2007</i> <i>USD</i>	<i>Group</i> <i>31 December</i> <i>2007</i> <i>USD</i>
Accrued audit fees	61,046	61,046
Accrued administration fees	19,664	19,664
Accrued registration fees	1,985	1,985
Other accrued expenses	7,742	7,742
Sundry creditors	–	97,655
	<u>90,437</u>	<u>188,092</u>

**15. SHARE CAPITAL**

	<i>31 December 2007</i> <i>USD</i>
<i>Authorised, issued and fully paid</i>	
Unlimited Ordinary Shares of no par value	–

The issues of Ordinary Shares took place as follows:

<i>Date of issue</i>	<i>Number</i> <i>of shares</i>	<i>Price per</i> <i>share USD</i>	<i>Amount</i> <i>received USD</i>
20 December 2006	115,150,000	1.00	115,150,000
05 June 2007	355,769,230	1.04	370,000,000
	<u>470,919,230</u>		<u>485,150,000</u>

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.

**PHAUNOS TIMBER FUND LIMITED**  
**Notes to the Financial Statements (Continued)**  
**as at 31 December 2007**

**16. SHARE PREMIUM**

	<i>31 December 2007</i>
	<i>USD</i>
<i>COMPANY AND GROUP</i>	
Share premium as at 28 September 2006	–
Share premium on initial raising 20 December 2006	115,150,000
Share premium on second raising 5 June 2007	370,000,000
Less: Share issue costs	(16,170,423)
Transfer to distributable reserves	(110,418,595)
Share premium	<u>358,560,982</u>

**17. RETAINED EARNINGS**

	<i>Company</i>	<i>Group</i>
	<i>31 December</i>	<i>31 December</i>
	<i>2007</i>	<i>2007</i>
	<i>USD</i>	<i>USD</i>
Balance as at 28 September 2006	–	–
Net gain for the period attributable to shareholders	9,773,900	9,620,055
Balance as at 31 December 2007	<u>9,773,900</u>	<u>9,620,055</u>

**18. DISTRIBUTABLE RESERVES**

	<i>Company</i>	<i>Group</i>
	<i>31 December</i>	<i>31 December</i>
	<i>2007</i>	<i>2007</i>
	<i>USD</i>	<i>USD</i>
Balance as at 28 September 2006	–	–
Transferred from share premium	110,418,595	110,418,595
Balance as at 31 December 2007	<u>110,418,595</u>	<u>110,418,595</u>

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 form 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. FINANCIAL INSTRUMENTS**

The Company’s main financial instruments comprise:

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

**PHAUNOS TIMBER FUND LIMITED**  
**Notes to the Financial Statements (Continued)**  
**as at 31 December 2007**

**20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The main risks arising from the Company'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 Company 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 Company. Such a concentration of investments subjects the Company to increased exposure to significant declines in the value of one investment. The investment manager actively monitors the appropriateness of the investments held.

It is the intention of the Directors, subject to market conditions, for the Company to be substantially invested (i.e. 80 to 85 per cent.) or committed in accordance with its investment policy at all times, although the Investment Manager may exercise its discretion to hold cash or cash equivalent instruments. Pending such investment the Company'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 Company's cash assets.

Details of the Company's Investment Objective and Policy are given on page 1 of the Statutory Accounts.

*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, and 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 killed merchantable timber is salvable 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 a derived demand, based 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.

**PHAUNOS TIMBER FUND LIMITED**  
**Notes to the Financial Statements (Continued)**  
**as at 31 December 2007**

**20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

(a) *Market Price Risk (continued)*

*Political 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 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.

*Risk concentrations*

Management measures the geographical and species concentrations of the investment portfolio. The risk exposures are:

	<i>Group % of total investments</i>	<i>Company % of total investments</i>
<i>Geographical analysis</i>		
USA	56.3	88.7
South America	37.9	0.0
Asia	5.8	11.3
<i>Species analysis</i>		
Financial assets (loans)	5.8	11.3
Teak	7.7	14.9
Poplar	48.7	0.0
Pine	37.9	73.7

*Price sensitivity*

The following details the Company's sensitivity to a 5 per cent. increase and decrease in the market prices, with 5 per cent. 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 2007, if market prices had been 5 per cent. higher with all the other variables held constant, the net gain attributable to shareholders for the period would have been \$2,363,991 – Group (\$1,142,562 – Company) greater, due to the increase in the fair value of financial assets at fair value through profit or loss. This would represent an increase in Total Assets of 0.49 per cent. – Group (0.24 per cent. – Company).

If market prices had been 5 per cent. lower with all the other variables held constant, net gain attributable to shareholders for the period would have been \$2,363,991 – Group (\$1,142,562 – Company) lower, due to the decrease in the fair value of financial assets at fair value through profit or loss. This would represent a decrease in Total Assets of 0.49 per cent. – Group (0.24 per cent. – Company).

**PHAUNOS TIMBER FUND LIMITED**  
**Notes to the Financial Statements (Continued)**  
**as at 31 December 2007**

**20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

(b) *Liquidity Risk*

Liquidity risk is the risk that the Company will encounter difficulty in realising assets or otherwise raising funds to meet financial commitments.

Since not all of the Company's investments will be income generating the Company 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 Company's financial assets and liabilities as at the period end:

	<i>Due on demand USD</i>	<i>Due between 3 and 12 Months USD</i>	<i>Due &gt;5 years USD</i>	<i>Total USD</i>
<b>GROUP</b>				
<b>Assets</b>				
Investments designated at fair value	–	–	50,197,810	50,197,810
Other non-current assets	–	–	123,350	123,350
Trade and other receivables	–	2,602,669	–	2,602,669
Cash and cash equivalents	425,863,895	–	–	425,863,895
<b>Total assets</b>	<u>425,863,895</u>	<u>2,602,669</u>	<u>50,321,160</u>	<u>478,787,724</u>
<b>Liabilities</b>				
Trade and other payables	–	188,092	–	188,092
<b>Total liabilities</b>	<u>–</u>	<u>188,092</u>	<u>–</u>	<u>188,092</u>
	<i>Due on demand USD</i>	<i>Due between 3 and 12 Months USD</i>	<i>Due &gt;5 years USD</i>	<i>Total USD</i>
<b>COMPANY</b>				
<b>Assets</b>				
Investments designated at fair value	–	–	25,769,238	25,769,238
Investments in subsidiaries	–	–	29,251,429	29,251,429
Trade and other receivables	–	1,720,066	–	1,720,066
Cash and cash equivalents	422,103,181	–	–	422,103,181
<b>Total assets</b>	<u>422,103,181</u>	<u>1,720,066</u>	<u>55,020,667</u>	<u>478,843,914</u>
<b>Liabilities</b>				
Trade and other payables	–	90,437	–	90,437
<b>Total liabilities</b>	<u>–</u>	<u>90,437</u>	<u>–</u>	<u>90,437</u>

**PHAUNOS TIMBER FUND LIMITED**  
**Notes to the Financial Statements (Continued)**  
**as at 31 December 2007**

**20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

(c) ***Interest Rate Risk***

The Company holds cash in a money market fund, the return on which is subject to fluctuations in market interest rates.

The weighted average effective interest rate for cash and bank balances as at 31 December 2007 was 5.22 per cent.

With the exception of the Masarang EMTN which earns interest at a fixed rate of 12 per cent. per annum, none of the other assets or liabilities of the Company attract or incur interest.

*Interest rate sensitivity*

If interest rates had been 25 basis points higher and all other variables were held constant, the Group's net gain attributable to shareholders for the period ended 31 December 2007 would have increased by approximately \$1,064,700 or 0.22 per cent. of Total Assets due to an increase in the amount of interest receivable on the bank balances.

If interest rates had been 25 basis points lower and all other variables were held constant, the Group's net gain attributable to shareholders for the period ended 31 December 2007 would have decreased by approximately \$1,064,700 or 0.22 per cent. of Total Assets due to a decrease in the amount of interest receivable on the bank balances.

If interest rates had been 25 basis points higher and all other variables were held constant, the Company's net gain attributable to shareholders for the period ended 31 December 2007 would have increased by approximately \$1,055,300 or 0.22 per cent. of Total Assets due to an increase in the amount of interest receivable on the bank balances.

If interest rates had been 25 basis points lower and all other variables were held constant, the Company's net gain attributable to shareholders for the period ended 31 December 2007 would have decreased by approximately \$1,055,300 or 0.22 per cent. of Total Assets due to a decrease in the amount of interest receivable on the bank balances.

(d) ***Credit Risk***

There is a credit risk relating to the Company's investments in joint ventures and other non-wholly owned operations, where the Company has limited control over its investment. There is a further credit risk (although extremely remote) relating to the significant amount invested in the Royal Bank of Scotland Global Treasury Fund ("the GTF"), and the risk of the GTF not honouring the full amount. The Board attempt to minimise such risks by ensuring that due diligence is undertaken prior to any investment and by obtaining regular performance information regarding these investments. It also monitors credit ratings to ensure that cash at bank balances are maintained with an institution holding at least an Aa1 credit rating.

The Company has entered into a 5 year Zero Coupon note with a maturity rate of 15 per cent. compounded annually.

Under the terms of the Termsheet dated 4 September 2007 entered into between the Company and Masarang Foundation, the Foundation has pledged 300 hectares of Cempaka and Wasian plantation on the Masarang Foundation property in the North Sulawesi Province of Indonesia as security against the European Medium Term Note ("EMTN"). However, no independent valuation is available for this security.

The Gross Credit exposure to the Company was \$2,918,000 as at the period end.

**PHAUNOS TIMBER FUND LIMITED**  
**Notes to the Financial Statements (Continued)**  
**as at 31 December 2007**

**20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

(e) *Foreign Exchange Risk*

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed by minimising the amount of foreign currency held at any one time.

The carrying amounts of the Group's foreign currency denominated monetary assets at the reporting date are as follows:

	<i>Group</i>	<i>Company</i>
	<i>Assets</i>	<i>Assets</i>
	<i>USD</i>	<i>USD</i>
GBP	7,686	7,687
Euro	<u>2,825,330</u>	<u>2,825,330</u>

*Foreign exchange sensitivity*

The Group's exposure to the Euro is mainly through holding an EMTN.

If USD rates against the Euro had been 5 per cent. higher and all other variables were held constant, the Group's net gain attributable to shareholders for the period ended 31 December 2007 would have increased by approximately \$145,900 due to an increase in the value of the Masarang bond.

If USD rates against the Euro had been 5 per cent. lower and all other variables were held constant, the Group's net gain attributable to shareholders for the period ended 31 December 2007 would have reduced by approximately \$145,900 due to a decrease in the value of the Masarang bond.

(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.

As the Company's Ordinary Shares are traded on AIM, the Ordinary Shares may trade at a discount to their Net Asset Value per Share on occasion. However, in structuring the Company, the Directors have given detailed consideration to the discount risk and how this may be managed.

Upon Admission, the Directors were granted authority to buy back up to 14.99 per cent. of the Ordinary Shares in issue following Admission. The Company's authority to make purchases of its own issued Ordinary Shares will expire at the conclusion of the first annual general meeting of the Company. A renewal of such authority to make purchases of Ordinary Shares will be sought from Shareholders at each annual general meeting of the Company. 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 Net Asset Value per Share where the Directors believe such purchases will result in an increase in the Net Asset Value per Share of the remaining Ordinary Shares and to assist in narrowing any discount to Net Asset Value per Share at which the Ordinary Shares may trade. Any Ordinary Shares bought back by the Company will either be held by the Company in treasury (and which may be reissued) or forthwith be cancelled.

Following approval of the Court in Guernsey, the Company resolved to cancel the amount standing to the credit of its share premium account following Admission. 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 the purpose of funding purchases of its Ordinary Shares as described above and the payment of dividends.

**PHAUNOS TIMBER FUND LIMITED**  
**Notes to the Financial Statements (Continued)**  
**as at 31 December 2007**

**20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

(f) *Capital Management (continued)*

The Company's authorised share capital is such that either further issues of new Ordinary Shares or reissues of Ordinary Shares held in treasury could be made. Subject to prevailing market conditions, the Board may decide to make one or more further such issues or reissues of Ordinary Shares for cash from time to time. Any further issues of new Ordinary Shares or reissues of Ordinary Shares held in treasury will rank *pari passu* with Ordinary Shares in issue. There are no provisions of the Companies Laws or the Articles of Association of the Company providing pre-emption rights for existing Shareholders on the allotment of equity securities for cash or on the reissue of equity securities out of treasury. As at the period end, the Company was proposing to increase Share Capital by issuing up to US\$1.6 billion C Shares.

Unless authorised by Shareholders, the Company will not issue further Ordinary Shares or reissue Ordinary Shares out of treasury for cash at a price below the prevailing Net Asset Value per Share unless they are first offered *pro rata* to existing Shareholders.

The Group and Company monitors capital on the basis of the carrying amount of equity as presented on the face of the balance sheet. Capital for the reporting periods under review is summarised as follows:

	<i>Group</i> <i>USD</i>	<i>Company</i> <i>USD</i>
Share premium	358,560,982	358,560,982
Retained earnings	9,620,055	9,773,900
Distributable reserves	110,418,595	110,418,595
Total	<u>478,599,632</u>	<u>478,753,477</u>

**21. CAPITAL COMMITMENTS**

At the year end, the Company has made further commitments totalling US\$350 million into two new ventures. These investments will be made in Eastern Europe and China.

The Company has also made further commitments to provide funding of around US\$8.5 million into investments existing at 31 December 2007.

All of the above commitments are committed to be paid within one year.

**22. 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. \$119,839 of costs were incurred by the Company with these related parties in the period, of which \$21,649 was due to these related parties as at 31 December 2007.

FourWinds Capital Management is the Company's Investment Manager. Liane Luke and Kimberly Tara are both senior employees of FourWinds Capital Management. \$4,835,483 of costs were incurred by the Company with this related party in the period, of which \$nil was due to this related party as at 31 December 2007.

