

## Our New General Manager

***Wanted, General Manager Forestry Company. Must have in excess of 30 years experience and formal international qualifications in Forestry Management. A thorough knowledge of Teak and Teak plantation management is vital as well as an in depth knowledge and respect for Pacific cultures....***

As one would imagine finding someone who matches these requirements would be hard. Yet FFF has the extremely good fortune of a well stocked board of directors. One such directors, Mr Stephen Clark, has been a highly respected forestry expert in the Pacific for many years. It just so happened that the firm he had been advising, Fiji Hardwoods Corporation Limited had instituted a change to their strategic direction, leaving Stephen free to join Future Forests Fiji as General Manager.

Prior to this, FFF had been considering how to access such an individual for the day to running of the operations and the development of the business. As you can imagine the ease of transition with Stephen has been much less demanding on the company.

With Steve's leadership many of the existing systems will be further improved and the quality controls strengthened. Since his start in late June, Steve has already been in the field more than he has been in the office. Demonstrating a very real commitment to hands on management of our plantations.



## Before and After

There is nothing like a photo to demonstrate the improvements over time. The upper photo shows the very first Timber compartment that FFF planted in late 2006.

The photo below was taken in 2010 showing the changes. The photographer found it hard to see the forest for the trees...



## What Price is the Right Price?

Here, locked away on the tropical Isles of Fiji, there is a great deal of debate between auditors, analysts and even our own board members as to the real market price of Teak timbers. Constantly we are researching the prices on the recognised independent timber monitoring sites and also in the retail markets.

This morning, I spent no more than thirty seconds asking, the web search engine, the following '2011 Teak timber price' and up popped the website displayed here.

Now taking their pricing of US\$10.03 per square foot, we work into square meters and then into cubic meters to arrive at the astounding price of US\$5,556.00 per cube or FJ\$9,869 per cubic meter.

Naturally there are middlemen in the value chain and the prices on this web site are not unusual for retail prices. However the FFF business model aims to remove as many stages between our forests and the retail outlets as possible. Even so the authorised financial projections for our company has teak lumber at no more than FJ\$2,000 per cubic meter wholesale, which indicates, at least, that the company has a lot of room to move in our negotiations with traders in the future.

## Use of the Giants in the Forest

Recently investors may have been informed of the quality controls developed by Murray Keys, our Australian Forestry advisor. Last year Murray identified a unique tree within the FFF forestry compartments. The tree has such unique attributes that the staff immediately named the tree after Murray and so today it remains the only tree in our plantations with a name.

The tree identified by Murray is referred to as a "Plus" tree. In forestry terms this indicates a superior tree that can be used for 'Tissue Culture' and 'Vegetative Propagation', two systems that can copy the exact nature of this tree and reproduce it, so that our new planting will all be ready for the mill five to six years after planting. This would allow the company to generate unplanned profit six years earlier than projected.

A 'Plus' tree displays fast growth, good form, straight trunk, minimum branching and no fluting at the base. All of these



Murray Keys and the Plus tree.



**Cost of Teak Decking**  
National pricing and labor cost calculator

The Homewyse Teak Decking cost estimator provides up to date pricing information for your neighborhood. Enter your zip code, the size of your project (square feet and linear feet), the table below summarizes the average costs and the install Teak Decking in your area for great, better and custom quality work.

Teak Decking Costs	zip code: 47034	square feet: 200	zip code: 47034
	Basic	Better	Best
Teak Decking Price (Material Only)	\$2,140 - \$2,470	\$2,400 - \$2,800	\$2,700 - \$3,000
Teak Decking Installation Cost	\$170 - \$210	\$210 - \$250	\$250 - \$300
Teak Decking - Total	\$2,310 - \$2,680	\$2,610 - \$3,050	\$2,950 - \$3,300
Teak Decking Average Cost per Square Foot	\$11.55	\$15.25	\$16.50

characteristic combine together to create a superior product that will be harvested for the FFF mill allowing minimum wastage and higher grade timbers.

