



**RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION
(SINGAPORE) ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR
ENDED 30 JUNE 2016**

The Board of Directors (the “**Board**”) of Yamada Green Resources Limited (the “**Company**”) and together with its subsidiaries, collectively the “**Group**”) refers to the Company’s Annual Report for the financial year ended 30 June 2016. The Board would like to respond to the following queries raised by Securities Investors Association (Singapore) (“**SIAS**”) (each, a “**SIAS Question**”) as follows:

SIAS Question 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?

Company’s Response to SIAS Question 1

In FY2014, our main business included cultivation of bamboo trees, bamboo shoots, edible fungi, including shiitake mushroom and black fungus, and processed food products, such as dried mushrooms, water-boiled vegetables and bamboo shoots. The cultivation of black fungus and shiitake mushroom is a labour intensive business. However, the one-child policy and movement of people from villages to cities in China have led to a decrease in labour supply in the farmlands. As a result, the labour cost of cultivation of edible fungi has been mounting over the past few years. In addition, natural forestry’s protection policies issued by the Chinese government have further impacted the operation of the business of our edible fungi. Therefore, the Group calibrated its business strategy by closing down its black fungus business line and scaling back its farmland of shiitake mushroom in FY2015. We will nonetheless continue to closely assess the viability of our shiitake mushroom business and take appropriate measures where necessary in response to changes in the markets.

On the other hand, although the cultivation of bamboo products also relies on labour force in the villages, the demand for the labour force is relatively smaller. Hence, we expanded our bamboo plantations in the recent three years while at the same time scaling down our edible fungi cultivation operations. Due to changes in operating environment and markets, we may not further expand our bamboo plantations and may maintain the existing size of our bamboo plantations for the next 1 to 3 years. This is also to avoid further impact on our business arising from decreases in labour supply as well as increases in labour cost.

Higher living standard and increasing urbanization in China has led to rising demand for healthy convenience food products in Chinese markets. In order to capitalize on this

opportunity, the Group has adjusted its sales and production strategy to better develop its processed food business segment, including ongoing R&D to improve its processed food products, in particular the konjac-based dietary fibre food products.

Popularity of e-commerce nowadays has noticeably impacted traditional sales and marketing channels. The Chinese government has also issued initiatives to promote the development of e-commerce and encourage entrepreneurs to incorporate e-commerce in their businesses. In light of this, the Group stepped up its sales and marketing strategy in 2016 through the development of its own online platform and increased investment in advertising. This has been done in tandem with the launching of a new series of konjac-based dietary fibre food products. The group targets to strengthen its sales and distribution system through the acceleration and streamlining of selling and delivery processes, as well as increasing consumer awareness. Simultaneously, the Group will continue to monitor consumers' feedbacks on the new products and improve the taste of our products as well as to expand the product range to adapt to a fast changing consumer market. The next 1-2 years is considered the preliminary development stage of our e-commerce business, and we aim to achieve profit from the e-commerce business in the next 3 to 5 years.

SIAS Question 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?

Company's Response to SIAS Question 2

The acquisition of the office unit in March 2016 and the share placement in July 2016 were separate transactions serving different purposes for the Company.

Prior to the announcement in March 2016, we were already contemplating for many months the acquisition of an office unit in Singapore. The purpose of the acquisition, as stated in our announcement, was for facilitating our operation in Singapore and investment purposes. The office unit is based in a strategic location, and part of it can be leased out to external parties if necessary. Therefore, we believe that we can benefit from this investment in the long run.

The private placement in July 2016 was conducted as a result of strong investor interest from the placee who is an experienced businessman in China. The placement price was the volume weighted average price for trades done on SGX-ST for the full market day immediately preceding the day on which the Placement Agreement was signed, in line with common market practices. As stated in the announcement, the purpose of the placement

was to increase and strengthen our general working capital including further expansion of existing business operations and e-commerce operations.

SIAS Question 3

- (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?

Company’s Response to SIAS Question 3(i)

The company has appointed Jones Lang Lasalle (JLL) for valuation of our biological assets since our IPO. JLL is an international professional services company and independent from the audit firms appointed by the Company.

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”?

Company’s Response to SIAS Question 3(ii)

The role of the audit committee and external auditor are to review the key unobservable inputs related to the valuation of biological assets. When the auditors design and perform the audit procedures, the auditor will also consider the relevance and reliability of the information to be used as audit evidence.

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.

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:

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

The valuation report, which was open for public inspection for 3 months from the date of our FY2016 results announcement, has stated that market analysis was applied in

determining appropriate current and probable future bamboo and bamboo shoots prices. The selling prices of the bamboo trees and bamboo shoots were based on the analysis of independent market prices obtained from markets where the Company operates and historical data. In addition, an inflation rate of 1% p.a. was applied to adjust the estimated future prices for the valuation of bamboo products.

The quantity sold and sales figures of the combined bamboo products disclosed in the 2016 annual report comprised of three different bamboo products, which were moso bamboo trees, winter bamboo shoots and spring bamboo shoots. One of the main reasons for the fluctuation in the average selling price (ASP) of the combined bamboo products in FY2016 was changes in the product mix. Therefore, the fluctuation in the ASP of the combined bamboo products does not imply that the ASP of individual bamboo product was changing in the same proportion.

- (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?**

Company's Response to SIAS Question 3(iii)

As at the valuation date, the Group's bamboo plantations of about 129,696 mu were divided into 14 locations in Pucheng County and Jiangle County, Sanming City, Fujian Province. Out of these 14 plantations, 2 plantations with a land size of 15,147 mu and 13,704 mu were newly leased in June 2015 and January 2016 respectively which were included in the Group's valuation of biological assets for the first time as at the valuation date. There was fair value of bamboo products of about RMB12.0 million arising from the plantation of 15,147 mu and another fair value of about RMB10.9 million derived from the plantation of 13,704 mu. As such, the expansion of the plantations resulted in an increase of about RMB22.9 million in the fair value of bamboo products in FY2016. After taking into account the changes in fair value of the bamboo products in the rest of the bamboo plantations of about 100,845 mu, the net gain from changes in fair value of bamboo products for FY2016 was RMB20.3 million.

- (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?**

Company's Response to SIAS Question 3(iv)

As mentioned in the answer in response to Question 3(ii), the unit selling prices used for the valuation of bamboo trees and bamboo shoots were based on the independent market prices obtained from markets where the Company operates and historical data. In addition, an inflation rate of 1% p.a. was applied to adjust the estimated future prices. The unit selling prices of the bamboo products in the second half of 2016 are as follows and increased by 1% for every subsequent year for the valuation:

- bamboo trees: RMB480/tons
- winter bamboo shoots: RMB8.25/kg – RMB8.57/kg

- spring bamboo shoots: RMB1.41/kg – RMB1.62/kg

The Group's bamboo plantations are located in different areas in Pucheng County and Jiangle County, both in Fujian Province. The market prices of winter bamboo shoots and spring bamboo shoots varied in Pucheng County and Jiangle County, therefore, the valuer applied the market prices accordingly based on the locations of the plantations.

By order of the Board

Chen Qiuhai
Executive Chairman and CEO
4 November 2016