Directors' remuneration is disclosed in Note 5.

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

## PART VII

### ADDITIONAL INFORMATION

#### 1. INCORPORATION AND ADMINISTRATION

- 1.1 The Company was incorporated with limited liability on 28 September 2006, with registration number 45564, in Guernsey under the Companies Laws as a closed ended investment company with an unlimited life. The Company is domiciled in Guernsey and its registered office is Anson Place, Mill Court, La Charroterie, St. Peter Port, Guernsey, GY1 1EJ, phone no. +44 01481722260. The Company operates under the Companies Laws and ordinances and regulations made thereunder and has no employees. The liability of shareholders is limited. The Company is not a regulated entity.
- 1.2 The Company's accounting period ends on 31 December of each year. The first accounting period ended on 31 December 2007.
- 1.3 As at the Latest Practicable Date, the Company has entered into certain material contracts, details of which are summarised in paragraph 7 of this Part VII. Since its incorporation the Company has not incurred any borrowings or indebtedness and has not granted any mortgages or charges over any property and has not provided any guarantees.
- 1.4 Changes to the authorised and issued share capital of the Company since incorporation are summarised in paragraph 2.2 below.
- 1.5 Ernst & Young LLP has been the only auditor of the Company since its incorporation. The annual report and accounts of the Company are prepared according to accounting standards laid out under International Financial Reporting Standards.

#### 2. SHARE CAPITAL

- 2.1 As at the Latest Practicable Date, the Company's total issued share capital consists of 470,919,230 Ordinary Shares of no par value.
- 2.2 On incorporation, two founder Ordinary Shares were issued by the Company. On 20 December 2006, the Company raised approximately \$115 million through the placing of 115,150,000 Ordinary Shares at a price of \$1.00 each. In connection with this placing 115,149,098 new Ordinary Shares were issued on 20 December 2006 and the two founder Ordinary Shares were transferred to one of the placees as part satisfaction of that placee's application for Ordinary Shares. On 5 June 2007, a further 355,769,230 shares were issued for cash as Ordinary Shares fully paid at a price of \$1.04 per share.
- 2.3 On 10 January 2008, the Company obtained the approval of Shareholders at an extraordinary general meeting to increase the Company's share capital and create a class of unlisted C Shares, with a view to meeting investor demand by making initially, one or more institutional placings.
- 2.4 It is expected that the proposed Companies (Guernsey) Law 2008 (the "2008 Law") will come into force in or around July 2008. The 2008 Law provides that the directors of a company must not exercise any power of the company to issue shares in the company unless authorised to do so by the company's memorandum and articles or by resolution of the company. While the issue of the first tranche of C Shares under the C Share Placing is expected to occur prior to date on which it is expected that these provisions of the proposed 2008 Law will come into effect, later C Share tranches may be issued when the proposed legislation will be in force. Accordingly, Shareholders' approval by means of an ordinary resolution authorising the Directors to issue up to 1.6 billion C Shares (the figure by which the Company increased its authorised share capital at the EGM held on 10 January 2008) was obtained at the EGM on 21 April 2008.

### 3. DIRECTORS' AND OTHER INTERESTS

- 3.1 Insofar as is known to the Company, the interests of each Director, including any connected person, the existence of which is known to, or could with reasonable diligence be ascertained by, that Director whether or not held through another party, in the share capital of the Company immediately following Admission will be as set out below:

<i>Director</i>	<i>Ordinary Shares</i>	<i>Percentage (%)</i>
Keith Oates <sup>1</sup>	200,000	0.04
John Le Prevost	–	–
Liane Luke	–	–
Peter Niven	30,000	0.006
Kimberly Tara <sup>2</sup>	50,000	0.01

1 Of the 200,000 Ordinary Shares, Keith Oates holds 125,000 Ordinary Shares and is interested in and has certain rights to acquire up to a further 75,000 Ordinary Shares as set out in paragraph 3.2 below.

2 The 50,000 Ordinary Shares in which Kimberly Tara is interested are owned by the Investment Manager of which Kimberly Tara is a shareholder.

- 3.2 Save for Kimberly Tara and Liane Luke (who do not receive a fee) and the Chairman, each of the Directors receive a fee payable by the Company at the rate of £20,000 per annum. The Chairman receives a fee payable by the Company at the rate of £40,000 per annum. In addition, 150,000 Ordinary Shares were acquired for an aggregate consideration of \$1.00 and held on trust on behalf of the Chairman by Anson Custody Limited pursuant to the terms of the declaration of trust, executed by Anson Custody Limited and the Chairman. On 31 December 2007, 75,000 of those 150,000 Ordinary Shares were transferred to the Chairman and are included in the 200,000 in which the Chairman is shown as being interested in paragraph 3.1 above. Provided that the Chairman remains a director on 31 December 2008, the remaining 75,000 Ordinary Shares will be transferred to the Chairman by Anson Custody Limited and registered in his name on such date. In the event that the Chairman is removed by Shareholders on or before 31 December 2008, any remaining Ordinary Shares held on trust by Anson Custody Limited will be transferred to Mr. Oates, as soon as practicable by way of compensation. No commissions or performance related payments will be made to the Directors by the Company. The aggregate remuneration and benefits in kind of the Directors in respect of the Company's accounting period ending on 31 December 2008 which will be payable out of the assets of the Company is not expected to exceed £200,000.
- 3.3 No Director has a service contract with the Company, nor are any such contracts proposed. The Directors were appointed as non-executive directors by letters of appointment dated 18 October 2006 that state that their appointment and any subsequent termination or retirement shall be subject to the Articles. Each of Mr. Oates, Mr. Niven and Mr. Le Prevost have been appointed for an initial three year term (unless removed by Shareholder approval). In accordance with the Listing Rules, Ms. Tara and Ms. Luke, being non-independent Directors, will be required to retire and offer themselves for re-election annually. The Directors' appointment letters provide that, upon the termination of appointment of a Director, that Director must resign in writing and all records remain the property of the Company. The appointments can be terminated in accordance with the Articles and, save as described at paragraph 3.2 above, without compensation. There is no notice period specified in the Articles for the removal of Directors. The Articles provide that the office of Director shall be terminated, amongst other things if: he/she shall have absented himself/herself from meetings of the Board for a consecutive period of six months and the Board resolves that his/her office shall be vacated; he/she becomes of unsound mind or incapable; he/she becomes insolvent; he/she becomes resident for tax purposes in the United Kingdom and, as a result thereof, a majority of the Directors ceases to be resident for tax purposes other than in the United Kingdom.
- 3.4 No loan has been granted to, nor any guarantee provided for the benefit of, any Director by the Company.

- 3.5 Mr. Le Prevost is also a director of Anson Fund Managers Limited (the Administrator and Company Secretary), Anson Registrars Limited (the Registrar, Transfer Agent and Paying Agent) and Anson Administration (UK) Limited (the UK Transfer Agent). Ms. Tara and Ms. Luke each work full time with the Investment Manager and Ms. Tara is a shareholder of the Investment Manager.
- 3.6 Save for the interest of Ms. Tara in the Investment Manager, and therefore in the Amended Investment Management Agreement, and the interests of Mr. Le Prevost in agreements with the Administrator, the Company Secretary, the Registrar, Transfer Agent, Paying Agent and the UK Transfer Agent, none of the Directors has, or has had an interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Company or which has been effected by the Company since incorporation.
- 3.7 Save as disclosed in this paragraph 3, none of the Directors, has, or has had, any conflict of interest between any duties to the Company and their private interests or any other duties that they owe.
- 3.8 As at the date of this Prospectus, none of the Directors:
- 3.8.1 has any convictions in relation to fraudulent offences for at least the previous five years;
- 3.8.2 has been bankrupt or been a director of any company or been a member of the administrative, management or supervisory body of an issuer or a senior manager of an issuer at the time of any receivership or compulsory or creditors' voluntary liquidation for at least the previous five years; or
- 3.8.3 has been subject to any official public incrimination or sanction of him/her by any statutory or regulatory authority (including designated professional bodies) nor has he/she been disqualified by a court from acting as a director of a company or from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer, for at least the previous five years.
- 3.9 The Company will maintain directors' and officers' liability insurance on behalf of the Directors at the expense of the Company.
- 3.10 In addition to their directorships of the Company, the Directors are or have been in the last five years members of the administrative, management or supervisory bodies or partners of the following companies or partnerships:

<i>Name</i>	<i>Current Directorships and Partnerships</i>	<i>Past Directorships and Partnerships</i>
K. Oates	Angels Ltd @ngels Ltd Byzantium Ltd English National Committee Forestry Commission	Angelic Choirs Ltd Angelic Communications Ltd Angelic Hosts Ltd Angelic Looks Ltd Angels Finance Ltd Angels For Art Ltd Angels Internet Ltd Angels Wings Ltd B.T. PLC Byzantium International Ltd (BVI) Consulting Angels Ltd Diageo PLC Earthly Angels Ltd English Sports Council Eyes of Angels Ltd Fallen Angels Ltd Financial Services Authority Gardening Angels Ltd Group of Angels (Jersey)

<i>Name</i>	<i>Current Directorships and Partnerships</i>	<i>Past Directorships and Partnerships</i>
		Guarding Angels Ltd Heavenly Bodies Ltd Hosts of Angels Ltd In My Fathers House Ltd Manna from Heaven Ltd Marks & Spencer Plc Marks & Spencer Financial Services Limited MCI Ministering Angels Ltd Produced by Angels Ltd Recording Angels Ltd Recruiting Angels Ltd The Herald Angels Ltd
J. R. Le Prevost	Agricultural Commodities Trust Limited Anson Administration (UK) Limited Anson Custody Limited Anson Fund Managers Limited Anson Group Limited Anson Registrars Limited Close AllBlue Fund Limited Close Enhanced Commodities Fund Limited Close Enhanced Commodities Fund II Limited Close European Accelerated Fund Limited Close Fund Management Portfolios II PCC Limited Close Man Hedge Fund Limited Close Man Guaranteed Hedge Fund II Limited Equity Partnerships Fund Management (Guernsey) Limited European Equity Tranche Income Limited Garth Heads Limited German Aktiv Co-op Limited German Aktiv General Partner Limited Granite CHF Properties Limited Granite CHF Investments Limited Granite Fund Management Limited Guaranteed Investment Products 1 PCC Limited Guernsey Sailing Trust Guernsey Sailing Trust LBG Harewood Structured Investment PCC Limited India Strategic Assets Fund Limited	CIT Japan Recovery Limited De-Di Investments Limited DBS Substanzwerte Europa Limited Heatherhill Property Limited Hunet New Frontier Limited Miracle Fund Limited Orange PCC Limited Shelco Three Limited Southgate Limited TAPP Hal One Limited TAPP Hemel Hempstead Limited TAPP Manchester Limited TAPP Northampton Limited TAPP Property Limited Teesland Advantage Property Income Trust Limited The Accelerated Return Fund Limited TIPP Holdings Limited TIPP Property Limited TIPP Property Subsidiary Limited TOPP Bletchely Limited Xavex Income 1 Limited Xavex SectorLeader Limited Xavex US SectorLeader Limited Xavex US ValueGrowth Select Limited

<i>Name</i>	<i>Current Directorships and Partnerships</i>	<i>Past Directorships and Partnerships</i>
	Japanese Accelerated Performance Fund Limited	
	Louvre Fiduciary Group Limited	
	Markland Thorpe Park Investments Limited	
	Markland Thorpe Park Limited	
	Melbourne Street Limited	
	MSL Holdings Limited	
	MW Tops Limited	
	Nordic Aktiv Co-op Limited	
	Nordic Aktiv Co-op 2 Limited	
	Nordic Aktiv General Partner Limited	
	Nordic Aktiv General Partner 2 Limited	
	Ocean Capital3 (Opportunities Fund) Limited	
	Platinum Guernsey Limited	
	Property Acquisition & Management Ltd	
	Property Joint Ventures Limited	
	S-Infra Limited	
	SPG Insurance Company Limited	
	TAPP Hal Three Limited	
	TAPP Hal Four Limited	
	TAPP Hal Five Limited	
	TAPP Hal Six Limited	
	TAPP Hal Seven Limited	
	Teesland Thorpe Park (Guernsey) Limited	
	Thai Prime Fund Limited	
	University Properties Limited	
L. Luke	Greenway Investments LLC	Resource Management Service LLC
	Eastern New England Council of the International Youth Hostels	RMS Forest Growth LLC
	National Graduate School	
P. Niven	ABTA Insurance Company (Guernsey) Limited	
	ABTA Insurance PCC Limited	
	Close European Accelerated Fund Limited	
	Dexion Trading Limited	
	F&C Commercial Property Trust Limited	
	F&C Commercial Property Holdings Ltd	
	F&C Commercial Property Finance Limited	
	Investec Capital Accumulator Trust Limited	
	PSource Structured Debt Limited	

<i>Name</i>	<i>Current Directorships and Partnerships</i>	<i>Past Directorships and Partnerships</i>
K. Tara	FourWinds Capital Management Ceres Agricultural Fund Limited Eco-Integration Indonesia Limited Zephyr Commodity Fund	Sention Inc. Triton Water Fund

#### 4. MAJOR AND SIGNIFICANT INTERESTS

The Company has not been made aware, by way of Shareholder notification, of any persons who are interested, directly or indirectly, in 5 per cent. or more of the share capital of the Company.

#### 5. MEMORANDUM AND ARTICLES OF ASSOCIATION

5.1 The Memorandum provides that the objects of the Company include carrying on business as an investment company. The objects of the Company are set out in full in clause 3 of the Memorandum of Association, a copy of which is available for inspection at the addresses specified in paragraph 14 of this Part VII.

