

## Regulatory Announcement

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<b>Company</b>	Phaunos Timber Fund Limited
<b>TIDM</b>	PTF
<b>Headline</b>	Preliminary Announcement
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24 APRIL 2008

### **PHAUNOS TIMBER FUND LIMITED (“PHAUNOS” OR THE “COMPANY”)**

PRELIMINARY ANNOUNCEMENT OF ANNUAL RESULTS FOR YEAR ENDED 31 DECEMBER 2007

The directors announce the Company’s annual results for the period ended 31 December 2007 as follows:-

#### **HIGHLIGHTS**

- Raised US\$485 million since launch
- Net asset value per share was US\$1.02 at 31 December 2007
- 49.4% of capital raised committed as at year end (US\$239.6 million)
- US\$54.9 million of portfolio commitments drawn down as at year end
- Since 31 December 2007 a further US\$350 million committed and further US\$8.5 million drawn down
- Conducting due diligence on an extensive pipeline of investments
- Announced further capital raising of up to \$1.6 billion
- Proposed migration to London Stock Exchange main market

Keith Oates Chairman, said:

“Phaunos Timber is poised for an exciting year; we are looking to raise new capital and to migrate to the main market of the London Stock Exchange to increase liquidity and flexibility. We are ahead of the targets set out at IPO in terms of investments and diversification, and our healthy pipeline gives us confidence that this will continue in 2008.”

#### **NOTES TO EDITORS**

Phaunos Timber Fund Limited is a closed-ended investment company investing in timber and timber related activities. It was incorporated in Guernsey on 28 September 2006 with an unlimited life. The Company raised approximately US\$115 million in December 2006 and was admitted to listing and trading on AIM and the Channel Islands Stock Exchange. The Company raised a further US\$370 million by a secondary equity fundraising in 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.

#### **Enquiries**

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#### **INVESTMENT OBJECTIVE AND POLICY**

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

The Investment Manager seeks to accomplish this 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. The only predetermined geographical limits enforced on the Company are that no single country or US region may garner more than 40% of the Company's total investment portfolio. This limit has been placed to ensure that the Company can maintain flexibility in the market place. No single investment may, at the time of acquisition, exceed 30 per cent. of the gross assets of the Company, without the unanimous approval of the Board.

It is the intention of the Investment Manager to seek investments for the Company that meet or exceed the guidelines set out in the Sustainable Forestry Initiative.

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.

The Company's investment portfolio comprises predominantly US Dollar denominated investments. The Directors intend that all monies eventually returned to shareholders and the reported Net Asset Value of a share is denominated in US Dollars. In order to hedge against interest rate risks or currency risk, the Company may, where appropriate, also enter into forward interest rate agreements and forward currency agreements.

As required under the AIM Rules, the Directors intend to seek Shareholder approval of the Company's investment objective at each annual general meeting of the Company.

The Directors do not currently intend to propose any changes to the Company's investment objective and policy (and associated investment strategy) until the earlier of the time when the net funds currently available are fully invested or three years from the first placing, save in the case of exceptional and unforeseen circumstances and with the prior approval of shareholders by way of special resolution.

The Company's investments as at 31 December 2007 were:

INVESTMENT	Valuation £	Total Net Assets %
GreenWood Tree Farm Fund	\$24,428,572	5.11%
National Timber Partners	\$3,851,238	0.81%
Aurora Forestal	\$19,000,000	3.98%
Caldrey S.A.	\$4,800,000	1.01%
5 Year EMTN linked to Timber Assets of the Massarang Foundation	\$2,918,000	0.62%

**CHAIRMAN'S STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2006****HIGHLIGHTS**

- Raised US\$485 million since launch
- Net asset value per share was US\$1.02 at 31 December 2007
- 49.4% of capital raised committed as at year end (US\$239.6 million)
- US\$54.9 million of portfolio commitments drawn down as at year end
- Since 31 December 2007 a further US\$350 million committed and further US\$8.5 million drawn down
- Conducting due diligence on an extensive pipeline of investments
- Announced further capital raising of up to \$1.6 billion
- Proposed migration to London Stock Exchange main market

**INTRODUCTION**

Dear Shareholders,

It is my pleasure to report that at the year end the Company had identified and secured attractive investments for 49.4% of the capital raised in 2006-2007, namely \$239.6 million committed at year end and a further US\$350 million has been committed since the year end. Including some additional properties that are in the pipeline and nearing completion of due diligence, and allowing for the working capital reserves that are necessary for the operations, it is accurate to say that the available capital in the Company is fully committed.

