

A Resource That Lasts Forever™



Navigating China – An International Investor's Perspective on Timberland Opportunities



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International Poplar Commission

Beijing, China, October 27, 2008

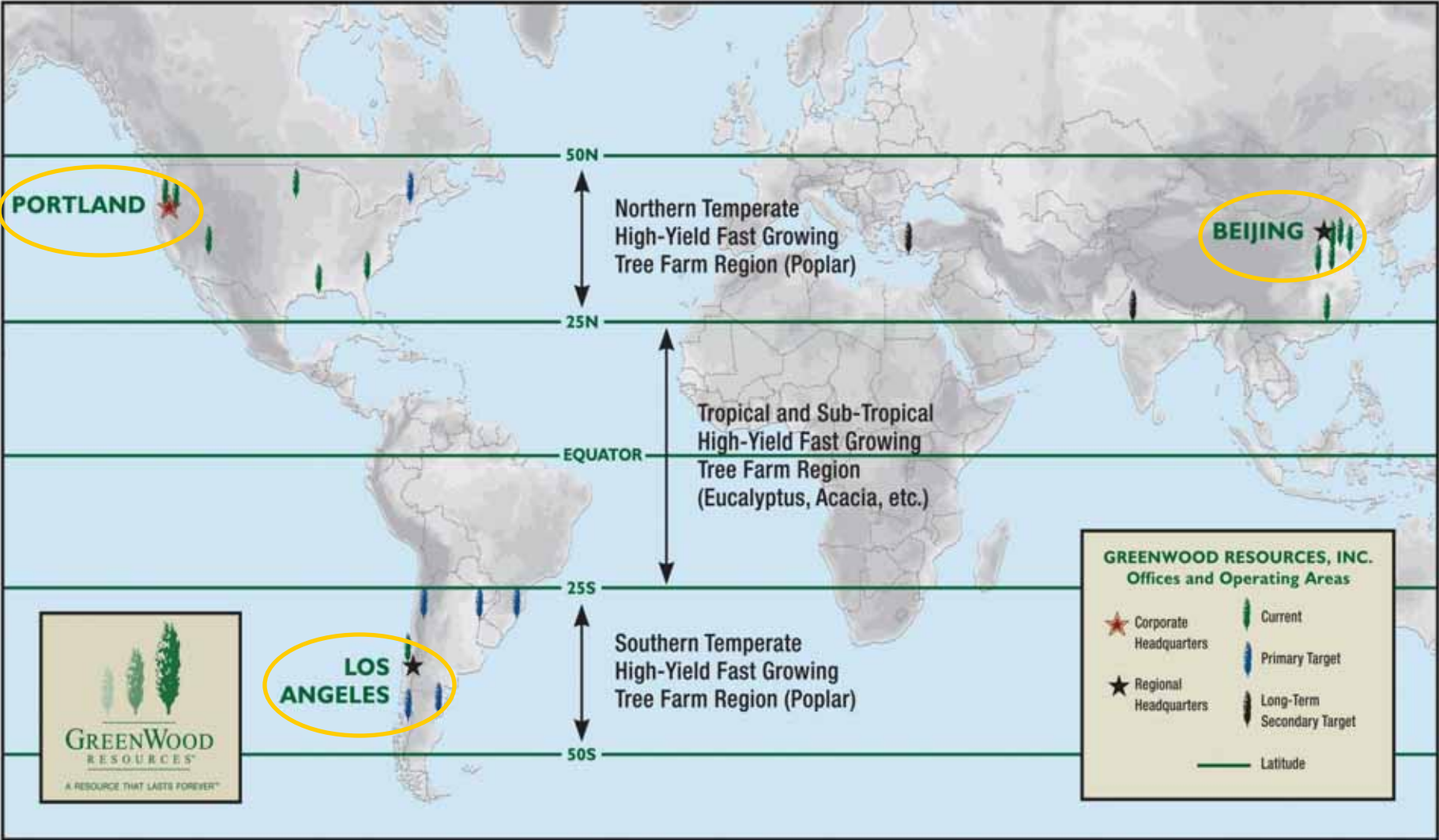


Topics

- About GreenWood Resources
- Key Changes in the Timber Investing World
- Fundamentals of China Plantation Industry
- Opportunities and Challenges for Timber Investing In China
- Keys to Success
- Concluding Thoughts