5.2 The Articles of Association contain provisions, *inter alia*, to the following effect:

##### 5.2.1 Shares

- (A) The authorised share capital of the Company is represented by an unlimited number of Ordinary Shares of no par value and 1,600,000,000 C Shares of no par value having the rights hereinafter described.
- (B) The holders of the Ordinary Shares and the C Shares shall have the following rights:

##### **Dividends and *pari passu* ranking of C Shares and Ordinary Shares**

Pending conversion in accordance with the terms of the C Shares as set out in the Articles, the C Shareholders shall be entitled to receive any dividends and other distributions declared in respect of the assets attributable to the C Shares only. The Ordinary Shareholders shall be entitled to receive any dividends and other distributions declared in respect of the assets attributable to the Ordinary Shares only.

The Ordinary Shares arising on conversion of the C Shares shall rank in full for all dividends and other distributions declared, made or paid after the Conversion Date, and otherwise *pari passu* with the Ordinary Shares in issue at the Conversion Date, save to the extent of any dividend limitation which may be specified by the Directors in accordance with the Articles.

##### **Co-investment rights**

C Shares will rank *pari passu* with the Ordinary Shares for the purpose of participating in commitments to new investments by the Company. The amount to be invested from each of the C Share and Ordinary Share classes in a new investment will be calculated *pro rata* by reference to the aggregate net assets relating to each of the relevant classes, as reflected in the most recently available interim accounts or audited annual accounts, prior to the date on which the Company is required to commit funds to each such new investment.

##### **Rights as to capital**

On a winding up, the net assets of the Company attributable to the C Shares (less such proportion of the Company's liabilities as shall reasonably be allocated by the Directors to the assets of the Company attributable to the C Shares) shall be divided amongst the C Shareholders *pro rata* according to their holdings of C Shares and the remaining net

assets of the Company shall be divided amongst the Ordinary Shareholders *pro rata* according to their holdings of Ordinary Shares.

### **Voting**

Both Ordinary Shareholders and C Shareholders shall have the right to receive notice of and to attend and vote at general meetings of the Company. In relation to voting at general meetings, each Ordinary Shareholder and C Shareholder being present in person or by proxy or by a duly authorised representative (if a corporation) shall, on a show of hands, have one vote. Upon a poll, each Ordinary Shareholder present in person or by proxy or by a duly authorised representative (if a corporation) shall have one vote in respect of each Ordinary Share held by him and each C Shareholder present in person or by proxy or by duly authorised representative (if a corporation) shall have such number of votes as is the same percentage or multiple of the votes attributable to all the Ordinary Shares then in issue as the net assets attributable to such C Share class bears to the net assets attributable to such Ordinary Shares, as determined by the Directors in their absolute discretion and stated in the circular accompanying the notice given to Shareholders of the relevant meeting.

Holders of C Shares that are unlisted will not have the right to vote on Shareholder votes staged to meet certain specific obligations under the Listing Rules (including, but not limited to, approving a class one transaction, giving prior approval to any material change to the Company's published investment policy and authorising the dis-application of statutory pre-emption rights).

### **Class consents and variation rights**

Until Conversion, the consent of the holders of the relevant class of C Shares as a class shall be required for and, accordingly, the special rights attached to any class of C Shares shall be deemed to be varied by: (a) any alteration to the Memorandum or Articles; (b) any change by way of alteration, consolidation, purchase or otherwise by the Company of any shares in the Company; (c) the passing of a resolution to wind up the Company; (d) the change of accounting date; or (e) the occurrence of a Specified Class Consent Event.

### **Conversion**

Following the issue of C Shares, as at the Calculation Date the net assets attributable to the C Shares and, hence, the Conversion Ratio, will be calculated. C Shareholders will receive such number of Ordinary Shares as results from applying the relevant Conversion Ratio to their holdings of C Shares at the Conversion Date. The Directors may deal in such manner as they think fit with fractional entitlements to new Ordinary Shares arising on conversion, including, without prejudice to the generality of the foregoing, selling any such Ordinary Shares representing such fractional entitlements and retaining the proceeds for the benefit of the Company. Further details concerning Conversion are set out in Part V of this Prospectus.

- (C) Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, any share in the Company may be issued with such preferred, deferred or other special rights or restrictions whether as to dividend, voting, return of capital or otherwise as the Company at any time by ordinary resolution may determine, and subject to and in default of such determination as the Board may determine.
- (D) Subject to the provisions of the Companies Laws, the terms and rights attaching to any class of shares, the Articles and any guidelines established from time to time by the Board, the Company may from time to time purchase its own shares. The making and

timing of any buy back will be at the absolute discretion of the Board. The Company may hold any shares purchased by it in accordance with the Companies (Purchase of Own Shares) Ordinance 1998 out of distributable profits as treasury shares in accordance with the Companies (Purchase of Own Shares) (Treasury Shares) Ordinance 2006.

- (E) If at any time the share capital is divided into different classes of shares the rights attached to any class (unless otherwise provided by the terms of issue) may, whether or not the Company is being wound up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of a special resolution of the holders of the shares of that class, in either case, excluding any shares held as treasury shares.

#### 5.2.2 *Winding-up*

- (A) If the Company is wound up, the liquidator may, with the authority of a special resolution, divide among the members *in specie* the whole or any part of the assets of the Company, whether or not the assets consist of property of a single kind, and may for such purposes set such value as he deems fair upon any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may with like authority vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator with the like authority shall think fit and the liquidation of the Company may be closed and the Company dissolved but so that no member shall be compelled to accept any shares or other assets in respect of which there is any outstanding liability.
- (B) Where the Company is proposed to be or is in the course of being wound up and the whole or part of its business or property is proposed to be transferred or sold to another company (the “transferee”) the liquidator may, with the sanction of an ordinary resolution, conferring either a general authority on the liquidator or an authority in respect of any particular arrangement, receive in compensation or part compensation for the transfer or sale, shares, policies or other like interests in the transferee for distribution among the members of the Company, or may enter into any other arrangement whereby the members of the Company may, in lieu of receiving cash, shares, policies or other like interests, or in addition thereto, participate in the profits of or receive any other benefits from the transferee.

#### 5.2.3 *Notice Requiring Disclosure of Interest in Shares*

- (A) The Directors may serve notice on any member of the Company requiring that member to disclose to the Company the identity of any person (other than the member) who has an interest in the shares held by the member and the nature of such interest.
- (B) Any such notice shall require any information in response to such notice to be given within the prescribed period set out below or within such reasonable time as the Directors may determine. The Directors may be required to exercise their powers under the relevant Article on a requisition of members holding not less than 1/10th of the paid up capital of the Company. If any member is in default in supplying to the Company the information required by the Company within the prescribed period (which is 28 days after service of the notice or 14 days if the shares concerned represent 0.25 per cent. or more in value of the issued shares of the relevant class) the Directors in their absolute discretion may serve a direction notice on the Member. The direction notice may direct that in respect of the shares in respect of which the default has occurred (the “default shares”) the Member shall not be entitled to vote in general meetings or class meetings. Where the default shares represent at least 0.25 per cent. of the class of shares concerned the direction notice may additionally direct that dividends on such shares will be

retained by the Company (without interest) and that no transfer of the shares (other than a transfer authorised under the Articles) shall be registered until the default is rectified.

#### 5.2.4 *Dividends*

- (A) Dividends shall only be payable out of the distributable profits attributable to the Company.
- (B) The Directors may if they think fit at any time declare and pay such interim dividends as appear to be justified by the position of the Company.
- (C) All unclaimed dividends may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee thereof. No dividend shall bear interest against the Company. Any dividend unclaimed after a period of 12 years from the date of declaration of such dividend shall be forfeited and shall revert to the Company.
- (D) The Directors are empowered to create reserves before recommending or declaring any dividend. The Directors may also carry forward any profits which they think prudent not to distribute by dividend.

#### 5.2.5 *Scrip Dividends/Bonus Shares*

- (A) Ordinary Shareholders may elect to receive scrip dividends in lieu of cash dividends on their Ordinary Shares by means of an issue of additional shares credited as fully paid out of all or part of the capital reserve (“Bonus Shares”).
- (B) The number of Bonus Shares, including any fractional entitlements, to be issued in lieu of dividends (if any) shall be equal to the amount of the capital reserve resolved to be so distributed by the issue of such number of Bonus Shares divided by the most recently published NAV per Ordinary Share.
- (C) The Bonus Shares so issued shall rank *pari passu* in all respects with the Ordinary Shares in issue at the time save that such Bonus Shares shall, unless the Directors are instructed to the contrary by the relevant shareholders, carry an entitlement to further Bonus Shares rather than to receive dividends.
- (D) The Directors may on any occasion determine that rights of election shall not be made available to any Ordinary Shareholders with registered addresses in any territory where in the absence of a registration statement or other special formalities the circulation of an offer of Bonus Shares would or might be unlawful.
- (E) Ordinary Shareholders who have made an election to receive Bonus Shares in lieu of a dividend may change their election by giving written notice to the Registrar at least 14 days prior to the record date for any dividend in respect of which the new election is to take effect.
- (F) Holders of C Shares cannot elect to receive scrip dividends in lieu of cash dividends on their C Shares.

#### 5.2.6 *Transfer of Shares*

The Articles provide that the Directors may implement such arrangements as they may think fit in order for any class of shares to be admitted to settlement by means of the CREST system. If the Directors implement any such arrangements no provision of the Articles shall apply or have effect to the extent that it is in any respect inconsistent with:

- (A) the holding of shares of that class in uncertificated form;
- (B) the transfer of title to shares of that class by means of the CREST UK system; or

(C) the CREST Guernsey Requirements.

Where any class of shares is for the time being admitted to settlement by means of the CREST system such securities may be issued in uncertificated form in accordance with and subject as provided in the CREST Guernsey Requirements. Unless the Directors otherwise determine, such securities held by the same holder or joint holder in both certificated form and uncertificated form shall be treated as separate holdings. Such securities may be changed from uncertificated to certificated form and from certificated to uncertificated form in accordance with and subject as provided in the CREST Guernsey Requirements. Title to such of the shares as are recorded on the register as being held in uncertificated form may be transferred only by means of the CREST UK system. Every transfer of shares from a CREST account of a CREST member to a CREST account of another CREST member shall vest in the transferee a beneficial interest in the shares transferred, notwithstanding any agreements or arrangements to the contrary, however and whenever arising and however expressed. Subject as provided below, any member may transfer all or any of his shares which are in certificated form by instrument of transfer in any form which the Directors may approve. The instrument of transfer of a share shall be signed by or on behalf of the transferor. The Directors may refuse to register any transfer of certificated shares unless the instrument of transfer is lodged at the registered office accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. The Directors may refuse to register a transfer of any share which is not fully paid up or on which the Company has a lien provided that this would not prevent dealings from taking place on an open and proper basis.

Subject to the provisions of the CREST Guernsey Requirements, the registration of transfers may be suspended at such times and for such periods as the Directors may from time to time determine, provided that such suspension shall not be for more than 30 days in any year. Shareholders are required to notify the Administrator and Registrar immediately in the event that they become, or hold their shares on behalf of, US Persons. Such shareholders may be required by the Company to dispose of their shares to non-US Persons as soon as possible. Members agree to be bound by the provision that the Directors reserve the right to require the transfer of any shares which are or become owned, directly or indirectly, by a US Person. The manner in which the Directors exercise or refrain from exercising any such rights shall be entirely at their discretion. The Directors may also refuse to register any transfer of shares which is prohibited by the provisions described in this paragraph 5.2.6 above or any transfer of shares unless such transfer is accompanied by the share certificate to which it relates, is in respect of one class of share only, is in favour of no more than four transferees and is lodged at the registered office or such other place as the Directors may appoint.

#### 5.2.7 *Alteration of Capital*

The Company may by ordinary resolution: consolidate and divide all or any of its share capital into shares of larger amounts than its existing shares; subdivide all or any of its shares into shares of a smaller amount than is fixed by the Memorandum of Association of the Company; or cancel any shares which at the date of the resolution have not been taken or agreed to be taken and diminish the amount of its authorised share capital by the amount of shares so cancelled. The Company may by special resolution reduce its share capital, any redemption reserve fund or any share premium account in any manner and with and subject to any authority and consent required by the Companies Laws.

#### 5.2.8 *Notice of General Meetings*

Notice for any general meeting shall be sent by the secretary or other officer of the Company or any other person appointed by the board not less than ten days' before the meeting. The notice must specify the time and place of the general meeting and, in the case of any special business, the general nature of the business to be transacted. With the consent in writing of all the members, a meeting may be convened by a shorter notice or at no notice in any manner they

think fit. The accidental omission to give notice of any meeting or the non-receipt of such notice by any member shall not invalidate any resolution, or any proposed resolution otherwise duly approved, passed or proceeding at any meeting.

#### 5.2.9 *Interests of Directors*

- (A) Save as mentioned below, a Director may not vote or be counted in the quorum on any resolution of the Board (or a committee of the Directors) in respect of any contract, transaction, arrangement or proposal to which the Company is or is to be a party and in which he has, to his knowledge, (together with any interest of any person connected with him) a material interest (other than by virtue of his interest in shares or debentures or other securities of the Company).
- (B) A Director shall be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any of the following matters:
  - (1) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of the Company or any of its subsidiaries;
  - (2) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director himself has assumed responsibility in whole or in part and whether alone or jointly with others under a guarantee or indemnity or by the giving of security;
  - (3) the offer of securities of the Company or its subsidiaries in which offer he is or may be entitled to participate or in the underwriting or sub-underwriting of which he is to or may participate;
  - (4) any contract, transaction, arrangement or proposal to which the Company is or is to be a party concerning any other company in which he, or any persons connected with him, is interested, directly or indirectly, as an officer or shareholder, creditor or otherwise, provided that he, together with persons connected with him, is not to his knowledge the holder of or beneficially interested in one per cent. or more of any class of the equity share capital of any such company (or of any third company through which his interest is derived) or of the voting rights of such company;
  - (5) any contract, transaction, arrangement or proposal for the benefit of employees of the Company or any of its subsidiaries which accords to the Director only such privileges and advantages as are generally accorded to the employees to whom the arrangement relates; or
  - (6) any contract, transaction, arrangement or proposal for the purchase or maintenance of insurance for the benefit of the Director or persons including the Directors.
- (C) Any Director may act by himself or by his firm in a professional capacity for the Company, other than as auditor, and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.
- (D) Any Director may continue to be or become a director, managing director or other officer or member of a company in which the Company is interested and any such Director shall not be accountable to the Company for any remuneration or other benefits received by him.