This achievement is within fifteen months of launch and within nine months of the second issue. The Company is substantially ahead of the timeframe detailed during the fundraising stage and we endeavour to continue to exceed our stated goals.

As at 31 December 2007, the Company had a portfolio that contained five investments: two in North America, two in South America and one in Asia. Since the year end further draw downs have occurred in relation to existing investments in North America and new investments in South America and Serbia, further commitments have been made in China and Eastern Europe. The Company has achieved a diversified portfolio geographically and by species, age class and end market use, in line with our stated strategy.

Our Investment Manager, FourWinds Capital Management, has a pipeline of potential investments that continues to grow. FourWinds has an international reputation in the timber investment management business, and is increasingly sought out for participation in desirable investments for the Company's portfolio and therefore has a growing pipeline of potential investments. This allows the Company to continue to be selective and to implement a considered strategy for long-term growth and profitability.

**NET ASSET VALUE**

The Company's audited net asset value per share was US\$1.02 as at 31 December 2007.

**DIVIDENDS**

The Board is not currently proposing a dividend for the period but is to review this situation later in 2008.

**INVESTMENTS**

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

US\$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 farm in Washington and Oregon. The tree farms are certified under the stringent forest practices guidelines of the Forest Stewardship Council ("FSC"). US\$24.4 million was drawn down as at 31 December 2007.

US\$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. US\$3.9 million (net of fees and distributions) was drawn down as at 31 December 2007.

US\$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 Forest Stewardship Council ("FSC"). US\$19.0 million was drawn down as at 31 December 2007.

US\$6.8 million to a new company designed to provide forestry services to the growing timber management industry in Uruguay. US\$4.8 million was drawn down as at 31 December 2007.

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 US\$7.3 million, with several more in the pipeline and under due diligence.

US\$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 our plans for future plants similarly using wood waste that otherwise ends up as a pollutant in the local environment, is entirely congruent with our goal of maintaining the highest environmental standards wherever we operate. US\$1,471 was drawn down as at 31 December 2007. Additionally, because of the Company's participation in Serbia, the Investment Manager has been able to identify additional land-based opportunities in Eastern Europe.

€4 million (US\$ 5.5 million) in a loan to a prominent Dutch foundation operating in Indonesia, which is secured by a tropical hardwood plantation, of which €2 million (US\$ 2.8 million) was drawn down as at 31 December 2007.

US\$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. Again, we have identified a strong in-country partner who will contribute assets and expertise to allow us to grow our investment base under the daily management of a partner with whom our interests are closely aligned.

Since 31 December 2007, the Company has committed the following amounts:

US\$200 million in joint venture partnership in China with an international timberland investment company with whom we have worked in the past, and which has evidenced the highest standards in environmental and management practices.

US\$150 million to a joint venture with Aitchesse Limited aimed at investing in forestry assets across Eastern Europe. Investment could begin as early as the second quarter of 2008.

The Investment Manager is working through a pipeline of potential projects that will give the Company a strong foothold in this growing market.

We continue to pursue exceptional opportunities in every market in the world. Our goal is simply to find the best investments in the world for our investors.

## OUTLOOK

We are poised for an exciting year. We are seeking to raise new capital of up to US\$1.6 billion. This new capital will be used to provide even greater reach and diversification in investments for all of our investors.