GWR Global Organization and Target Markets



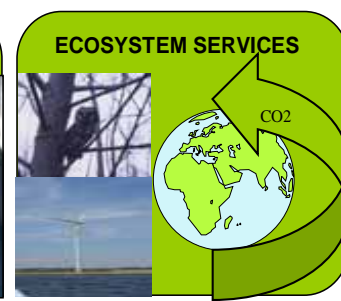
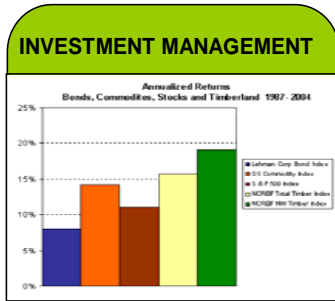
About GreenWood Resources

Five key business groups

1. Capital/Investment Management
2. Tree Improvement and Nurseries
3. Resource Management/Tree Farm Operations
4. Product Sales and Trading
5. Ecosystem Services

绿木源

Business Area



Focus and Strategy

- > Organize and raise investment capital into boutique investment entities
- > Manage investment capital and report to investors
- > Maintain client service and BD
- > Global acquisition standards and execution

- > Manage of elite plant mtl for regional markets (poplar, teak, euc, paulownia, acacia, bamboo, ect.)
- > Nursery operations for production of elite plant material
- > Maintain cutting edge techn. for improved plant mtl and propag. for multiple market values

- > Professional silvicultural mgmnt for tree farm operations
- > Professional irrigation mgmnt for tree farm operations
- > Harvesting and log management
- > Research on improved methods for cost reduction and value enhancements

- > Link wood from tree farms to highest and best markets
- > Manage/Develop strategic partnerships with converting strategics and facilities
- > Provide linkage to markets for third party wood volume

- > Un-lock gains for tree farm investments and land mgmnt
- > Monetize carbon credits biodiversity credits, wetland credits water quality/quantity credits, and renewable energy credits
- > Manage land for total eco-sys. value



About GreenWood Resources (continued)

GWR is an integrated company focused on the global market opportunity for developing, managing and investing into sustainable short rotation hardwood tree farms.

- **Aug 2007: closure of a US\$175 million**
 - **GreenWood Tree Farm Fund (GTFF)** for high-yield fast-growing tree farm assets in North America.
 - Successfully deployed US\$145 million into consolidating fast growing tree farm assets in the Pacific Northwest
 - Invested US\$35 million in a state-of-the-art manufacturing facility
- **Feb 2008: announced US\$200 million capital commitment to China**
 - a joint venture agreement with Phaunos Timber Fund Limited (Phaunos) for investments into China tree farm assets.
- **2008-9: to organize additional capital to invest into tree farm assets in Asia and South America.**
 - US\$100 million **GreenWood China Tree Farm Fund I**
 - US\$200 million **GreenWood SA Tree Farm Fund**
- **Five Year Goal: to organize and manage over US\$1.5 billion**
 - of timber investment portfolio globally in North America, China and South America. This includes investments into existing plantations and new tree farm development opportunities organized and managed by GreenWood.



GreenWood Boardman Tree Farm



GreenWood Tree Farms



WELL-MANAGED PLANTATION CERTIFICATION

Scientific Certification Systems does hereby certify that an independent Forest Management evaluation under the Forest Conservation Program has been conducted on the company or district named below and that this company or district has been shown to meet all of the necessary qualifications to be certified as a Well-Managed Plantation, in accordance with the Forest Stewardship Council's Principles and Criteria as elaborated by the Pacific Coast (USA) Regional Forest Stewardship Standard.

GreenWood Resources, Inc.

SCS Certification Registration Number: SCS-FM/COC-00034P

P.O. Box 38, Boardman, OR, 97826

CERTIFIED PRODUCTS: Hybrid Poplar Sawlogs and Fiber



SCIENTIFIC CERTIFICATION SYSTEMS
2200 Powell Street, Suite 725
Emeryville, CA 94608 USA Tel 510-452-8000 Fax 510-452-8001
FSC Registration #003

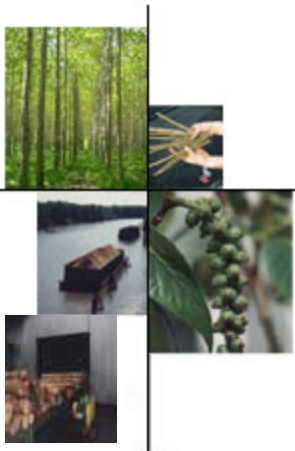
Robert J. Hrubec, Ph.D., Senior Vice-President May 14, 2007 Sept. 1, 2011
Dated Expiration

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Manufacture and Market Multiple Products



Logs for sawn products, veneer, and engineered wood products



Chips:

- Pulp
- Biomass Energy





GWR History in China

- 2001 – Began traveling to China with Mercy Corps
- 2001-present – developed relationships and maintained a consistent presence with numerous trips and plant material testing programs
- Fall 2004 – made decision to enter China, established GWR China as BVI company
- Fall 2005 – established Wholly Foreign Owned Enterprise – Beijing headquarters
- Spring 2006/2007 – established nurseries in Henan, Hebei, Anhui, Liaoning and Shandong Provinces, plus Beijing
- Summer 2007 – initiated due diligence for cooperation of existing and new tree farms



Key Changes in the Timber Investing World

- Large amounts of capital invested globally since late 80's
 - ~\$50 billion
- Increasing amounts of capital committed but un-invested
 - ~\$20 billion
- Reduced returns for mature markets and traditional investments
 - Current expectations = 5-8% real IRR
- Many new players in the timber investment space
 - REITs, public and private TIMOs
- Increased interest in emerging markets
 - Attraction of higher risk adjusted returns – 15-25% IRR
- Increased development of longer-term investments
 - Open ended funds focused on long-term cash flow vs. +/- ten year exit



Fundamentals of China Plantation Industry

-- China's Forestry Industry Overview Today

- China ranks No. 5 in the world with 175 million ha of forest
 - But has only 18% of forest coverage as a percentage of total land. (global average is 30.3% with Brazil ranks #1 with 57.2%, USA #3 with 33.1%)
- China is the second largest forest product importer
 - \$10 billion in 2005
- Imbalanced distribution of resources
 - Five provinces, Tibet, Heilongjiang, Sichuan, Yunnan and Inner Mongolia, account 62% of China total forest inventory.
- Forestry industry is one of the lowest income segments
 - Annual salary of \$955 due to its long harvesting cycle
 - Daily rate from \$4 – 8 depends on region
 - but significantly increased since 2006
- Young average forest age and heavy reliance on imports
 - Most of fast-growing and high-yield trees were planted since 2003.
- Fragmented downstream markets
- Complex distribution systems



Fundamentals of China Plantation Industry

--Supply and Demand

- China has become a leading world manufacturer of finished timber products
 - World's largest exporter of plywood
 - Escalating exports of wood products and furniture
 - China becoming leader in paper and paperboard production

- China's wood demand (logs and lumber) is growing quickly
 - Export growth in finished products
 - Growth in domestic consumption