#### 5.2.10 *Remuneration of Directors*

- (A) The Directors shall be remunerated for their services at such rate as the Directors shall determine provided that the aggregate amount of such fees shall not exceed £200,000 per annum (or such sum as the Company in general meeting shall from time to time determine). The Directors shall also be entitled to be paid all reasonable expenses properly incurred by them in attending general meetings, board or committee meetings or otherwise in connection with the performance of their duties.
- (B) A Director may hold any other office or place of profit under the Company (other than the office of auditor) in conjunction with his office of Director on such terms as to tenure of office and otherwise as the Directors may determine.
- (C) The Directors may from time to time appoint one or more of their body (other than a director resident for tax resident purposes in the United Kingdom) to the office of executive director or to any other office for such term and at such remuneration and upon such terms as they determine.
- (D) A Director, notwithstanding his interest, may be counted in the quorum present at any meeting whereat he or any other Director is appointed to hold any such office or place of profit under the Company, or where the terms of appointment are arranged or any contract in which he is interested is considered and he may vote on any such appointment or arrangement other than his own appointment or the terms thereof.
- (E) The Directors may at any time appoint any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall be eligible for re-election at the next annual general meeting following his appointment. Without prejudice to those powers, the Company in general meeting may appoint any person to be a Director either to fill a casual vacancy or as an additional Director.

#### 5.2.11 *Retirement of Directors*

- (A) At the first annual general meeting of the Company all the Directors shall retire from office. One third of the Directors who have served for longest in office since their last appointment shall retire at each annual general meeting thereafter.
- (B) The office of Director shall be vacated if the Director resigns his office by written notice, if he shall have absented himself from meetings of the Board for a consecutive period of six months and the Board resolves that his office shall be vacated, if he becomes of unsound mind or incapable, if he becomes insolvent, suspends payment or compounds with his creditors, if he is requested to resign by written notice signed by all his co-Directors, if the Company in general meeting shall declare that he shall cease to be a Director, or if he becomes resident in the United Kingdom and, as a result, a majority of the Directors are resident in the United Kingdom.

#### 5.2.12 *Borrowing Powers*

The Board may exercise all the powers of the Company to borrow money and to give guarantees, mortgage, hypothecate, pledge or charge all or part of its undertaking, property or assets and uncalled capital and to issue debentures and other securities whether outright or as collateral security for any liability or obligation of the Company or of any third party provided always that the aggregate principal amount of all borrowings (as defined in the Articles) by the Company shall not at the point of drawdown of any borrowings exceed 25 per cent. of the Net Asset Value of the Company.

## **6. TAXATION**

The information below, which relates only to United Kingdom and Guernsey taxation, summarises the advice received by the Directors and is applicable to the Company and to persons who are resident or

ordinarily resident in the United Kingdom and Guernsey for taxation purposes (except where indicated) and who will hold Shares as investments and, in the circumstances indicated below, to non-residents carrying on a trade in the United Kingdom. It is based on current Guernsey and United Kingdom revenue law and published practice and is subject to subsequent changes therein, which may have retrospective effect. This summary does not deal with certain types of person, such as persons holding or acquiring Shares in the course of trade, collective investment schemes or insurance companies. If you are in any doubt as to your tax position, or if you may be subject to tax in a jurisdiction other than Guernsey or the United Kingdom, you should consult your own independent professional adviser without delay.

## 6.1 *Guernsey*

### 6.1.1 *The Company*

The Company has been granted tax exempt status by the Administrator of Income Tax in Guernsey for confirmation that the Company will be eligible for exempt status under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 (the “Ordinance”). The Company will need to reapply annually for exempt status for Guernsey tax purposes, incurring the current fee of £600 per annum.

As exempt status has been granted, the Company will not be considered resident in Guernsey for Guernsey income tax purposes. A company that has exempt status for Guernsey tax purposes is exempt from tax in Guernsey on both bank deposit interest and any income that does not have its source in Guernsey. It is not anticipated that any income other than bank interest will arise in Guernsey and therefore the Company is not expected to incur any additional liability to Guernsey tax. Payments of dividends and interest by a company that has exempt status for Guernsey tax purposes are regarded as having their source outside Guernsey and hence are payable without deduction of tax in Guernsey.

In the absence of an exemption, the Company would be treated as resident in Guernsey for Guernsey income tax purposes and subject to the zero rate regime, described below.

In response to the review carried out by the European Union Code of Conduct Group, the States of Guernsey agreed to abolish exempt tax status for the majority of companies and to introduce a zero rate of tax for companies carrying on all but a few specified types of regulated business from January 2008. However, the States of Guernsey also agreed that because collective investment schemes were not one of the regimes in Guernsey classified by the EU Code of Conduct Group as being harmful, collective investment schemes would continue to be able to apply for exempt status for Guernsey tax purposes after 31 December 2007. The Company will therefore continue to apply for and be granted exempt status after 1 January 2008 regardless of the changes to the general corporate tax regime introduced by the zero tax regime and these changes are not expected to have any material impact on the Company.

The Company, in the absence of an exemption, together with any Guernsey incorporated subsidiaries, and any other companies controlled by the Company would, however, become Guernsey resident companies subject to the zero rate of Guernsey tax. Under this regime, the Company and any subsidiaries would not be required to withhold Guernsey income tax from interest or dividends paid by them other than in respect of distributions to Guernsey resident individuals.

The Policy Council of the States of Guernsey has stated that it may consider further revenue raising measures in 2011/2012, including possibly the introduction of a goods and services tax, depending on the state of Guernsey’s public finances at that time.

Non-Guernsey resident Shareholders will not be subject to Guernsey tax on the redemption or disposal of their holding of Ordinary Shares in the Company.

Guernsey currently does not levy taxes upon capital inheritances, capital gains (with the exception of a dwellings profit tax) gifts, sales or turnover, nor are there any estate duties, save for an *ad valorem* fee for the grant of probate or letters of administration. Document duty is

payable on the creation or increase of authorised share capital at the rate of one half of one per cent. of the authorised share capital of a company incorporated in Guernsey up to a maximum of £5,000 in the lifetime of a company. No stamp duty is chargeable in Guernsey on the issue, transfer, switching or redemption of shares in the Company.

### **EU Savings Tax Directive**

Guernsey has introduced measures that are the same as the EU Savings Tax Directive. However, paying agents located in Guernsey are not required to operate the measures on distributions made to shareholders by closed ended investment companies established in Guernsey.

#### **6.1.2 Shareholders**

Shareholders resident outside Guernsey will not be subject to any income tax in Guernsey in respect of any Ordinary Shares owned by them. Any Shareholders who are resident for tax purposes in Guernsey, Alderney or Herm will incur Guernsey income tax on any dividends paid on Ordinary Shares owned by them but will suffer no deduction of tax by the Company from any such dividends payable by the Company where the Company is granted exempt status. The Company is required to provide details of distributions made to Shareholders resident in the Islands of Guernsey, Alderney and Herm to the Administrator of Income Tax in Guernsey.

### **6.2 United Kingdom**

#### **6.2.1 The Company**

The Company intends to conduct its affairs, and in particular the way in which it is managed and controlled, so that, for United Kingdom corporation tax purposes, it should not be regarded as resident within the United Kingdom nor as carrying on a trade through a permanent establishment, branch or agency located in the United Kingdom. On that basis and on the assumption that it has no United Kingdom source income the Company will have no liability in respect of United Kingdom corporation tax on its income or capital gains.

#### **6.2.2 Shareholders**

### **Taxation of dividends**

#### ***Cash dividends***

Cash dividends received by individual Shareholders resident in the United Kingdom for tax purposes will be treated as income receipts chargeable to United Kingdom taxation. Such individual Shareholders will, if proposed legislation contained in the Finance Bill 2008 and due to take effect with retrospective effect from 6 April 2008 is enacted, be entitled to claim the non-repayable one-ninth dividend credit that is currently available in respect of UK dividends. This proposed tax credit will only be available if the individual Shareholder owns less than a 10 per cent. holding in the Company. Individuals resident for tax purposes in the United Kingdom who are liable to income tax at the starting or basic rate and who are taxed at the ordinary rate (currently 10 per cent.) will, as a result of the proposed tax credit, have their liability to income tax satisfied in full. An individual who is a higher rate taxpayer and who is taxed at the upper rate (currently 32.5 per cent.) will, as a result of the proposed tax credit, be taxed at an effective rate of 25 per cent. Non-taxpayers will have no liability to income tax.

United Kingdom resident corporate Shareholders will normally be liable for corporation tax on any cash dividends paid by the Company.

#### ***Scrip dividends***

An individual Shareholder who elects to take Shares instead of a cash dividend will not be treated as receiving an income receipt chargeable to United Kingdom taxation.

United Kingdom resident corporate Shareholders will not normally be liable for corporation tax on any scrip dividends paid by the Company.

### **Taxation of capital gains**

The Directors have been advised that, under current law, the Company should not be an offshore fund for the purposes of United Kingdom taxation and the provisions of Chapter V of Part XVII of the Income and Corporation Taxes Act 1988 (the "Taxes Act") will not apply. Accordingly, any gain realised by a United Kingdom resident or ordinarily resident Shareholder or a Shareholder who carries on a trade in the United Kingdom through a branch, agency or permanent establishment with which their investment in the Company is connected on a sale or other disposal (including from liquidation or dissolution of the Company) of their Shares may, depending on their circumstances and subject as mentioned below, be subject to United Kingdom capital gains tax or corporation tax on chargeable gains.

Legislation contained in the Finance Bill 2008 and proposed to have retrospective effect from 6 April 2008 would, if enacted, abolish taper relief for individual investors resident or ordinarily resident in the United Kingdom for tax purposes. Instead, it is proposed that a single rate of capital gains tax at 18 per cent. would apply to disposals made after 5 April 2008. Individuals may still, depending on their circumstances, benefit from other relief and allowances (including a personal allowance which presently exempts from tax the first £9,600 of gains). An investor which is a body corporate resident in the United Kingdom for tax purposes will benefit from indexation allowance which, in general terms, increases the capital gains tax base cost of an asset in accordance with the rise in the retail prices index.

The Directors have been advised that the Company should not be an offshore fund for the purposes of United Kingdom taxation but, should the Company become an offshore fund for the purposes of United Kingdom taxation as a result of changes in current UK tax law and/or practice, this may, compared to current UK tax law and practice, have adverse tax consequences for certain UK Shareholders as gains on any disposal may be subject to income tax rather than capital gains tax under the provisions of Chapter V of Part XVII of the Taxes Act.

The Government has published a consultation document on the reform of the offshore fund rules with the intention of changing the existing rules in the Finance Bill 2009.

Shareholders who are corporate bodies should note that the provisions in the Finance Act (No 2) 2005 may impact on their tax position. If they apply, these provisions would require corporate Shareholders to treat the Shares as loan relationships for the purposes of the Finance Act 1996 and movements in the value of the Shares would be required to be taxed as income using fair value accounting.

Shares acquired by United Kingdom resident corporate or individual Shareholders by way of scrip dividend will be treated as acquired when the existing holding was acquired. No consideration will be treated as having been given for the new Shares. Therefore, any gain on disposal of the new Shares will be calculated by reference to the base cost of the original shareholding only.

### **Chapter II, Part XIII Income Tax Act 2007**

Individual investors ordinarily resident in the United Kingdom for tax purposes should note that Chapter II of Part XIII of the Income Tax Act 2007 may render them liable to income tax in respect of undistributed income or profits of the Company. These provisions are aimed at preventing the avoidance of income tax by individuals through transactions resulting in the transfer of assets or income to persons (including companies) resident or domiciled abroad. These provisions will not apply if the investor can satisfy Her Majesty's Revenue and Customs that either:

- (1) it would not be reasonable to conclude, from all the relevant circumstances, that the purpose of avoiding liability to United Kingdom taxation was the purpose or one of the purposes of his investment in the Company; or, if this test is not met,
- (2) the transactions were genuine commercial transactions and it would not be reasonable to conclude, from all the relevant circumstances, that the transaction was more than incidentally designed for the purpose of avoiding United Kingdom taxation.

### **Controlled Foreign Companies**

The attention of companies resident in the United Kingdom is drawn to the fact that the “controlled foreign companies” provisions contained in Chapter IV (Sections 747 to 756) of Part XVII of the Taxes Act could be material to any company so resident that has an interest in the Company such that 25 per cent., or more of the Company’s profits for an accounting period could be apportioned to them, if at the same time the Company is controlled by companies or other persons who are resident in the United Kingdom for taxation purposes. The effect of such provisions could be to render such companies liable to United Kingdom corporation tax in respect of their share of the undistributed profits of the Company.

The Government has published a consultation document on the reform of the controlled foreign companies regime and has stated that the most likely date for the implementation of any reform would be the Finance Bill 2009.

### **Section 13 Taxation of Chargeable Gains Act 1992 (“TCGA”)**

The attention of United Kingdom investors resident or ordinarily resident in the United Kingdom, is drawn to the provisions of Section 13 TCGA under which, in certain circumstances, a portion of capital gains made by the Company can be attributed to an investor who holds, alone or together with associated persons, more than 10 per cent. of the Shares. The capital gains attributed to the investor may (in certain circumstances) be liable to United Kingdom tax on capital gains in the hands of the investor.