We will migrate the Company to the Official List of the London Stock Exchange, in the belief that our investors will benefit greatly from the increased liquidity and flexibility that a main market listing will provide. The pipeline is healthy and we are confident that our existing investments will continue to generate value for our shareholders. Phaunos continues to break new ground in timber investment on behalf of all our investors and with investments in 5 different geographical areas, Phaunos has become one of the most diverse timber portfolios in the world.

I am delighted to report our progress to date, and look forward to our progress in 2008. In the meantime, shareholders should note that current information about the Company is always available on our website: [www.phaunistimber.com](http://www.phaunistimber.com).

Keith Oates  
Chairman  
24 April 2008

## CONSOLIDATED STATEMENT OF OPERATIONS

for the period from incorporation to 31 December 2007

	Note	28 Sep 2006 to 31 Dec 2007 USD
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		-
Net gain for the period attributable to shareholders		<u>9,620,055</u>
Earnings per share for the period - Basic and Diluted	7	Cents 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.

## CONSOLIDATED BALANCE SHEET

as at 31 December 2007

	Note	31 Dec 2007 USD
<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	<u>121,263</u>
		50,321,160
<b>CURRENT ASSETS</b>		
Debtors	13	2,602,669
Cash and cash equivalents	12	<u>425,863,895</u>
		428,466,564
<b>TOTAL ASSETS</b>		<u>478,787,724</u>
<b>CURRENT LIABILITIES</b>		
Creditors - due within one year	14	<u>188,092</u>
<b>TOTAL LIABILITIES</b>		188,092
<b>EQUITY</b>		
Share capital	15	-
Share premium	16	358,560,982
Retained earnings	17	9,620,055
Distributable reserves	18	<u>110,418,595</u>
<b>TOTAL EQUITY</b>		478,599,632
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>478,787,724</u>
<b>SHARES IN ISSUE</b>		470,919,230
<b>NAV PER SHARE</b>		USD 1.02

## CONSOLIDATED STATEMENT OF CASH FLOWS

for the period ended 31 December 2007

	Note	31 Dec 2007 USD
Operating activities		
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		<u>(995,627)</u>
Net cash outflow from operating activities before income		(6,628,024)
Interest received		13,609,759
Investment income received		<u>134,461</u>
Net cash inflow from operating activities		<u>7,116,196</u>
Investing activities		
Purchase of financial assets		(50,108,528)
Purchase of intangible assets		(2,087)
Purchase of property, plant and equipment		(121,263)
		<u>(50,231,878)</u>
Net cash outflow from investing activities		<u>(50,231,878)</u>
Financing activities		
Proceeds of issue of shares		485,150,000
Costs of issue of shares		(16,170,423)
		<u>468,979,577</u>
Net cash inflow from financing activities		<u>468,979,577</u>
Cash and cash equivalents at beginning of period		-
Increase in cash and cash equivalents		<u>425,863,895</u>
Cash and cash equivalents at end of period	12	<u>425,863,895</u>

## STATEMENT OF CHANGES IN EQUITY

for the period ended 31 December 2007

## GROUP

	31 Dec 2007 USD
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	
	31 Dec 2007 USD
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>

**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.

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.

**1 ACCOUNTING POLICIES - continued**

**(c) Taxation (continued)**

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 fund.

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

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

Designation of the investments in this way is consistent with the Company's documented risk management



policy and investment strategy and information about the investments is provided to the board of directors on this basis.

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

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

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

**(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.

**1 ACCOUNTING POLICIES - continued**

**(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, ie 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

**(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

**1 ACCOUNTING POLICIES - continued**

**(n) Other provisions, contingent liabilities and contingent assets (continued)**

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.

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% 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:

	USA USD	South America USD	Asia USD	Unallocated USD	Total USD
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

## 4 OPERATING INCOME

	Company 31 Dec 2007 USD	Group 31 Dec 2007 USD
Investment income	134,461	134,461
Bank interest	15,199,106	15,216,801
	15,333,567	15,351,262

## 5 OPERATING EXPENSES

Company 31 Dec 2007 USD	Group 31 Dec 2007 USD
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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.