- Wood supply increasing from plantations

- Wood supply from natural forests declining

Fundamentals of China Plantation Industry

--Escalating exports of wood products and furniture drive demand for timber

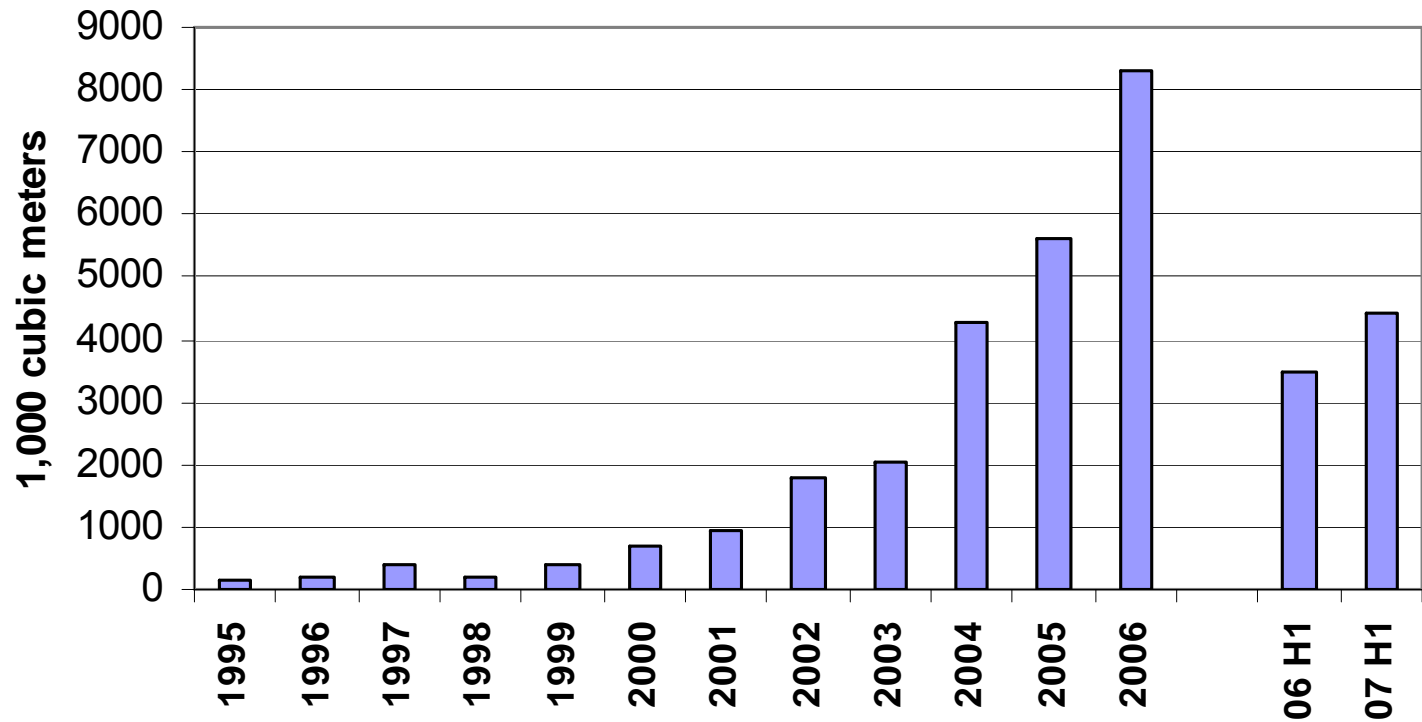


Source: RISI 2007

Fundamentals of China Plantation Industry

--China is the world's largest exporter of plywood – requiring both domestic & imported logs

China: Plywood Export Volume, 1995 - 2007 H1

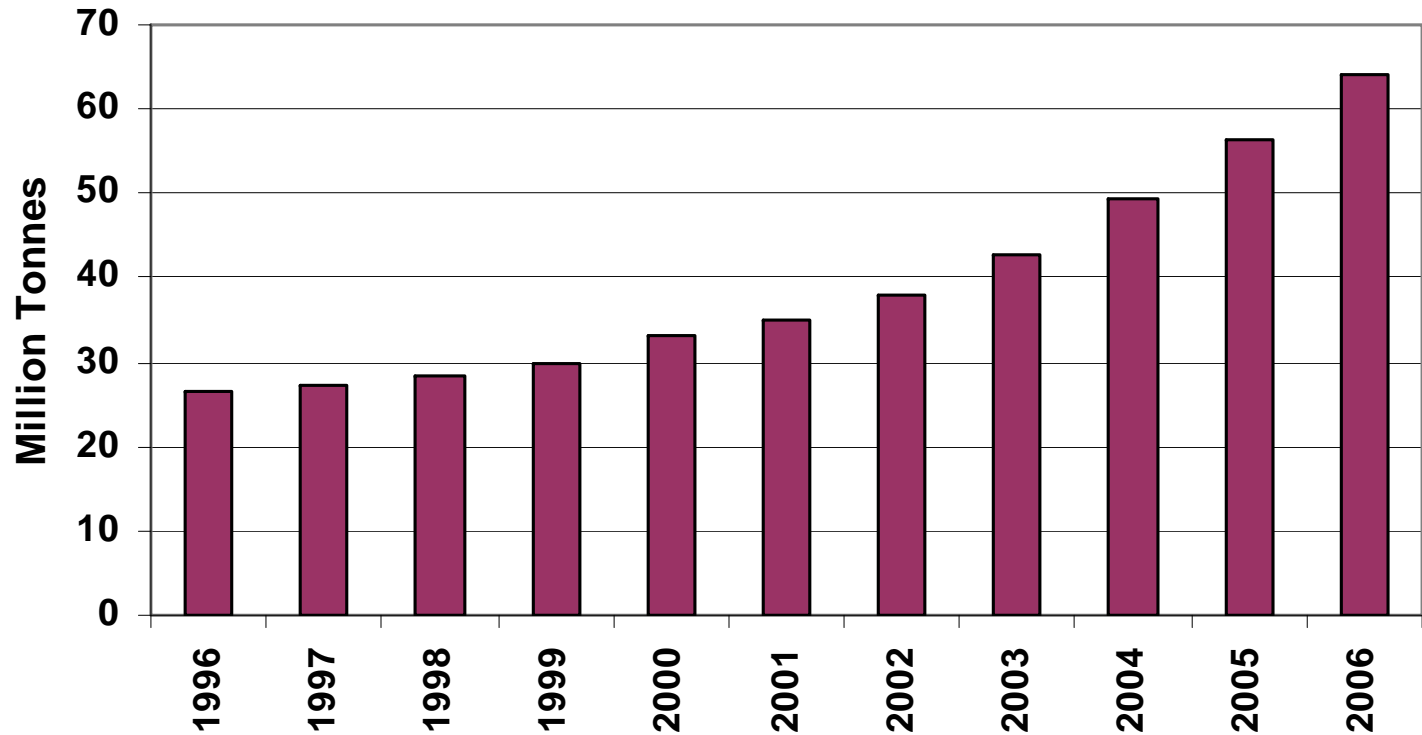


Source: RISI 2007

Fundamentals of China Plantation Industry

--China will surpass the US in paper production before 2015, increasing demand for fiber sources