### **Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)**

No United Kingdom stamp duty or SDRT will arise on the issue of the Shares. Generally, no United Kingdom stamp duty or SDRT should be payable on a transfer of or agreement to transfer the Shares.

### **UK PEPs and ISAs**

The Ordinary Shares, subject to applicable subscription limits (currently £7,200 per tax year), will be eligible for inclusion in the stocks and shares component of a UK ISA provided that the ISA manager has acquired such Ordinary Shares by purchase in the market.

The Directors intend to manage the affairs of the Company so as to maintain the eligibility of the Ordinary Shares for inclusion in an ISA. Since 6 April 2008, investors have been able to invest in two separate ISAs in each tax year, a cash ISA and a stocks and shares ISA. Up to half of the subscription limit (£3,600) will be available for investment as cash. The remainder may from this date be invested in stocks and shares with the same or a different provider.

The C Shares issued under the C Share Placing will not be eligible for inclusion in the stocks and shares component of a UK ISA.

All PEPs automatically became stocks and shares ISAs on 6 April 2008.

## **UK SSAS and SIPPS**

The Directors have been advised that the Ordinary Shares will be eligible for inclusion in a UK SSAS or a UK SIPPS, subject to the discretion of the trustees of the UK SSAS or the UK SIPPS as the case may be.

The C Shares issued under the C Share Placing should be eligible for inclusion in a UK SSAS or a UK SIPPS.

**The eligibility of Ordinary Shares and C Shares issued under the C Share Placing should be confirmed independently by investors with their professional tax or financial advisers before investment.**

## *Other Jurisdictions*

Prospective purchasers of the Shares should consult their own professional tax advisers as to the tax consequences of the purchase, ownership and disposition of the Shares.

**Any person who is in any doubt as to his/her tax position in consequence of acquiring, holding or disposing of the Shares, or requires more detailed information than the general outline above should consult his/her own independent professional advisers.**

## **7. MATERIAL CONTRACTS**

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company since incorporation and are, or may be, material:

- 7.1 The Sponsor and Broker Agreement dated 4 June 2008 between Shore Capital, SCCL and the Company pursuant to which Shore Capital and SCCL are appointed to act as sponsor and broker respectively to the Company. For their services in connection with the agreement, SCCL will receive a retainer fee of £50,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with the agreement. The agreement may be terminated by the Company or SCCL giving the other not less than one month's notice, provided this termination is at least twelve months after Admission.
- 7.2 The Shore Capital Engagement Letter dated 14 January 2008 between the Company, Shore Capital and SCCL pursuant to which Shore Capital and SCCL will provide corporate finance advisory brokerage services to the Company in connection with the Migration and Admission and in connection with the C Share Placing. For their services in connection with the agreement, Shore Capital and SCCL will receive a basic corporate finance advisory fee of £150,000 and a commission of 3 per cent. of the gross proceeds of the C Share Placing attributable to subscribers procured by Shore Capital (gross funds raised from DWS Access being excluded for the purpose of calculating the commission payable in respect of the gross proceeds of the C Share Placing). In addition to fees, the Company shall reimburse Shore Capital for its reasonable out-of-pocket expenses incurred in connection with the agreement, including legal fees. The agreement shall continue until 31 December 2008, thereafter it may be terminated by either party by not less than one month's notice in writing. Under the Shore Capital Engagement Letter, the Company has provided Shore Capital and SCCL with certain warranties and indemnities which are customary for this type of agreement. The agreement is governed by English law.
- 7.3 The C Share Side Letter, dated 21 December 2007 (as amended on 27 March 2008), between the Company and DWS Access, which governs the terms of the C Shares to be issued to DWS Access under the C Share Placing and imposes certain obligations on the Company in relation to those C Shares and the investment of the proceeds of the issue of those C Shares.

Under the terms of the Side Letter:

- 7.3.1 The Company agrees that it will not make any application to list any class of C Shares of the Company, whether issued pursuant to the C Share Placing or otherwise, on any stock exchange

prior to 1 January 2009. The Company may, however, make an application to list C Shares of a different class to those issued to DWS Access pursuant to the C Share Placing provided that any such listing does not take effect prior to 1 January 2009.

- 7.3.2 The Company agrees that it will not make any application to list any of the C Shares of the class to be issued to DWS Access or any other C Shares of that class issued pursuant to the C Share on any stock exchange, provided that the Ordinary Shares into which such C Shares convert are intended to be listed on a stock exchange.
- 7.3.3 The Company agrees that it will not issue any additional C Share classes other than the 1 billion C Shares of the class to be issued to DWS Access and to other investors pursuant to the C Share Placing until such time as 70 per cent. of the net proceeds of the C Share Placing have been invested (as such term is defined in the C Share Side Letter (as amended)).
- 7.3.4 The Company confirms that for the purposes of the quarterly tranches of the C Share class to be issued to DWS Access under the C Share Placing, the Specified Conversion Criteria for the purpose of Conversion of the C Shares will be as follows:
- (A) The Specified Proportion is 70 per cent.;
  - (B) The Back Stop Date is 31 December 2009; and
  - (C) The Early Investment Condition shall be satisfied on receipt of subscriptions by the Company for:
    - (1) 70 per cent. of the net proceeds raised under the C Share Placing by no later than 30 June 2008; or
    - (2) 70 per cent. of the net proceeds of subscriptions by DWS Access under the C Share Placing in 2008.
- 7.3.5 The Company agrees that for the purposes of the calculation of the Conversion Ratio applicable to the C Shares acquired by DWS Access under the C Share Placing:
- (A) paragraphs (a) and (d) of the definition of the Calculation Date in the terms of the C Shares (as those terms are set out in the Part V of this Prospectus) will apply as follows:
    - (1) the date referred to herein to be specified by the Directors shall be 31 December 2008 or 31 December 2009, whichever follows after the day on which the Investment Manager shall have given notice to the Directors that the Specified Proportion of the assets attributable to the relevant class of C Shares has been invested (as such term is defined in the C Share Side Letter (as amended)) in timberland and timber-related assets in accordance with the investment policy of the Company;
    - (2) the date referred to herein to be specified by the Directors shall be 31 December 2008 or 31 December 2009, whichever follows after the Directors resolve that any Early Investment Condition in respect of a particular class of C Shares has been satisfied;
  - (B) the Directors shall not express any belief nor exercise any discretion to make adjustments referred to in paragraphs (b)(ii) and (c) respectively relating to the calculation of the aggregate value of "C" in the terms of the C Shares (as those terms are set out in Part V of this Prospectus) and all relevant values including values for assets specified in paragraph (b)(i) of calculation of the aggregate value of "C" in the terms of the C Shares (as those terms are set out in Part V of this Prospectus) shall be taken from the published Net Asset Value produced for the purposes of the audited annual accounts of the Company as of the Calculation Date;

- (C) for the purposes of paragraphs (a) and (d) relating to the calculation of the aggregate value of “C” in the terms of the C Shares (as those terms are set out in Part V of this Prospectus), the other assets of the Company attributable to the relevant class of C Shares shall be calculated solely by reference to the published Net Asset Value produced for the purpose of the audited annual accounts of the Company as of the Calculation Date;
- (D) the Directors shall not express any belief nor exercise any discretion to make adjustments referred to in paragraphs (b)(ii) and (c) respectively relating to the calculation of the aggregate value of “F” in the terms of the C Shares (as those terms are set out in Part V of this Prospectus) and all relevant values including values for assets specified in paragraph (b)(i) relating to the calculation of the aggregate value of “F” in the terms of the C Shares (as those terms are set out in Part V of this Prospectus) shall be taken from the published Net Asset Value produced for the purposes of the audited annual accounts of the Company as of the Calculation Date;
- (E) for the purposes of paragraphs (a) and (d) relating to the calculation of the aggregate value of “F” in the terms of the C Shares (as those terms are set out in Part V of this Prospectus), the other assets of the Company attributable to the Ordinary Shares shall be calculated solely by reference to the published Net Asset Value produced for the purpose of the audited annual accounts of the Company and all relevant values shall be taken from the published Net Asset Value produced for the purposes of the audited annual accounts of the Company as of the Calculation Date, subject, in each case, to any post balance sheet adjustments shown in such audited annual accounts and such terms set out in sub-clauses A to E (inclusive) above being set out in the prospectus for such C Shares; and
- (F) any balance of the proceeds of the C Shares subscribed for by DWS Access under the C Share Placing which is not invested (as such term is defined in the C Share Side Letter (as amended)) by the Company in timberland and timber-related assets will be invested in USD denominated money market funds of DWS Access.

7.3.6 For the purposes of paragraphs 7.3.3, 7.3.5(A)(1) and 7.3.5(F) of the above summary (as such paragraphs reflect paragraphs 1.4, 1.6.1(a) and 1.7 of the C Share Side Letter (as amended)) the net proceeds of the C Share Placing and/or the assets attributable to the relevant class of C Shares shall be treated as having been “**invested**” if they have been expended or committed by or on behalf of the Company in connection with the acquisition or making of an investment (whether by subscription or purchase) or if a commitment or an obligation to make such payment has arisen or crystallised (in each case unconditionally or subject only to the satisfaction of normal pre-issue conditions) in relation to which the consideration amount has been determined or is capable of being determined by operation of an agreed contractual mechanic. For the avoidance of doubt, the term “**normal pre-issue conditions**” shall include, without limitation, conditions in respect of due diligence by, and availability of financing to, the Company.

7.4 The Secondary Offer Placing Agreement, dated 29 May 2007, between the Company, the Investment Manager, Shore Capital, SCCL and LCF Rothschild pursuant to which each of the Investment Manager, Shore Capital and LCF Rothschild agreed to arrange for placees to subscribe for 355,769,230 Ordinary Shares pursuant to the Secondary Offer. For their services in connection with the Secondary Offer each of the Investment Manager, Shore Capital and LCF Rothschild received a commission of 3 per cent. of such part of the gross proceeds of the Secondary Offer as was represented by placees procured by each of them. The agreement provided for the Company to pay all expenses (subject to specified caps) of and incidental to the Secondary Offer, including the fees and costs of other professional advisers, all costs relating to the Secondary Offer, including printing, advertising and distribution charges, the fees of the Registrars and the fees payable to the London Stock Exchange. The agreement is governed by English law.

- 7.5 The AIM Placing Agreement, dated 15 December 2006, between the Company, the Investment Manager, Shore Capital, SCCL and LCF Rothschild pursuant to which each of Shore Capital and LCF Rothschild agreed to use its reasonable endeavours to arrange for places to subscribe for 115,150,000 Ordinary Shares at the time of the AIM Admission. For its services in connection with the AIM Placing, Shore Capital received a corporate finance fee of £200,000 and each of Shore Capital and LCF Rothschild received a commission of 3 per cent. of such part of the gross proceeds of the AIM Placing as was represented by places procured by each of them. The agreement provided for the Company to pay all expenses (subject to specified caps) of and incidental to the AIM Placing, including the fees and costs of other professional advisers, all costs relating to the listing on AIM, including printing, advertising and distribution charges, the fees of the Registrars and the fees payable to the London Stock Exchange. The agreement is governed by English law.
- 7.6 The Nominated Adviser and Broker Agreement, dated 15 December 2006, between each of the Company, SCCL and Shore Capital pursuant to which the Company appointed SCCL and Shore Capital to act as nominated adviser and broker to the Company respectively, following the date of the AIM Admission for the purposes of the requirements under the AIM Rules, subject thereafter to termination by either party on not less than one month's written notice. The earliest date on which such notice could be served was 20 November 2007. The Company agreed to pay to SCCL and Shore Capital a combined fee of £45,000 per annum for their services. The agreement is governed by English Law. This agreement has been terminated with effect from the date of Admission and replaced with the Sponsor and Broker Agreement described at paragraph 7.1 of this Part VII.
- 7.7 The CISX Sponsorship Agreement, dated 15 December 2006, between the Company and Ozannes Securities Limited pursuant to which the Company appointed Ozannes Securities Limited to act as the Company's CISX Listing Sponsor for the AIM Admission. Ozannes Securities Limited was entitled to an initial fee of £3,000 for its services in relation to the admission of the Ordinary Shares to the official list of the CISX and an annual retainer of £800 for providing ongoing advice and guidance as to the Company's compliance with the continuing obligations of the listing rules of the CISX. The agreement may be terminated on not less than 60 days' notice in writing provided that termination will be immediate where:

7.7.1 either party breaches the terms of the agreement and such breach is incapable of remedy within 30 days; or

7.7.2 either party commences liquidation proceedings.

Upon termination Ozannes Securities Limited will be entitled to receive all fees and other monies accrued due to the date of termination, but is not entitled to compensation in respect of such termination.

- 7.8 The Investment Management Agreement, dated 13 December 2006, between the Company and the Investment Manager whereby the Investment Manager was appointed to act as Investment Manager of the Company, to manage the assets of the Company in accordance with the investment policy and objective of the Company. This agreement has been amended and fully restated in the Amended Investment Management Agreement dated 4 June 2008. Under the terms of the Amended Investment Management Agreement, subject to the overall supervision of the Directors, the Investment Manager has discretion to buy, sell, retain, exchange or otherwise deal in assets for the account of the Company. Any services provided by third parties will be paid directly by the Company or reimbursed in full to the Investment Manager.

Under the terms of the Amended Investment Management Agreement, the Investment Manager is entitled to a base fee together with reimbursement of reasonable expenses incurred by it in the performance of its duties.

The base fee is equal to 0.375 per cent. per quarter of the Net Asset Value of the Company. The base fee is calculated quarterly and is payable in advance, using an implied straight-line increase in Net Asset Value of 10 per cent. per annum, on a basis which increases 2.5 per cent. per quarter. As the quarterly calculation is based on an estimated Net Asset Value, following the calculation of the audited

Net Asset Value 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 to the Investment Manager, any such amount will be deducted from the payment due to the Investment Manager in respect of the subsequent quarter or quarters, up until the amount equal to the excess has been repaid.

