

Issuer: Yamada Green Resources Limited

Security: Yamada Green Resources Limited

Meeting details:

Date: 27 Oct 2016

Time: 10:00H

Venue: Six Battery Road, #10-01 Singapore 049909

Company Description:

Yamada Green Resources Limited, an investment holding company, engages in growing, manufacturing, and supplying fresh and processed agricultural products in the People's Republic of China. The company offers self-cultivated products comprising bamboo trees, bamboo shoots, and shiitake mushrooms. It sells the self-cultivated agricultural products principally to wholesalers of agricultural food products. The company also produces and supplies processed and semi-processed food products, which include processed mushrooms, vegetables, water-boiled bamboo shoots, and konjac-based dietary fibre food products. In addition, it supplies fresh vegetables, such as bamboo shoots, radish, carrots, and burdock; and semi-processed food products, including konjac powder, canned bamboo shoots, and dried shiitake mushrooms. The company distributes processed and semi-processed food products primarily through local supermarket chains; and exports processed food products principally to Japan. Further, it engages in forestry management activities; and the cultivation and sale of edible fungi and vegetables. The company operates approximately 3,342 mu shiitake mushroom farmland, as well as 38,334 mu of eucalyptus plantations and 100,845 mu of moso bamboo plantations in Fujian Province. Yamada Green Resources Limited was incorporated in 2010 and is based in Fuzhou, the People's Republic of China.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BJV)

1. The group has been shifted its focus in the past 2-3 years. The group exited the black fungus business and subsequently scaled back the cultivation of shiitake mushroom to just 1,184 mu in FY2016 (page 4 of the annual report). At the same time, several new leases for bamboo plantations were taken up to scale up the cultivation of bamboo (now totaling 129,696 mu). RMB 3 million was also spent to set up a new e-commerce platform. While it is crucial for the group to react to changing market conditions, **shareholders would like to request for a comprehensive overview of the business growth strategy. In particular, could management provide more detail on the viability of the shiitake mushroom segment, the targeted scale of the moso bamboo cultivation, the product range and the profitability of the processed food products and konjac-based dietary fibre food products and the targeted returns of the (B2B/B2C?) e-commerce platform?**

2. On 11 March 2016, the company announced the acquisition of an office unit located at GSH Plaza for a consideration of \$1.7 million. The unit covers a net area of 517 square feet (translating to a price of \$3,197 per square feet) and was to be used to facilitate the operations of Yamada. The acquisition was funded by external borrowings. Subsequently, on 8 July 2016, the company announced the private placement of approximately 9% of the company's then-existing capital at a price of S\$0.2928 per placement share. Since the NTA per share before the placement was 807.8 RMB cents (or S\$1.63 based on the reported exchange rate of S\$1:RMB4.9578), the placement was done at a discount of more than 80% to NTA.

Would the board please explain why the company bought an office unit (an interested person transaction) funded by external borrowings and then conducted a private placement at a discount of 80% so as to "strengthen its general working capital"? Would the board/audit committee justify these two developments and help shareholders understand how the purchase and the private placement would be in the best interests of all shareholders?

3. In the notes to the financial statements, the valuation of "biological assets" was disclosed as a key source of estimation uncertainty (page 61) with the following comment:

Eucalyptus trees and moso bamboo trees and bamboo shoots in plantations included in the Group's biological assets are stated at fair value less costs to sell. The fair value of these biological assets is determined based on the present value of expected net cash flows from the biological assets discounted at a current market-determined pre-tax rate. The fair value of the biological assets is determined by an independent valuation firm. Changes in conditions of the biological assets could impact the fair value of the assets.

The carrying amount of the Group's biological assets (eucalyptus trees and moso bamboo trees and bamboo shoots) as at 30 June 2016 was approximately RMB176,932,000 (2015: RMB171,585,000). The independent valuation firm used highly subjective assumptions and estimates to determine the valuation of the biological assets. These assumptions and estimates involve inherent uncertainties and the application of judgements. As a result, if factors change and this independent valuation firm uses different assumptions and estimates, the fair value of the biological assets could be materially different. The valuations are based on information available on initial recognition and at each reporting date.

(i) Can the company please disclose the identity of the "independent valuation firm" used and confirm that the independent valuation firm is neither an affiliate of the external auditor nor an affiliate of the outsourced internal auditor?

In note 12 to the financial statements (page 72), the valuation techniques and significant unobservable inputs used in determining the fair value measurement of moso bamboo trees and bamboo shoots in plantations were listed.

- (ii) **Can both the external auditors and the audit committee clarify what their roles are in determining the “significant unobservable inputs” and how they have verified and accepted the valuation report by the “independent valuation firm”?**

The Chairman mentioned explicitly that “average selling price of our fresh shiitake mushroom in FY2016 was also lower than last year” in his statement (page 4). There was no mention of the average selling price of bamboo shoots. However, the income approach used in the valuation of the biological assets assumed a 1% increase in bamboo shoots unit price (page 72). Based on the quantity of bamboo trees and bamboo shoots sold and the sales revenue, it would appear that the average price dropped substantially from RMB1.33/kg in FY2015 to RMB0.87/kg in FY2016.

12. Biological assets (Continued)

Quantity and sales of edible fungi, bamboo trees, bamboo shoots and eucalyptus trees harvested and sold to external customers during the financial year were as follows:

	2016	2015
Quantity of edible fungi (in tonnes)	12,770	33,890
Sales of edible fungi (RMB'000)	78,073	240,935
Quantity of bamboo trees and bamboo shoots (in tonnes)	124,147	55,770
Sales of bamboo trees and bamboo shoots (RMB'000)	108,176	74,353

- (iii) For FY2016, a net gain from changes in fair value of biological assets of approximately RMB18.4 million was recognised (page 10). This was driven by a gain of approximately RMB20.3 million from changes in fair value of moso bamboo trees and bamboo shoots mainly as a result of an expansion of the group’s moso bamboo plantations. **Can the company break down the net gain of RMB 20.3 million to show the impact due to (a) price/valuation changes and (b) increased acreage?**
- (iv) In the statement of financial position, biological assets (page 70 – note 12) accounted for RMB177 million in FY2016, of which RMB128 million was for moso bamboo trees and bamboo shoots. **Can the company tell shareholders what was the unit price used in determining this valuation of the bamboo plantations?**