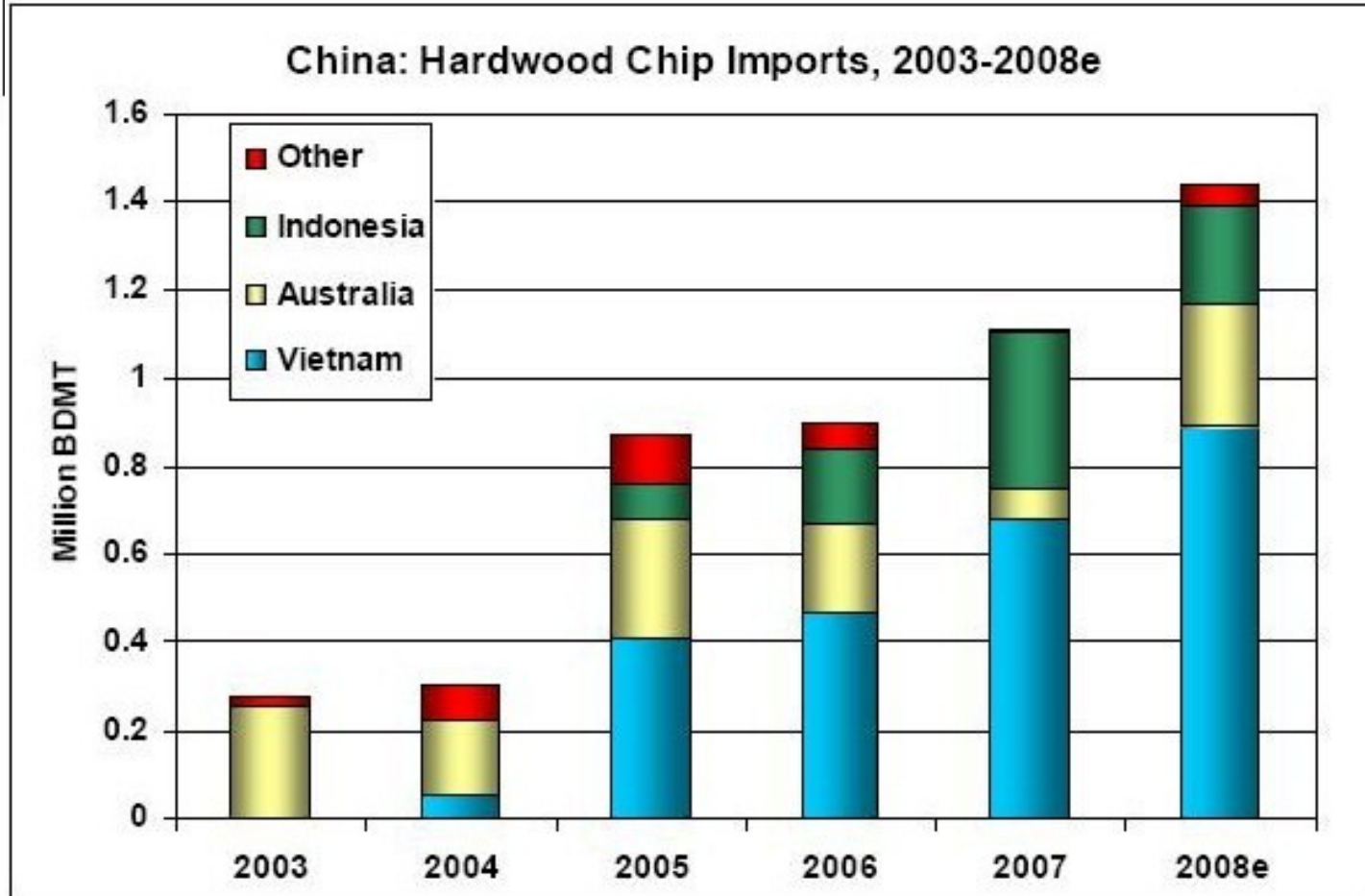
China: Paper and Paperboard Production, 1996 - 2006



Source: RISI 2007

Fundamentals of China Plantation Industry

--Although log imports in China are declining in 2008, woodchip imports continue to expand rapidly



Source: RISI 2008



Fundamentals of China Plantation Industry

--Goals of Forestry Programs

- achieve greater self-sufficiency of wood fiber
- import special wood fiber needs
- restore and conserve natural forests