In addition, for both the Ordinary Shares and the C Shares, the Investment Manager is entitled to a performance fee in respect of both the Ordinary Share Performance Period and the C Share Performance Period (as detailed below), if the Net Asset Value of an Ordinary Share or a C Share at the end of such performance period exceeds the respective Ordinary Share or C Share Performance Hurdle (as detailed below) for such period.

#### *Ordinary Share performance fee*

In respect of the Ordinary Shares, the first Ordinary Share Performance Period is the period from the date on which the Ordinary Shares were first admitted to AIM, being 20 December 2006, to such 31 December on which the audited annual Net Asset Value per Ordinary Share exceeds 108 per cent. of the \$1.00 placing price at which the Ordinary Shares were placed on the initial admission to AIM. Thereafter, the Ordinary Share Performance Periods shall be each 12 month period ending on 31 December. Save for the last Ordinary Share Performance Period which shall begin on 1 January prior to the termination of the Amended Investment Management Agreement and will end at the date of termination of that agreement.

The Ordinary Share Performance Hurdle is as follows:

- 7.8.1 for the first Ordinary Share Performance Period, an amount equal to 108 per cent. of the initial \$1.00 placing price; and
- 7.8.2 for each of the second and subsequent Ordinary Share Performance Periods, the figure which is 8 per cent. above the audited Net Asset Value per Ordinary Share for the previous Ordinary Share Performance Period.

Where an Ordinary Share Performance Hurdle is met in respect of an Ordinary Share Performance Period, a performance fee will be payable in an amount equal to 20 per cent. of any outperformance in respect of the Net Asset Value per Ordinary Share over and above the highest previously recorded audited Net Asset Value per Ordinary Share at the end of any Ordinary Share Performance Period in respect of which a performance fee was paid (or, in the case of the first Ordinary Share Performance Period, above 108 per cent. of the initial \$1.00 placing price) multiplied by the time-weighted average number of Ordinary Shares in issue over the Ordinary Share Performance Period.

For the purposes of calculating the performance fee in respect of any Ordinary Share Performance Period, the Net Asset Value per Ordinary Share at the end of that Ordinary Share Performance Period shall be adjusted so as to: (i) include the gross amount of any dividends per Ordinary Share declared or announced in respect of such Ordinary Share Performance Period and any undistributed net revenue in respect of such Ordinary Share Performance Period not otherwise taken into account for the purposes of calculating such Net Asset Value per Ordinary Share; (ii) not take account of any accrual made in respect of the performance fee itself for that Ordinary Share Performance Period; and (iii) not take into account any increase in the Net Asset Value per Ordinary Share attributable to the issue of Ordinary Shares at a premium to the Net Asset Value per Ordinary Share or any buy-back of any Ordinary Shares at a discount to the Net Asset Value per Ordinary Share. Finally, there shall be included any other adjustments which the Audit and Management Engagement Committee of the Board and the Investment Manager agree is appropriate.

For the purposes of calculating the Net Asset Value per Ordinary Share as at the end of the immediate relevant Ordinary Share Performance Period, such Net Asset Value per Ordinary Share shall: (i) exclude the gross amount of any dividends declared or announced in respect of the immediate relevant Ordinary Share Performance Period; and (ii) take account of any accrual made in respect of the performance fee for the prior Ordinary Share Performance Period.

### *C Share performance fee*

A performance fee shall also be paid to the Investment Manager in respect of each C Share Performance Period (as detailed below) if the Net Asset Value per C Share at the end of such performance period exceeds the C Share Performance Hurdle (as detailed below) for such performance period.

The C Share Performance Period means: (i) the 12 month period ending on 31 December in each year; or (ii) such shorter period ending on the date C Shares convert into Ordinary Shares in accordance with the Articles save that the first period shall commence on the Placing Date and end on: (i) such 31 December on which the audited annual Net Asset Value per C Share is greater than 108 per cent. of the C Share Placing Price; or (ii) the date on which C Shares convert into Ordinary Shares in accordance with the Articles and the last C Share Performance Period will begin on 1 January prior to the termination of this Agreement and will end on: (i) the date of termination of this Agreement; or (ii) the date on which C Shares convert into Ordinary Shares in accordance with the Articles.

The C Share Performance Hurdle is as follows:

7.8.3 for the first C Share Performance Period, an amount equal to 108 per cent. of the C Share Placing Price;

7.8.4 for each of the second and subsequent C Share Performance Periods the figure which is 8 per cent. above the audited Net Asset Value per C Share at the end of the previous C Share Performance Period.

Where the C Share Performance Hurdle is met in respect of a C Share Performance Period, a performance fee will be payable in an amount equal to 20 per cent. of any outperformance in respect of the Net Asset Value per C Share over and above the highest previously recorded audited Net Asset Value per C Share at the end of any C Share Performance Period in respect of which a performance fee was paid (or, in the case of the first C Share Performance Period, above 108 per cent. of the C Share Placing Price) multiplied by the time-weighted average number of C Shares in issue over the C Share Performance Period.

For the purposes of calculating the performance fee in respect of any C Share Performance Period the Net Asset Value per C Share at the end of the relevant C Share Performance Period shall be adjusted so as to: (i) include the gross amount of all dividends per C Share declared or announced in respect of such C Share Performance Period and any undistributed net revenue in respect of such C Share Performance Period not otherwise taken into account for the purposes of calculating such Net Asset Value per C Share; (ii) not take account of any accrual made in respect of the performance fee itself for that C Share Performance Period; and (iii) not take into account any increase in Net Asset Value per C Share attributable to the issue of C Shares at a premium to Net Asset Value per C Share. Finally, there shall be included any other adjustments which the Audit and Management Engagement Committee of the Board and the Investment Manager agree is appropriate.

For the purposes of calculating the Net Asset Value per C Share as at the end of the immediate relevant prior C Share Performance Period(s) such Net Asset Value per C Share shall: (a) exclude the gross amount of all dividends declared or announced in respect of C Shares in the relevant prior C Share Performance Period(s); and (b) take account of any accrual made in respect of the performance fee attributable to the C Shares in any prior C Share Performance Period.

The Amended Investment Management Agreement may be terminated by either party on three years' written notice, such notice not being given prior to the seventh anniversary of the date of the AIM Admission, being 20 December 2006.

In addition, the Amended Investment Management Agreement may be terminated by the Company after the seventh anniversary of the AIM Admission, being 20 December 2006, by giving twelve months' written notice, in circumstances where the Company has a genuine and material concern regarding the performance of the Investment Manager or the manner in which the Investment Manager is fulfilling its obligations under the Amended Investment Management Agreement and: (i) the

Company serves a written notice on the Investment Manager providing specific and sufficient details of the nature of its concern and requiring that its concern be dealt with, in each case, to the reasonable satisfaction of the Company, in a clearly defined manner stated in the notice within a specified period, such period being reasonable in the circumstances and determined by reference to the nature of the concern and stated in the notice; and (ii) the Investment Manager fails to remedy or otherwise address the concern within the relevant period to the satisfaction of the Board, acting reasonably, or where the Company in good faith determines that such circumstances are not capable of being remedied or otherwise addressed.

The Amended Investment Management Agreement may be terminated earlier by the Company with immediate effect on the occurrence of certain events, including: (i) if an order has been made or an effective resolution passed for the liquidation of the Investment Manager; (ii) if the Investment Manager ceases or threatens to cease to carry on its business; or (iii) if the Investment Manager commits a material breach of its obligations under the Amended Investment Management Agreement and such breach is not remedied within 28 days of receiving notice of the breach or three months where the breach relates to the Investment Manager's duties under the agreement being carried out by appropriately qualified, trained and experienced professionals; (iv) where the Company is required to do so by a relevant regulatory authority; or (v) on the liquidation of the Company.

The Company has given certain market standard indemnities in favour of the Investment Manager in respect of the Investment Manager's potential losses in carrying on its responsibilities under the Amended Investment Management Agreement.

- 7.9 The Administration and Secretarial Agreement, dated 13 December 2006 (as amended by the Amendment to the Administration and Secretarial Agreement dated 4 June 2008), between the Company and Anson Fund Managers Limited pursuant to the terms of which the Administrator has been appointed the Secretary and Administrator of the Company.

Under the terms of the Administration and Secretarial Agreement (as amended), Anson Fund Managers Limited is entitled to a set-up fee on a time charge basis with a minimum of £5,000 and a maximum of £8,000 and thereafter annually an administration and secretarial fee of £33,000 and a value fee of 0.01 per cent. on amounts in excess of US\$100 million of the opening gross assets of the Company in each financial period, all payable pro-rata monthly in arrears. In addition, Anson Fund Managers Limited is entitled to time charge and activity fees incurred in connection with subsidiaries of the Company subsequently acquired and the acquisition and disposal of timberland investments. Where administrators and domiciliary agents in other jurisdictions are retained by the Company in respect of foreign structures and subsidiaries of the Company subsequently acquired, their fees and expenses will be payable out of the Company. The Administrator and any of its delegates are also entitled to reimbursement of certain expenses incurred by them in connection with their duties.

The Administration and Secretarial Agreement (as amended) contains provisions under which the Company exempts the Administrator from liability and indemnifies the Administrator against liability in the absence of some act of, *inter alia*, negligence, fraud, wilful default or bad faith for any loss, cost, expense or damage suffered by the Company in connection with the duties carried out by the Administrator. This exemption from liability and indemnity is of a customary nature for contracts of this type.

The Administration and Secretarial Agreement (as amended) also contains a provision under which the Administrator indemnifies the Company against any loss, damage, claims, costs and expenses suffered or incurred by or made against the Company arising out of or in connection with such bad faith, negligence, wilful default, breach of such agreement or fraud on the part of the Administrator.

The Administration and Secretarial Agreement (as amended) may be terminated by either party on not less than three months' written notice being given, provided that the Administration and Secretarial Agreement (as amended) may be determined immediately:

- 7.9.1 if either party commits a material breach of any of its obligations under the Administration and Secretarial Agreement (as amended) which is not remedied within thirty days of a notice requiring the same to be remedied;
- 7.9.2 if either party commences liquidation proceedings or a receiver is appointed over any of its assets;
- 7.9.3 by the Company if no agreement is reached between the parties in relation to the Administrators' remuneration where the Administrator proposes a change to such remuneration and the Company gives notice that such proposed remuneration is not acceptable; or
- 7.9.4 by the Company if the Administrator ceases to hold the necessary licences, approvals, permits, consents or authorisations to perform its duties under the Administration and Secretarial Agreement (as amended).

Upon termination, the Administrator will be entitled to receive all fees accrued due to the date of termination but is not entitled to compensation in respect of such termination.

The Administration and Secretarial Agreement (as amended) is governed by Guernsey law.

- 7.10 The Registrar's Agreement, dated 13 December 2006, (as amended by the Amendment to the Registrar's Agreement dated 4 June 2008) between the Company and Anson Registrars Limited pursuant to which the Registrar has been appointed as registrar, paying agent and transfer agent to the Company for a period of six months commencing on the date of the agreement subject thereafter to termination on 3 months' written notice given by either party. Under the Registrar Agreement (as amended) the Registrar is entitled to receive a fee of £2.00 per Shareholder per annum or £2,500 per register per annum subject to a minimum annual fee of £4,000 together with other agreed transaction charges.
- 7.11 The UK Transfer Agent Agreement, dated 13 December 2006, between the Company, the UK Transfer Agent and the Registrar whereby the Registrar appointed Anson Administration (UK) Limited as its UK Transfer Agent. The fees incurred by the UK Transfer Agent will be borne by the Registrar as agreed between them separately and from time to time, although the Company will reimburse the UK Transfer Agent for all out-of-pocket costs and reasonable expenses reasonably and properly incurred in connection with the performance of its services under the UK Transfer Agent Agreement. The UK Transfer Agent Agreement may be terminated by either the UK Transfer Agent or the Registrar giving not less than 90 days' notice in writing at any time (such notice not to be effective within six months of commencement) or otherwise in circumstances, amongst others, where the UK Transfer Agent or the Registrar falls into liquidation or if the Registrar's Agreement is terminated for whatever reason. The UK Transfer Agent Agreement contains an indemnity from the Company in favour of the UK Transfer Agent against all claims brought by a third party against the UK Transfer Agent in the course of carrying out its duties under the UK Transfer Agent Agreement, except to the extent that any such claims result from the negligence, fraud, wilful misconduct or breach of contract or duty by or on the part of the UK Transfer Agent.
- 7.12 The Custodian Agreement, dated 12 December 2006 between the Company and the Custodian pursuant to which the Company appointed the Custodian to act, from time to time, as a custodian of some of the Company's cash and near cash investments, and to accept responsibility for the safe custody of such property of the Company which is delivered to and accepted by the Custodian or any of its sub-custodians. The Custodian Agreement may be terminated by either the Company or the Custodian giving to the other not less than 30 days' written notice.

The Custodian is entitled to a minimum fee of £2,500 per annum, plus activity fees. Upon termination, the Custodian will be entitled to receive all fees and other monies accrued to the date of termination but is not entitled to compensation in respect of such termination.

On 14 March 2008, the Company served 30 days' written notice on the Custodian to terminate the Custodian Agreement in accordance with clause 21(a) of the agreement.

## 8. WORKING CAPITAL

In the opinion of the Directors, the working capital available to the Company is sufficient for its present requirements, that is, for at least the next twelve months from the date of this Prospectus.