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

## 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

USD

#### Cost:

Cost at 28 September 2006	-
Additions	<u>2,087</u>
Cost at 31 December 2007	<u>2,087</u>

#### Amortisation:

Amortisation at 28 September 2006	-
Charge for the period	<u>-</u>
Amortisation at 31 December 2007	<u>-</u>

#### Net book value:

At 31 December 2007	<u>2,087</u>
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At 28 September 2006	<u>-</u>
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## 9 PLANT AND EQUIPMENT

### GROUP

**USD**

#### Cost:

Cost at 28 September 2006	-
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Additions	<u>121,263</u>
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Cost at 31 December 2007	<u>121,263</u>
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#### Depreciation:

Depreciation at 28 September 2006	-
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Charge for the period	<u>-</u>
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Depreciation at 31 December 2007	<u>-</u>
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#### Net book value:

At 31 December 2007	<u>121,263</u>
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At 28 September 2006	<u>-</u>
----------------------	----------

## 10 INVESTMENTS IN SUBSIDIARIES

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

Company	Place of Incorporation	Percentage of shares	31 Dec 2007 USD
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% 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

#### UNQUOTED FINANCIAL ASSETS DESIGNATED THROUGH PROFIT OR LOSS AT FAIR VALUE

**31 Dec 2007  
USD**

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	<u>92,670</u>
Unrealised appreciation/(depreciation) and foreign exchange movement on valuation carried forward	89,282
Closing valuation	<u>50,197,810</u>

**11 INVESTMENTS (continued)****COMPANY**

<b>UNQUOTED FINANCIAL ASSETS DESIGNATED THROUGH PROFIT OR LOSS AS FAIR VALUE</b>	<b>31 Dec 2007 USD</b>	<b>31 Dec 2006 GBP</b>
Opening portfolio cost	-	-
Additions at cost	25,679,956	
Unrealised appreciation on valuation brought forward	-	#REF!
Unrealised appreciation/(depreciation) on valuation for the period	(3,388)	#REF!
Unrealised foreign exchange movement brought forward	-	
Unrealised foreign exchange movement for the period	<u>92,670</u>	
Unrealised appreciation/(depreciation) and foreign exchange movement on valuation carried forward	89,282	
Closing valuation	<u>25,769,238</u>	#REF!
	#REF!	#REF!

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

**12 CASH AND CASH EQUIVALENTS**

	<b>Company 31 Dec 2007 USD</b>	<b>Group 31 Dec 2007 USD</b>
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 are insignificant.

**13 DEBTORS**

	<b>Company 31 Dec 2007 USD</b>	<b>Group 31 Dec 2007 USD</b>
Prepayments	36,557	884,545
Accrued income	1,607,042	1,607,042

Sundry debtors	76,467	111,082	
	1,720,066	2,602,669	
<b>14 CREDITORS</b>			
(amounts falling due within one year)	<b>30 Jun 2007</b>	<b>31 Dec 2006</b>	
	<b>Company</b>	<b>Group</b>	
	<b>31 Dec 2007</b>	<b>31 Dec 2007</b>	
	<b>USD</b>	<b>USD</b>	
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	
	90,437	188,092	
<b>15 SHARE CAPITAL</b>			
<b>Authorised, issued and fully paid</b>	<b>31 Dec 2007</b>		
Unlimited Ordinary Shares of no par value	<b>USD</b>		
	-		
The issues of Ordinary Shares took place as follows:			
	<b>Number</b>	<b>Price per</b>	<b>Amount</b>
<b>Date of issue</b>	<b>of shares</b>	<b>share USD</b>	<b>received</b>
20 December 2006	115,150,000	1.00	115,150,000
05 June 2007	355,769,230	1.04	370,000,000
	470,919,230		485,150,000
As the company has only one class of shares, the holders of its shares will under general law be entitled to participate in any surplus assets in a winding-up in proportion to their shareholdings.			
<b>16 SHARE PREMIUM</b>			
<b>COMPANY AND GROUP</b>			
	<b>31 Dec 2007</b>	<b>31 Dec 2006</b>	
	<b>USD</b>	<b>GBP</b>	
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)		-
	358,560,982		-
<b>17 RETAINED EARNINGS</b>			
	<b>Company</b>	<b>Group</b>	
	<b>31 Dec 2007</b>	<b>31 Dec 2007</b>	
	<b>USD</b>	<b>USD</b>	
Balance as at 28 September 2006	-	-	