Recently, the team in the heart of the company, the Tova nursery, began the first true 'Vegetative Propagation' trial which has resulted in huge success paving the way for our future plantations to be filled with Giants.

### Interesting Fact

*The biggest Teak tree in the world is located in Nilambur, India and is 47.5 meters tall with a 642 cm girth.*

### Teak logs 2005

Teak Logs	FOB per Hoppus Ton	
Veneer Quality	<u>Apr</u>	<u>May</u>
2nd Quality	Euro 3731 6 tons	Euro 3891↑ 4 tons
3rd Quality	Euro 3670 12 tons	Euro 3702↑ 6 tons
4th Quality	Euro 3069 53 tons	Euro 3522↑ 51 tons
Sawing Quality	per Hoppus Ton	
Grade 1 Av.	Euro 1950 23 tons	Euro 2077↑ 115 tons
Grade 2 Av.	Euro 1597 224 tons	Euro 1606↑ 246 tons
Grade 3 Av.	Euro 765 79 tons	Euro 877↑ 46 tons
Grade 4 Av.	Euro 1103 896 tons	Euro 1196↑ 706 tons
Assorted Av.	Euro 724 178 tons	Euro 841↑ 162 tons
Domestic	Euro 580 860 tons	Euro 580 860 tons

### Teak logs 2010

Teak Logs, FOB	€ Avg per Hoppus Tonne (traded volume)	
Veneer Quality	<u>Mar</u>	<u>Apr</u>
2nd Quality	nil	nil
3rd Quality	nil	nil
4th Quality	4,777 (12 tons)	4,658↓ (11 tons)
Sawing Quality		
Grade 1 (SG-1)	3,122 (48 tons)	3,198↑ (44 tons)
Grade 2 (SG-2)	2,713 (40 tons)	2,846↑ (41 tons)
Grade 4 (SG-4)	2,115 (200 tons)	2,019↓ (200 tons)
Grade 5 (SG-5)	1,376 (118 tons)	1,313↑ (139 tons)
Grade 6 (SG-6)	1,257 (57 tons)	1,196↑ (78 tons)
Grade 7 (ER-1)	980 (107 tons)	936↓ (92 tons)

## Following The Trends

The two charts above have both been lifted from International Tropical Timber Organisation (ITTO) reports. The one on the left is from 2005, whilst the right hand chart is from April 2010. Approximately five years in between them and the differential in Teak pricing is readily evident.

FFF has been following these charts since 2004, and realised that the price trend for Teak continues to rise. These charts report on the sales from Burma, a country that has previously supplied up to 80% of the global teak volumes. As can be seen between the two charts the higher grades have ceased to be recorded and this is thought to be because of lack of product. However Grade 4 Quality Veneer logs are still reported and the price has risen by 5.5% per year. Yet when we compare the Grade 2 Saw Grade it has risen by 12% per year. Whilst this has been occurring the world has witnessed the Global Financial Crisis which has apparently had no impact on Teak prices.

It is also interesting to note that these prices represented here are only for logs and not for sawn lumber. Therefore, after milling the prices would be much higher. Many Teak plantation companies base their projections on the ITTO reports, yet FFF does not. The estimated prices within the FFF modelling, is based on extremely conservative estimates. In this way the management of FFF has reduced risk.

As has always been stated in the company's strategic plan, a mill complex has been accounted for. In this way the board of directors and the founding shareholders have all agreed that the best method of amplifying the financial returns to shareholders is to 'Value Add' to the plantation timbers. This is the processing of the logs into boards and even into furnishings, thereby creating more return on investment (ROI) than could be realised without this stage.



## A bit of History of Teak in Fiji

In 1949, Teak was already well recognised as a valuable timber. So much so that after the second world war the Americans, in Samoa, have reported to have cut down all the Teak trees planted by the Germans and taken the timber back to America (as reported in old letters held by FFF) in 1945.