## 9. CAPITALISATION AND INDEBTEDNESS

The following table shows the capitalisation and indebtedness of the Company as at 30 April 2008:

	<i>As at</i> <i>30 April 2008</i> <i>US\$</i>
<b>Current debt</b>	
Guaranteed	NIL
Secured	NIL
Unguaranteed/Unsecured	NIL
<b>Non-current debt</b>	
Guaranteed	NIL
Secured	NIL
Unguaranteed/Unsecured	NIL
<b>Shareholders' funds</b>	
Share capital	NIL
Legal reserve	NIL
Other reserves	358,560,982
<b>Total</b>	<b>358,560,982</b>

The information on Current debt, Non-current debt and Shareholders' funds has been extracted without material adjustment from the unaudited management accounts of the Company for the period ended 30 April 2008.

The following table shows the Net indebtedness of the Company in the short-term and medium to long-term:

	<i>As at</i> <i>30 April 2008</i> <i>US\$</i>
Cash	9,354,252
Cash equivalent	408,555,872
Trading securities	NIL
<b>Liquidity</b>	<b>417,910,124</b>
<b>Current financial receivable</b>	<b>1,850,745</b>
Current bank debt	NIL
Current portion of non current debt	NIL
Other current financial debt	NIL
<b>Current financial debt</b>	<b>NIL</b>
<b>Net current financial indebtedness</b>	<b>NIL*</b>
Non current bank loans	NIL
Bonds issued	NIL
Other non current loans	NIL
<b>Non current financial indebtedness</b>	<b>NIL</b>
<b>Net financial indebtedness</b>	<b>NIL*</b>

The information on Net indebtedness of the Company in the short-term and medium to long-term has been extracted without material adjustment from the unaudited management accounts of the Company for the period ended 30 April 2008.

\*Whilst the Company has \$Nil indebtedness, it should be noted that the Company has liquidity of \$418,910,124 as at 30 April 2008.

## **10. LITIGATION**

- 10.1 The Company is not, and has not at any time in the 12 months immediately preceding the date of this Prospectus, been engaged in any governmental, legal or arbitration proceedings, and the Company is not aware of any governmental, legal or arbitration proceedings pending or threatened by or against the Company, nor of any such proceedings having been pending or threatened at any time in the 12 months immediately preceding the date of this Prospectus in each case which may have, or have in that period, a significant effect on the Company's financial position or profitability.

## **11. GENERAL**

- 11.1 There are no patents or other intellectual property rights, licences or particular contracts which are of fundamental importance to the Company's business.
- 11.2 The total costs and expenses of and incidental to Admission and the first tranche of the C Share Placing will be borne by the Company and will be approximately \$968,000 in respect of Admission and approximately \$282,000 in respect of the first tranche of the C Share Placing. The costs and expenses relating to the C Share Placing will be treated by the Company as liabilities attributable to the C Shares. The Gross Assets of the Company following Admission will be approximately \$479 million and the estimated assets net of expenses of the Company will be approximately \$478 million. Following the first tranche of the C Share Placing, if \$200 million of C Shares are placed, the Gross Assets of the Company will be approximately \$679 million and the estimated assets (net of expenses of the first tranche of the C Share Placing) will be approximately \$678 million.
- 11.3 Under the arrangements in force at the date of this Prospectus, the total amount of fees which it is estimated will be payable to the Directors in respect of the current and future financial periods of the Company will not exceed in aggregate £200,000 per annum.
- 11.4 Save as otherwise set out in this Prospectus and except for fees payable to the professional advisers whose names are set out on page 21 of this Prospectus and the Ordinary Shares which have been transferred to the Chairman and the Ordinary Shares held on trust on behalf of the Chairman (details of which are set out in paragraph 3.2 of this Part VII) no person has received fees, securities in the Company or any other benefit to a value of £10,000 (or its currency equivalent) whether directly or indirectly from the Company within the 12 months preceding the application for Admission, or has entered into any contractual arrangement to receive from the Company, directly or indirectly, any such fees, securities or other benefit on or after Admission.
- 11.5 There has been no significant change in the financial or trading position of the Company since 31 December 2007, being the most recent date to which audited financial information has been prepared for the Company.
- 11.6 The applications for Admission will relate to the Company's existing issued Ordinary Shares. No new Ordinary Shares will be issued on Admission.
- 11.7 The principal place of business and registered office of the Company is Anson Place, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 1EJ, which is also the business address of the Directors and the place where the Company's statutory records are kept.
- 11.8 No application is being made for the Ordinary Shares to be listed or dealt in on any stock exchange or investment exchange other than: (i) to the Official List of the UK Listing Authority; and (ii) to trading on the Main Market. The Company is currently listed on the CISX and this listing will continue after the Admission.
- 11.9 In the event of any breach of the 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 and to the CISX.

- 11.10 The Investment Manager is a company incorporated in the Cayman Islands on 14 March 2005 with registration number CB-146307. The UK subsidiary of the Investment Manager, FourWinds Capital Management (UK) Limited, is FSA registered.
- 11.11 The Investment Manager has given and has not withdrawn its consent to the inclusion in Parts I and II of this Prospectus of the statements of its beliefs and opinions in the form and context in which they appear and has authorised the contents of such statements for the purposes of rules PR5.5.3R(2)I of the Prospectus Rules.
- 11.12 The Investment Manager, whose address appears on page 21 of the Prospectus, accepts responsibility for the information contained in Parts II and IV of this Prospectus which relate to the Investment Manager and the Portfolio. To the best of the knowledge of the Investment Manager (which has taken all reasonable care to ensure that such is the case) such information is in accordance with the facts and does not omit anything likely to affect the import of such information.
- 11.13 The Sponsor has given and has not withdrawn its written consent to the issue of this Prospectus and the inclusion herein of its name and the references to it in the form and context in which they appear.
- 11.14 In accordance with the CISX Rules, the Company may not change its principal investment objectives and policies as set out in this Prospectus for a minimum period of three years from the date on which the Ordinary Shares in the Company were first admitted to both AIM and the CISX, being 20 December 2006 (as reduced by the period for which it has been in operation) other than with the consent of a majority of Shareholders.
- 11.15 In accordance with the CISX Rules, trading of the Ordinary Shares on the CISX may be suspended or cancelled by order of the CISX at any time, in such circumstances and subject to such conditions as it thinks fit, whether requested by the Company or not, where:
- 11.15.1 the CISX considers it necessary for the protection of investors or the maintenance of an orderly market;
  - 11.15.2 the Company fails, in a manner which the CISX considers material, to comply with the CISX Rules;
  - 11.15.3 the CISX considers that the percentage of Ordinary Shares in the hands of the public is below 25 per cent.; or
  - 11.15.4 the CISX considers that the Company or its business is no longer suitable for listing.
- 11.16 As a result of money laundering legislation in Guernsey, the Company and its agents and the Sponsor reserve the right in all cases to request further documentation or information from or relating to placees or applicants under the C Share Placing. Such documentation and information will be used to verify the identity of investors or the status of financial intermediaries.
- 11.17 The FSA is the competent authority in relation to the approval of this Prospectus which constitutes the prospectus in relation to the admission to trading on the Main Market of the Ordinary Shares.
- 11.18 The Company does not conduct any trading activity which is significant in the context of its group.
- 11.19 Upon Admission, save for the Company's investment in National Timber Partners (as described in paragraph 3.2 of Part IV of this Prospectus), none of the assets of the Company will be invested in other closed ended investment funds.
- 11.20 The Company is not a "feeder fund" for the purposes of the Listing Rules.
- 11.21 The Company does not have any of its capital under option or agreed conditionally or unconditionally to be put under option.
- 11.22 No person has been authorised to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be

relied upon as having been authorised. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities in any circumstances in which such offer or solicitation is unlawful. The delivery of this Prospectus shall not under any circumstances imply that the information contained herein is correct as at any time subsequent to the date hereof or that there has not been any change in the affairs of the Company since the date hereof.

- 11.23 The principal activity of the Company is to act as an investment company.
- 11.24 The Company has not, nor has it had since its incorporation, any employees and it does not own any premises.
- 11.25 The Company is committed to complying with the corporate governance obligations which apply to Guernsey registered companies. The Company is a member of the Association of Investment Companies (“AIC”) and has regard to the AIC Code of Corporate Governance and to the UK FRC Combined Code, where appropriate, taking into account the nature of the business. Save (i) as set out in paragraph 11.26 below; and (ii) for departing from the requirement to form a remuneration committee or a nomination committee (since the Company will not have any executive directors) the Company is not presently aware of any departures from the AIC Guidelines or the Combined Code.
- 11.26 The Company’s audit committee comprises the following members: Peter Niven (Chairman), Keith Oates and John Le Prevost. Under the AIC Code of Corporate Governance and the UK FRC Combined Code Mr. Oates (the Company’s Chairman) is not deemed to be independent, and as such should not sit on the audit committee. However, given Mr. Oates’ experience in financial matters, the Board has determined that it would be to the detriment of the Company if Mr. Oates were not to be a member of the audit committee. The audit committee has the following remit: to meet biannually and to consider, *inter alia*: (a) annual accounts and the unaudited half year financial report of the Company; (b) auditor reports and (c) terms of appointment and remuneration for the auditor (including overseeing the independence of the auditor, particularly as it relates to the provisions of non-audit services).
- 11.27 The Investment Manager and the Sponsor are or may be promoters of the Company and, save as disclosed in paragraphs 7.4 to 7.6 above and as set out below, no amount or benefit has been paid, or given to the promoters or any of their subsidiaries in relation to the Admission and none is intended to be paid, or given.
- 11.28 It is the intention of the Directors to implement the investment strategy of the Company as set out in Part I of this Prospectus.
- 11.29 Ernst and Young LLP have been the only auditors of the Company since incorporation.
- 11.30 Save for some of the material contracts referred to in paragraph 7 of this Part VII, the Company has not entered into any related party transactions.

## **12. INVESTMENT AND OTHER RESTRICTIONS OF THE COMPANY**

- 12.1 The Company will manage and invest its assets in accordance with its investment policy as disclosed in Part I of this Prospectus and will comply with the following investment restrictions for so long as they remain requirements of the UK Listing Authority:
- 12.1.1 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 Portfolio from conducting trading activities themselves;
- 12.1.2 not more than 10 per cent. in aggregate of the value of the total assets of the Company at the time of Admission 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 per cent. of their total assets in other listed closed ended investment funds;

- 12.1.3 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 per cent. of their total assets in other listed closed ended investment funds; and
- 12.1.4 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.

### **13. CITY CODE ON TAKEOVERS AND MERGERS**

The City Code on Takeovers and Mergers applies, *inter alia*, to offers for public companies (other than open-ended investment companies) which have their registered office in the United Kingdom, the Channel Islands or the Isle of Man and which are considered by the Takeover Panel to have their place of central management and control in the United Kingdom, the Channel Islands or the Isle of Man.

As a company incorporated in Guernsey, the Company is subject to the provisions of the City Code on Takeovers and Mergers. Should the Company's place of central management alter from Guernsey or be determined by the Takeover Panel to be outside the United Kingdom, the Channel Islands or the Isle of Man, investors would not be afforded the protections of the City Code.

Depending on the level of subscriptions in the various tranches of the C Share Placing, DWS Access (whether or not acting in concert with others) may end up holding 30 per cent. or more of the voting rights in the Company and may end up holding 50 per cent. or more of the total voting rights in the Company. Pursuant to Rule 9 of the Takeover Code, reaching or exceeding 30 per cent. of the total voting rights in the Company would normally trigger an obligation of the part of DWS Access to make a general offer for the remainder of the entire issued share capital of the Company.

Subject to approval of the same by the Shareholders, the Takeover Panel agreed to waive the obligation of DWS Access to make a general offer under Rule 9 of the Takeover Code that would otherwise arise as a result of the C Share Placing. The requisite Shareholder approval was obtained at an extraordinary general meeting of the Company held on 21 April 2008.

Under Rule 37 of the Takeover Code, any increase in the percentage holding of a shareholder which results from a company buying back its own shares will also be treated as an acquisition for the purposes of Rule 9 of the Takeover Code. The Company currently has authority to buy-back up to 14.99 per cent. of the Ordinary Shares in issue which expires at the conclusion of the next annual general meeting of the Company. The Company has no current intention to buy-back any Ordinary Shares. However, if the Company conducts a buy-back of Ordinary Shares pursuant to the current buy back authority and DWS Access would, following such buy-back exceed the limits set out above, DWS Access would be obliged to make a general offer for the Company. At the time of utilising the current or any future buy back authority and/or at the time of seeking fresh authority, the Company will consider whether it is necessary (taking account of the circumstances at the time) to seek a waiver of any obligation which might otherwise arise for DWS Access to make a general offer under Rule 9 of the Takeover Code.

#### **14. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of this Prospectus will be available free of charge to the public at the registered office of the Company and copies of the following documents will be available for inspection at the registered office of the Company and at the offices of Herbert Smith LLP at Exchange House, Primrose Street, London EC2A 2HS in each case during business hours on any weekday from the date of this Prospectus (Saturdays, Sundays and public holidays excepted) until the date falling one month after the date of Admission:

- 14.1 the Memorandum and Articles of Association of the Company;
- 14.2 the financial information referred to in Part VI(B) of this Prospectus;
- 14.3 the Directors' letters of appointment referred to in paragraph 3.3 above;
- 14.4 the material contracts referred to in paragraph 7 above;
- 14.5 the written consents referred to in paragraphs 11 above; and
- 14.6 this Prospectus.

Dated 4 June 2008

## PART VIII

### GLOSSARY OF TERMS

“committed/commitments/invested/  
investments”

Commitments/investments entered into by the Company may take a variety of different forms which can be legally binding or non-binding, or binding in part only. The forms of commitments/investments may, without limitation, include letters of intent, commitment letters, memoranda of understanding, indicative heads of terms, in principle agreements and full contractual agreements. Such forms may relate to options to participate in, rights of first refusal in respect of participation in, or obligations to participate in, an investment or opportunity. Commitment and investment structures may take the form of interests in or arrangements with companies, partnerships, joint ventures, consortia, collaborations and may involve either or both of equity and debt investments and arrangements. Commitments and investments may be subject to pre-conditions for the benefit of either or both of the Company and its counterparties including pre-conditions in respect of satisfactory due diligence, financing availability, taxation and/or regulatory and/or other consents and approvals and any other conditions whatsoever. Commitments and investments may also be for variable amounts of capital (at the option of either or both of the Company and its counterparties) with any one or more of minimum specified investment amounts, variable investment amounts, maximum specified initial investment amounts and options, rights or obligations to participate in further investment or co-investment opportunities.