Net gain for the period attributable to shareholders	9,773,900	9,620,055
	<hr/>	<hr/>
Balance as at 31 December 2007	<u>9,773,900</u>	<u>9,620,055</u>

## 18 DISTRIBUTABLE RESERVES

	<b>Company</b>	<b>Group</b>
	<b>31 Dec 2007</b>	<b>31 Dec 2007</b>
	<b>USD</b>	<b>USD</b>
Balance as at 28 September 2006	-	-
Transferred from share premium	110,418,595	110,418,595
	<hr/>	<hr/>
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.

## 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 3.

### *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.

## 20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

### (a) Market Price Risk (continued)

#### *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.

#### *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:

	<b>Group % of total investments</b>	<b>Company % of total investments</b>
<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% increase and decrease in the market prices, with 5% being the sensitivity rate used when reporting price risk internally to key management personnel and representing management's assessment of the possible change in market prices.

At 31 December 2007, if market prices had been 5% 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% - Group (0.24% - Company).

If market prices had been 5% 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% - Group (0.24% - Company).

**(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.

**20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued**

**(b) Liquidity Risk (continued)**

The following illustrates the maturity analysis of the Company's financial assets and liabilities as at the period end:

<b>GROUP</b>	Due on demand USD	Due between 3 and 12 months USD	Due>5 years USD	Total USD
<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>	<b>425,863,895</b>	<b>2,602,669</b>	<b>50,321,160</b>	<b>478,787,724</b>
<b>Liabilities</b>				
Trade and other payables	-	188,092	-	188,092
<b>Total liabilities</b>	<b>-</b>	<b>188,092</b>	<b>-</b>	<b>188,092</b>
<b>COMPANY</b>				
	Due on demand USD	Due between 3 and 12 months USD	Due>5 years USD	Total USD
<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	<u>-</u>	<u>90,437</u>	<u>-</u>	<u>90,437</u>
<b>Total liabilities</b>	<u>-</u>	<u>90,437</u>	<u>-</u>	<u>90,437</u>

**(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%

With the exception of the Masarang EMTN which earns interest at a fixed rate of 12% 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 % 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 % of Total Assets due to a decrease in the amount of interest receivable on the bank balances.

**20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued****(c) Interest Rate Risk (continued)**

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 % 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 % 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% 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.

**(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:

	<b>Group Assets USD</b>	<b>Company Assets USD</b>
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% 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% 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.

**(e) 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.

**20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued**

**(e) Capital Management (continued)**

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.

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:

	<b>Group USD</b>	<b>Company USD</b>
Share premium	358,560,982	358,560,982
Retained earnings	9,620,055	9,773,900
Distributable reserves	<u>110,418,595</u>	<u>110,418,595</u>
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% of Caldrey SA's shares will be transferred to the Manager based on performance over an extended period.

Please note that this preliminary statement does not comprise the full annual report and accounts of the Company for the year to 31 December 2007. The full report and accounts is expected to be posted to shareholders on or by 31 April 2008 and will also be available to download in pdf format on the Company's website at the same time.

Phaunos Timber Fund Limited is a closed-end Guernsey Investment Company listed on the Channel Islands Stock Exchange (PTF) and traded on AIM, a subsidiary of the London Stock Exchange. It invests in timberland and timber-related assets internationally and is managed by FourWinds Capital Management. For further information about the fund and its investment strategies, please visit; [www.phaunostimber.com](http://www.phaunostimber.com)

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24 April 2008

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