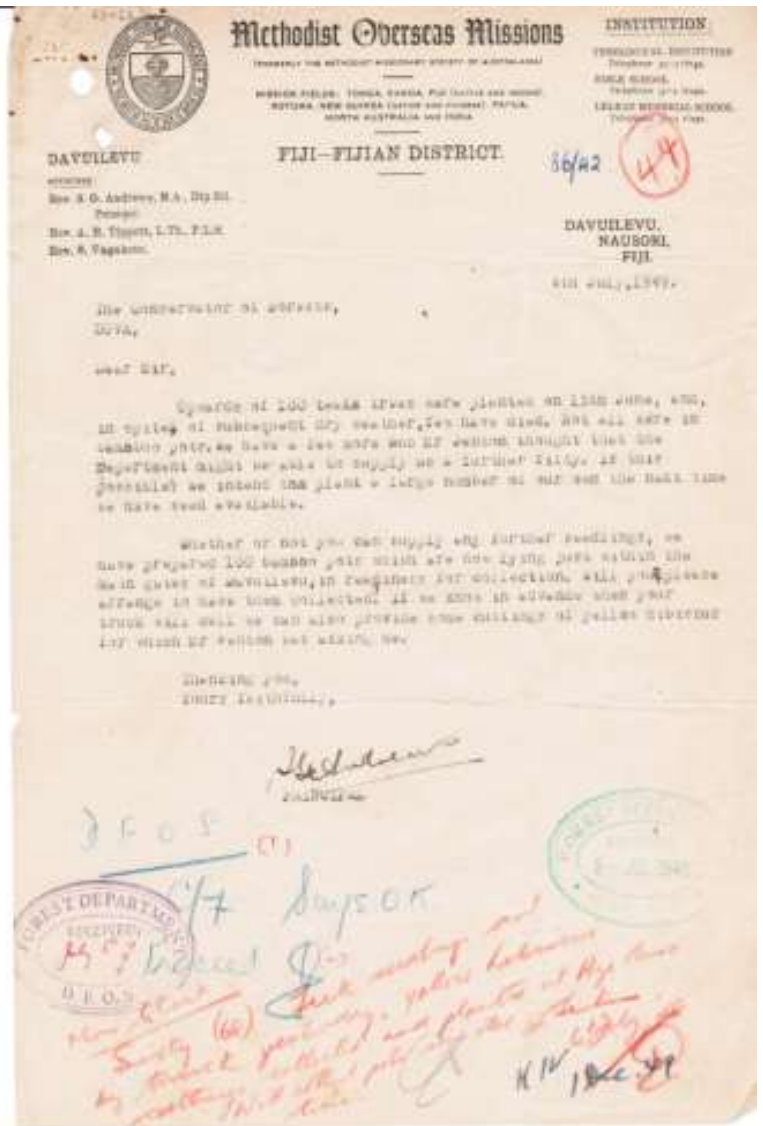
As can be seen in the letter inserted, the very first organisation that recognised the importance of Teak was the Methodist Church of Fiji, then called the Methodist Overseas Mission. This group of church elders asked repeatedly for Teak seedlings from the Forestry Department of Fiji and planted them in Davuilevu.

Reverend S.G Andrews composed various letters to the forestry Department with the aim of planting Teak trees throughout the lands held by the mission in Davuilevu, Nausori. We can estimate that should the legacy of Reverend Andrews have been realised then the Methodist College in Davuilevu may have held the largest single Teak plantation in the pacific by 1970.

Teak naturally sheds its seeds in August and September each year. By visiting the Teak in Lautoka that was planted in 1972 it can be seen that the small test area planted then by the Forestry department has grown naturally to over 800 trees. As the test plots for Forestry were on average 50 trees the 200 planned by Reverend Andrews may have grown into many thousands of trees. Unfortunately Teak became the forgotten tree of Fiji due to Mahogany becoming more acceptable, and sat quietly growing for many decades.

Today in excess of thirty trees remain at Davuilevu, which are a testament to Reverend Andrews, Reverend S. Vugakoto and Reverend Tippet.

What happened to the other trees is unknown to FFF.



## The Right Soil for Teak

After years of research, FFF has established what soils are best for Teak, as this is crucial for opportune growth of our plantation. These soils are well drained black loams. Teak does not like poorly drained soils as the water pooling around the roots of the seedlings will result in high mortality.