Six Key Forestry Projects





Fundamentals of China Plantation Industry

--Key Forestry Projects

1. Natural Forest Protection Program

- 17 provinces, logging ban along upper reaches of Yangtze and Yellow River
- Spent \$815 million (RMB6.2 billion), established 1.7 million ha and outputted 12.5 million M³ in 2005

2. Conversion of Cropland to Forest Program

- 25 provinces, recover cultivated slope land and fragile grain land and turn them into forests or grassland
- Spent \$3.5 billion (RMB26.8 billion) and planted 3.4 million ha in 2005

3. Desertification Control Program for Areas of Beijing and Tianjin

- increase grass, shrubs, and trees by 5.2 million ha to stop and reverse conversion to desert
- Spent \$540 million (RMB4.1 billion) and established 1.17 million ha in 2005



Fundamentals of China Plantation Industry

--Key Forestry Projects (Cont.)

4. Key Shelterbelt Development Program

- In North, Middle and Lower Reaches of the Yangtze River
- Invested \$112 million (RMB852 million) and completed 368,200 ha in 2005

5. Wildlife Conservation and Natural Reserve Dev Program

- protect key endangered animals through a national reserve network
- Spent \$32 million (RMB245 million) and established 1,699 total number of nature reserves with total of 120 million ha.

6. The Forest Industrial Base Development Program

- Focus on fast-growing and high-yield timber plantation
- 18 provinces, increase domestic timber supply and provide sustainable rural economic development
- 13 million ha, predominately poplar, 45% for pulpwood
- Total government investment of \$20 million (RMB154 million)
 - Primary gov't. support in form of reduced taxes and implementation simplification





Fundamentals of China Plantation Industry

-- China's Forestry Industry Overview Today

- **State Council: No. 9 Policy issued in 2003**
 - Set legal framework for private sector participation in the forestry industry
 - Recognized timber ownership and allowed free trade
 - Put private company equal to SOE and collective farms in terms of tax exemptions, interest free loans benefits.
 - Triggered massive fast-growing high-yield plantation in 2003.

- **Logging quotas for plantations, logging ban on most natural forests**
 - Manage supply and demand in specific region
 - Specifies sizes and age of trees to be harvested
 - Must obtain harvesting permits in order to cut trees
 - Deposit into escrow to ensure the reforestation after harvest

Source: China Forestry Yearbook 2006



Fundamentals of China Plantation Industry

-- China's Forestry Industry Overview Today (cont.)

➤ Encouraged industry – forestry sector policy highlights

- Full or partial corporate income tax exemptions for forestry sector
- Forestry levy gradually exempted nationwide
- Increase investments in fast growth high yield tree farms
- Encourage banks to actively provide financial services for industry
- Support financing to small forestry enterprises
- Develop government-supported forestry insurance system
- Improve logging quota management system
- Promote exchange of forestry, timber, and woodland usage right and promote using forestry usage rights as collateral for bank loans

➤ Our Interpretation:

- These new policies demonstrate importance of the forestry sector in the eyes of the central government
- First joint promotion of forestry by key organizations
 - NDRC, SFA, Ministry of Finance, Ministry of Commerce, State tax bureau, Banking Regulatory Commission
- Programs likely to support increased foreign investment over time

Fundamentals of China Plantation Industry

-- China's Forestry Industry Overview Today (cont.)

➤ Regulatory Complexities

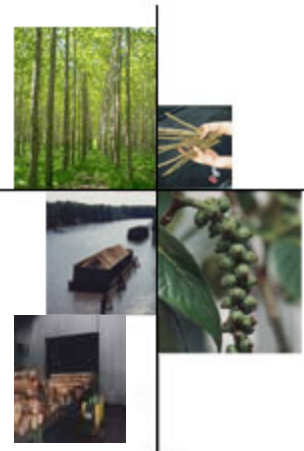
- State Council and National Development Reform Commission (NDRC)
 - Macro strategy, national rules and regulations
- State Forestry Administration (SFA)
 - Policy implementation and execution
- Provincial, city and local Forestry Administration
 - Transaction negotiation and approval Incentive and subsidies
 - Intermediary with local farmers.
- Some large SOEs also have heavy influence in policy making and implementation

➤ Land Lease Ownership Entities:

- Government owned (central, provincial and city)
- State owned enterprises
- Collective owned
- Private company owned
- Individual farmer owned

➤ Forestry Ownership Structures:

- Land lease rights (from 1-20, 30, 50 years, possible 70 years)
- Timber ownership rights (certificate is issued by government)
- Forest Tree Use rights,
- Harvesting rights (based on logging quota and deposit)





Opportunities for Timber Investing In China

- Forestry industry just began their privatization process
 - Pilot projects set up in 2006 in southern China
 - Pilot areas to test the privatization in northeast of China in 2007
 - Intent to roll out in 2008
 - Government support of other industries have resulted in consistent and large foreign invested capital – apparel, footwear, high-tech

- Market demand for timber products far exceeds supply
 - Situation will continue for foreseeable future – explosive demand growth will outpace growth in supply

- Attractive stumpage prices for domestic timber

- Chinese enterprises are consolidating and building large projects
 - Tiger, Nine Dragons, Huatai, Chenming, Sun, Meili, and more in the approval pipeline.