Commitments and investments may be subject to call down/draw down/investment requirements which arise over time such that draw down or call down of the full amount of any commitment or investment may only be required to be funded over a number of years.

For the numerous reasons above, including in particular the non-binding and/or pre-conditional nature of certain commitments and investments, the flexible amounts of commitments and investments and the phased timing of the possible draw down or call down of commitments and investments, it is possible for the Company, at any one time and subject to compliance with any guidelines set by the Board, to enter into commitments and investments with an aggregate value which exceeds the Gross Assets of the Company from time to time.

In consequence of the nature of the various types of commitment and investment as described above, there can be no certainty that the full amount of all funds committed by the Company will in fact be drawn down in due course or at all.

“draw down/drawn down/called down”

Amounts of committed/invested capital which have been expended in relation to, or paid or transferred to or for the benefit of, an investment target.

“Highest and Best Use”

An alternative use which commands a higher price.

“Silviculture”	The art and science of controlling the establishment, growth, composition, health, and quality of forests to meet diverse needs and values of landowners and society on a sustainable basis.
“Stand”	A contiguous group of trees sufficiently uniform in age, class, distribution, composition and structure, and growing on a site of sufficiently uniform quality, to be a distinguishable unit.
“Storing on the Stump”	Storing timber by choosing not to harvest whereby the tree continues to grow.
“Sustainable Forestry Initiative or SFI”	The Sustainable Forestry Initiative programme is a comprehensive system of principles, objectives and performance measures developed by professional foresters, conservationists and scientists, among others, that combines the perpetual growing and harvesting of trees with the long-term protection of wildlife, plants, soil and water quality.

## PART IX

### DEFINITIONS

The following definitions apply throughout this Prospectus unless the context requires otherwise:

“Administration and Secretarial Agreement”	the administration agreement, dated 13 December 2006, between the Company and the Administrator, as amended on 4 June 2008, a summary of which is set out in paragraph 7.9 of Part VII of this Prospectus
“Administrator” or “Secretary”	Anson Fund Managers Limited
“Admission”	the admission to the Official List and/or admission to trading on the London Stock Exchange, as the context may require of the Ordinary Shares, becoming effective in accordance with the Listing Rules and/or the LSE Admission Standards as the context may require
“AIM”	the market of that name regulated by the London Stock Exchange
“AIM Admission”	the admission of 115,150,000 Ordinary Shares of the Company to trading on AIM and to trading on the CISX on 20 December 2006
“AIM Placing”	the placing of 115,150,000 Ordinary Shares at the time of the AIM Admission
“AIM Placing Agreement”	the conditional agreement, dated 15 December 2006 between the Company, the Investment Manager, Shore Capital, SCCL and LCF Rothschild relating to the AIM Placing, details of which are set out in paragraph 7.5 of Part VII of this Prospectus
“AIM Placing Price”	the placing price of \$1.00 per Ordinary Share in respect of Ordinary Shares placed at the time of the AIM Admission
“AIM Rules”	the rules applicable to AIM as published by the London Stock Exchange from time to time
“Amended Investment Management Agreement”	the investment management agreement, dated 13 December 2006, between the Company and the Investment Manager, as amended and restated in the Amended Investment Management Agreement, dated 4 June 2008 between the Company and the Investment Manager, details of which are set out in paragraph 7.8 of Part VII of this Prospectus
“Amendment to the Administration and Secretarial Agreement”	the amendment to the Administration and Secretarial Agreement between the Company and Anson Fund Managers Limited dated 4 June 2008
“Amendment to the Registrar’s Agreement”	the amendment to the Registrar’s Agreement between the Company and Anson Registrars Limited dated 4 June 2008
“Article”	an article in the Articles of Association of the Company
“Articles” or “Articles of Association”	the articles of association of the Company
“Auditors” or “Reporting Accountants”	the Guernsey office of Ernst & Young LLP
“Back Stop Date”	means the back stop date as defined in Part V of this Prospectus

“Board”	the board of directors of the Company
“C Share Performance Period”	has the meaning given to that term in paragraph 7.8 of Part VII of this Prospectus
“C Share Placing”	the non pre-emptive institutional placing of up to 1 billion C Shares to be effected in tranches, at escalating prices commencing at \$1 per C Share, by way of a series of placings which are anticipated to occur quarterly from the end of June 2008 to the end of March 2009
“C Share Placing Date”	the date on which the designated tranche of C Shares is issued by the Company
“C Share Placing Price”	\$1.00 per C Share less the placing costs per C Share as calculated by the Administrator in respect of the first tranche of the C Shares Placing
“C Shares”	C Shares of no par value in the capital of the Company which will be designated as C Shares on their allotment and issue and which will convert to Ordinary Shares on Conversion
“C Shareholders”	holders of C Shares
“C Share Side Letter”	the C Share Side Letter, dated 21 December 2007 (as amended on 27 March 2008), between the Company and DWS Access which governs the terms of the C Shares to be issued to DWS Access under the C Share Placing and imposes certain obligations on the Company in relation to those C Shares and the investment of the proceeds of the issue of those C Shares, a summary of which is set out in paragraph 7.3 of Part VII of this Prospectus
“CISX”	the Channel Islands Stock Exchange, LBG
“CISX Listing Sponsor”	Ozannes Securities Limited
“CISX Rules”	the listing rules published by the CISX and applicable to securities listed on the CISX
“CISX Sponsorship Agreement”	the CISX sponsorship agreement, dated 15 December 2006, between the Company and the CISX Listing Sponsor, a summary of which is set out in paragraph 7.7 of Part VII of this Prospectus
“Calculation Date”	means the calculation date as defined in Part V of this Prospectus
“Companies Laws” or “Laws”	the Companies (Guernsey) Laws 1994 to 1996, as amended
“Company”	Phaunos Timber Fund Limited
“Conversion”	has the meaning given to that term in Part V of this Prospectus
“Conversion Date”	has the meaning given to that term in Part V of this Prospectus
“Conversion Ratio”	has the meaning given to that term in Part V of this Prospectus
“CREST”	the facilities and procedures for the time being of the relevant system of which Euroclear UK and Ireland Limited has been approved as operator pursuant to the Regulations
“Custodian Agreement”	the custodian agreement, dated 12 December 2006, between the Company and the Custodian, details of which are set out in paragraph 7.12 of Part VII of this Prospectus

“Custodian”	Kleinwort Benson (Channel Islands) Limited
“Directors”	the directors of the Company, whose names are set out on page 21 of this Prospectus
“Disclosure Rules and Transparency Rules”	the disclosure rules and transparency rules made by the FSA under Part VI of FSMA
“DWS Access”	DWS ACCESS S.A.
“Early Investment Criteria Condition”	has the meaning given to that term in Part V of this Prospectus
“EEA State”	a State which is a member of the European Economic Area
“ERISA”	the US Employee Retirement Income Security Act of 1974, as amended
“Euro” or “€”	the Euro, being the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended
“Finance Bill 2008”	the annual finance bill for 2008, as published by the United Kingdom Parliament on 27 March 2008
“FSA”	the UK Financial Services Authority
“FSC”	Forestry Stewardship Council
“FSMA”	the UK Financial Services and Markets Act 2000
“Gross Assets”	the aggregate value of all of the assets of the Company, valued in accordance with the Company’s usual accounting policies
“Guernsey”	the Bailiwick of Guernsey, her territories and dependencies
“Income Statement”	the income statement table in the Statutory Accounts
“Investment Company Act”	the US Investment Company Act of 1940, as amended
“Investment Manager” or “FourWinds”	FourWinds Capital Management
“Latest Practicable Date”	3 June 2008, being the latest practicable date prior to the publication of this Prospectus for all purposes other than in respect of disclosure relating to the Portfolio
“Laws” or “Companies Laws”	the Companies (Guernsey) Laws, 1994 to 1996, as amended
“Listing Rules”	the listing rules for the London Stock Exchange issued by the FSA as the competent authority under Part VI of FSMA (as amended or replaced from time to time)
“Listing, Disclosure and Transparency Rules”	collectively, the Listing Rules, the Disclosure Rules and the Transparency Rules
“London Stock Exchange” or “LSE”	London Stock Exchange plc
“Main Market”	the London Stock Exchange’s main market for listed securities
“Memorandum”	the memorandum of association of the Company
“Net Asset Value” or “NAV”	(i) in relation to the calculation of the management fee and performance fee of the Investment Manager, the value of the

	assets of the Company less its liabilities (and for these purposes there shall be excluded from current liabilities any performance fees payable to the Investment Manager) determined in accordance with the accounting principles adopted by the Company from time to time
	(ii) in all other cases, the total assets of the Company less its total liabilities (including accrued but unpaid fees) valued in accordance with the Company's accounting policies adopted by the Company from time to time and expressed in US Dollars
“Net Asset Value per C Share”	the Net Asset Value as calculated in relation to the performance fee of the Investment Manager with the calculation of assets and liabilities in each case to the extent attributable to the C Shares divided by the number of C Shares in issue and expressed in US Dollars
“Net Asset Value per Ordinary Share”	the Net Asset Value as calculated in relation to the performance fee of the Investment Manager, with the calculation of assets and liabilities in each case to the extent attributable to the Ordinary Shares divided by the number of Ordinary Shares in issued and expressed in US Dollars
“Nominated Adviser and Broker Agreement”	the agreement, dated 15 December 2006, between each of the Company, Shore Capital and SCCL, details of which are set out in paragraph 7.6 of Part VII of this Prospectus
“Official List”	the Official List of the UK Listing Authority
“Ordinary Share Performance Period”	as that term is defined in paragraph 7.8 of Part VII of this Prospectus
“Ordinary Shares”	the ordinary shares of no par value each in the capital of the Company already in issue
“Ordinary Share Surplus”	the net assets of the Company attributable to the Ordinary Shares
“Portfolio”	the timberland and timber-related investments acquired by the Company from time to time
“Prospectus”	this Prospectus
“Prospectus Directive”	Prospectus Directive (Directive 2003/71/EC)
“Prospectus Rules”	the prospectus rules made by the UK Listing Authority under section 73 (A) of the Financial Services and Markets Act 2000
“Registrar” or “Transfer Agent” or “Paying Agent”	Anson Registrars Limited
“Regulation S”	Regulation S of the Securities Act
“Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/3755)
“Regulatory Information Service”	a primary information provider service approved to disseminate information to the market by the FSA
“Risk Factors”	the risk factors pertaining to the Company set out on pages 8 to 15 of this Prospectus

“SCCL” or “Sponsor”	Shore Capital and Corporate Limited
“Secondary Offer”	the secondary offer of Ordinary Shares conducted by the Company and completed on or about 30 May 2007
“Secondary Offer Placing Agreement”	the conditional placing agreement, dated 29 May 2007, entered into by the Company, the Investment Manager, Shore Capital, SCCL and LCF Rothschild in connection with the Secondary Offer, details of which are set out in paragraph 7.4 of Part VII of this Prospectus
“Securities Act”	the US Securities Act of 1933, as amended and the rules and regulations of the Commission promulgated thereunder
“Shareholders”	a holder of Ordinary Shares and/or C Shares, as the context may require
“Shares”	Ordinary Shares and/or C Shares, as the context may require
“Shore Capital”	Shore Capital Stockbrokers Limited
“Specified Class Consent Event”	an event requiring the consent of the holders of a class of C Shares which is, in relation to such class of C Shares, determined by the Directors upon the issue of that class to be a Specified Class Consent Event for the purpose of these Articles and which is set out in the Board resolution issuing the relevant class of C Shares
“Specified Proportion”	has the meaning given to that term in Part V of this Prospectus
“Sponsor” or “SCCL”	Shore Capital and Corporate Limited
“Sponsor and Broker Agreement”	the Sponsor and Broker Agreement dated 4 June 2008 between Shore Capital, SCCL and the Company
“Statutory Accounts”	the statutory accounts of the Company for the period ended 31 December 2007 extracts of which are set out in Part VI(B) of this Prospectus
“Sterling” or “£”	Pounds Sterling
“Takeover Code”	The City Code on Takeovers and Mergers
“Takeover Panel”	The Panel on Takeover and Mergers in the UK
“Timber Investment Committee”	the timber investment committee appointed by the Investment Manager pursuant to the Amended Investment Management Agreement
“UK” or “United Kingdom”	United Kingdom of Great Britain and Northern Ireland
“UK ISA”	individual savings account available in the UK
“UK PEP”	personal equity plan available in the UK
“UK SIPPS”	a self-invested personal pension scheme available in the UK
“UK Listing Authority” or “UKLA”	the FSA acting in its capacity as the competent authority for listing in the UK for the purposes of Part VI of FSMA
“UK Transfer Agent”	Anson Administration (UK) Limited

“UK Transfer Agent Agreement”	the UK transfer agent agreement, dated 13 December 2006, between the Company and the UK Transfer Agent, a summary of which is set out in paragraph 7.11 of Part VII of this Prospectus
“uncertificated form” or “in uncertificated form”	recorded on the register as being held in uncertificated form in CREST, Euroclear or Clearstream and title to which may be transferred by means of CREST, Euroclear or Clearstream
“USA” or “US”	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
“US Dollars” or “Dollars” or “US\$” or “\$”	the lawful currency of the US
“US Person”	has the meaning assigned to it in Regulation S under the Securities Act