FFF has implemented many checks and balances when inspecting potential lands for either lease or purchase that ensure the viability of the forest growth. With the correct soil types, a tree can be expected to growth up to two meters in the first year and reach seven to ten meters in height after year five.



## Old Houses in Thailand

*This story was retrieved from the website [www.thai-pepper.com](http://www.thai-pepper.com), a business based in Thailand that uses old timber from houses to make kitchenware.*

Often referred to as the King of Woods, Teak (*Tectona Grandis*) is one of the most expensive and highly prized woods on the market. Dwindling supplies and an increasing demand ensure the price of forest teak to double every five years! Reclaimed teak and old-growth teak is simply becoming obsolete.

You might wonder what makes teak so valuable? Apart from its striking beauty it possesses natural properties not found in any other wood. Teak has natural oils and silica that are retained in the heartwood even after being dried to ten percent of its moisture content. These natural oils and minerals prevent the wood from dry rot and other invaders like fungi and parasites. It also acts as a natural agent to make the wood weather-resistant.

Decades of exposure renders an extremely stable timber, matured to a streaked golden brown so characteristic of old-growth teak.

Locally known as Mai Sak, teak trees are native to South-East Asia, its natural distribution goes from the Indian subcontinent through Burma, Thailand and Laos. They are deciduous and shed their leaves every year in the dry season, which normally occurs between December and April.

Teak trees are known for their longevity. They can live up to a hundred years and grow thirty to forty meters tall, reaching up to two meters in diameter. The reason for their longevity is their ability to withstand severe weather conditions. Teak is supple and flexible and can withstand extreme winds – it will bend, but not break.

The outer wood of a teak tree is white, while the heartwood is normally a golden brown with occasional dark streaks. From there the name: golden teak. Its density makes it attractive for woodworkers and carpenters. Not only does it finish well, it is also easy to cut and sculpt into pleasing shapes.

Its high natural oil content gives it the ability to retain its shape even after being left outdoors or submerged in water for extended periods of time. Outdoors its rich golden colour will fade to a silver grey as it ages. It has a coarse and uneven texture, a beautiful grain and an aromatic smell.

And where does our teak wood come from? Often the source of teak manufacturers is twofold: Reclaimed teak and plantation teak. Since the best teak comes from mature trees, it can take up to eighty years before a Teak tree is harvested for its wood. Therefore old-growth teak is often reclaimed from old buildings. The other source is plantation teak. Plantation teak can be harvested in as little as sixteen years. It is an ecologically sustainable timber, making it a favourite with people who are concerned with illegal logging and deforestation.

Teak (*Tectona Grandis*) is one of the most desirable and expensive hardwoods on the market. Our teak is salvaged from old houses and other disused structures that are literally centuries old.



### Interesting Fact

*The naturally occurring chemicals found in Teak timber that act as antibacterial and antifungal are Tannic Acid, Caffeic Acid and Gallic Acid.*

## The Prospectus

Recently Future Forests (Fiji) Limited commenced the registration process for the Prospectus that will be given out to people who would like to invest in the company by buying shares or notes.

It has been a long and hard process during which, at every step, FFF had to verify, double check, triple check and cross check all the information in our business model. We then had to design and redesign the eighty odd pages into a professional document. While most of the preliminary design work was done by one of our directors, the final design work was undertaken by Laurence Rao from SAMBA Design here in Suva. The document, after all of this, is not simply appealing but every fact and figure in it has been reviewed and verified by the Reserve Bank of Fiji, The South Pacific Stock Exchange, Kontiki Stock Broking and, of course, the lawyers.

The prospectus has only been given out to potential institutional investors at this stage, due to the requirement set by the Reserve Bank of Fiji that the company cannot hand out the document until a minimum amount of capital is raised.

This process has only just started and we think it will be a long and exciting process, as every number and fact that was verified before has to be verified once again by the professional investors.

We are sure they will find nothing out of place or wrong!

Should an investor with the minimum financial requirement in place wish to receive more information, they should contact Kontiki Capital, in Suva, on 9927535 or 3307284.