- More multi-national companies are exploring setting up large scale pulp, paper and wood products manufacturing facilities.
 - Japan's Oji Paper's Nantong Plant
 - Stora Enso's Southern China Project



Opportunities for Timber Investing In China

- Government policies should improve and encourage timber investing
 - Other encouraged industry sector results support this statement
 - Over \$40 billion in annual foreign invested capital over recent past

- China's evolution to a market economy should reduce country risks
 - Entry in WTO and Asia Pacific Economic Cooperation (APEC)
 - Reduced tariffs and lower trade barriers
 - Reliance on continued foreign invested capital and export market demand drives more stable policies
 - Rule of law becoming stronger
 - Intellectual property rights protection on the increase
 - Increased “westernized” management resources

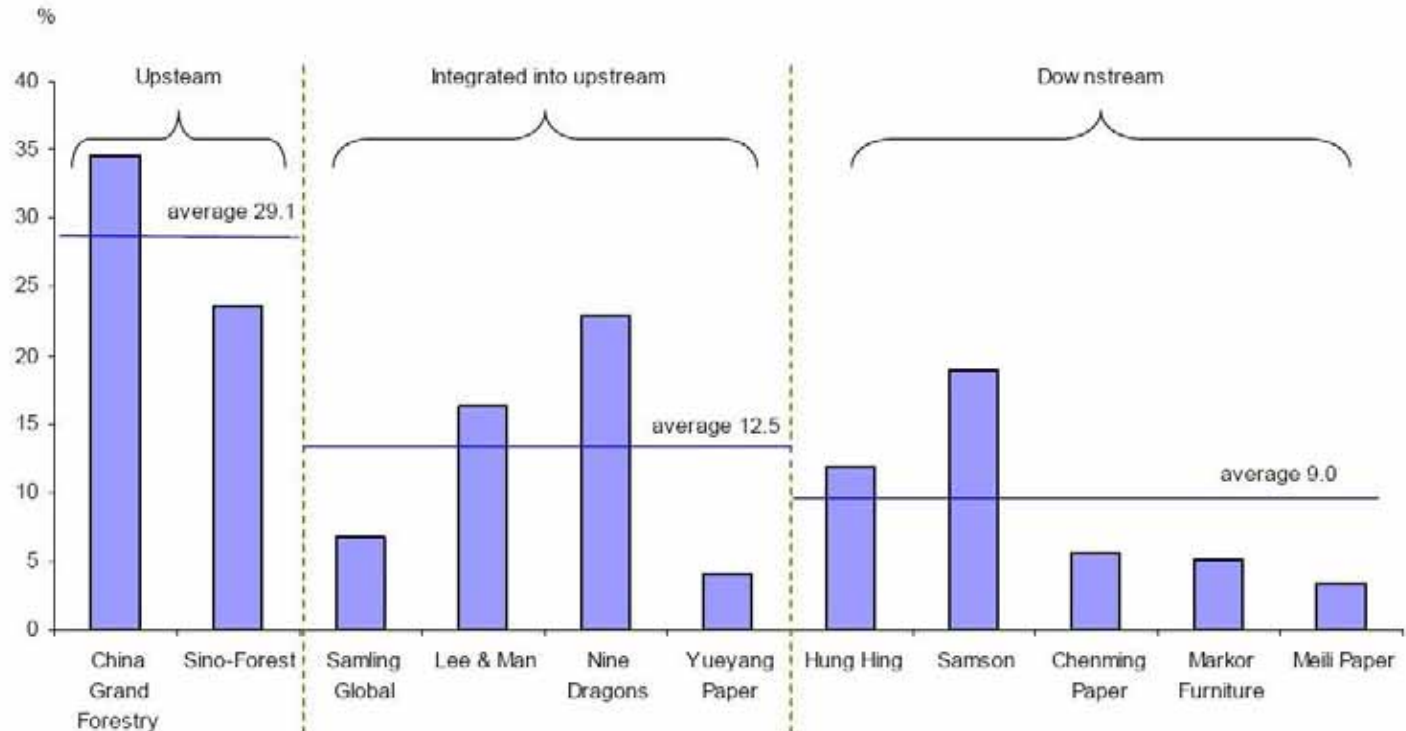
- Consolidation opportunities – timber resources, value-added processing, supply chain/distribution efficiencies

- Move away from fossil fuel based energy and fuels

Opportunities for Timber Investing In China

➤ China Industry Players

- **Domestic Companies**: Jilin Forest Industry, Yongan Forestry
- **Upstream**: China Grand Forest Co. and Sino Forest,
- **Vertically Integrated**: Yueyang Paper, Chenming Paper, Meili Paper, Huatai Paper, Stora Enso, Dare Technology
- **Industry Consolidator**: Nine Dragons
- **Other**: Cathay Forest
- **New Entrant**: Weyerhaeuser China



Selected public companies' operating margin – most are above or at the national average.

Source: Deutsche Bank



Challenges to Timber Investing In China

➤ Political – positive and negative

- China's evolution to a market economy is incomplete
- Supportive regulations and policies may change
- Need more defined implementation of the privatization policy

➤ Legal ownership issues - evolving

- Government ownership of land
- Land lease rights and who controls them
- Timber certificates

➤ Cultural and Social issues

- Emerging middle class and migration to urban centers
- Work force issues and disparity between rich and poor
- Transparency challenges
- Establishing competent, trustworthy local contacts and partnerships can be difficult
- Differences in approach in getting deals done



Challenges to Timber Investing In China

➤ Technical issues of tree farm assets

- Lack of genetic diversity within existing plantations increases growing risk
- No consistent long term tree improvement strategy
- Inconsistent forest management practices and underperforming growth rates
- Existing tree farms on prime agricultural lands are at risk due to the need for food production
- Focus has moved to marginal sites which require enhanced resource management skills to succeed
- Lack of large continuous lands to reach economy of scale
 - Increases investment due diligence requirements and costs
 - Increases resource management costs
- Sustainable management
- Harvesting and distribution to markets challenges

➤ Economic fundamentals

- Strong pricing today... what about tomorrow?
- Relatively high land costs – continuing to rise
- Cultural differences in financial management and key financial information
- Risk adjusted return requirements

➤ Private timberland investing

- History has examples of bad stories
- Lack of industry track record



China Timber Investment - Keys to Success

- **Understanding of key structuring requirements**
 - Meet local regulatory requirements
 - Optimize investor tax benefits and flow of funds flexibility
 - Local investment structures (joint ventures vs wholly owned entities)

- **Local Organization: presence and resources**
 - Demonstrate company's commitment to the market
 - Relationship building to government agencies and businesses
 - Resources to navigate through the challenges
 - Have to prove yourselves

- **Discipline in the due diligence process**
 - Translation of qualified, local data into accurate, quantified financial modeling for investors
 - Skills to gain valid certification of legal access to land and timber over time
 - Fair and consistent communication on approach

- **Selection of capable and trustworthy local partners**
 - Assist in deal flow
 - Good deals are hard to find even harder to execute!



China Timber Investment - Keys to Success

- **Local resource management skills needed**
 - Ability to successfully develop new or improve existing tree farms on marginal sites
 - Access to improved plant material
 - Knowledge of multiple silvicultural approaches to tree growing
 - Ability to work with local farming/forestry community
 - Understanding of markets
 - Opportunities to streamline distribution to markets
 - Understanding of financial management requirements to the tree farm
- **Strategic partnerships for linkage to higher valued markets**
 - Opportunities to improve utilization of wood and increase returns
 - Opportunities to deploy improved processing technologies
 - Opportunities to align investment interests through the complete value chain
- **Investing in China requires patience and a long term view**

GWR's Tree Improvement Program in China



April



May



June



July



August



Sept

Typical Chinese Poplar Tree Farm



Complex Transportation and Distribution Systems



Processing and Manufacturing



Low Labor Market - Proper Technology - Quality Products





Concluding Thoughts

- Global timber capital is available and looking for emerging market opportunities
- In China Demand exceeds supply – and will continue to do so
- China is developing relative to –
 - The rule of law
 - Global trade norms – WTO
 - Forest practices policies
 - World standard value added converting capability and capacity
- Challenges to investment exist and are well documented
 - Profitable investment opportunities are available, however they do not come easy
 - Higher barriers to entry unless working with the right group that can help address challenges and manage locally
- Investors and companies that can provide solutions to China's needs, stay disciplined in the due diligence and investment approach, and align themselves with the right partners improve their chances of investment return



GWR's Contact Information

Thank You!

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