

Our Ref: VC/EDL

9 October 2018

Yamada Green Resources Limited
Houyu Food Industry Zone, Jingxi Town
Minhou County, Fuzhou City, Fujian Province PRC 350101
The People's Republic of China

Attention: The Audit Committee

Agreed upon procedures on Yamada Green Resources Limited (the "Company") and its subsidiaries (the "Group")

Dear Sirs

We have performed agreed-upon procedures in connection with the Group's disposal of the Moso bamboo plantations ("Disposal Transaction") which occurred in August 2017 but was not made known to the Board until August 2018. The procedures that we have agreed to perform are set out in our engagement letter dated 27 August 2018.

Our engagement was undertaken in accordance with Singapore Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to investigate on the Disposal Transaction and to report our findings to the Audit Committee.

Because the above procedures do not constitute either an audit or a review made in accordance with Singapore Standards on Auditing or Singapore Standards on Review Engagements, we do not express any assurance on the agreed upon procedures on the Disposal Transaction.

Had we performed additional procedures, or had we performed an audit or review of the financial statements of the Company in accordance with Singapore Standards on Auditing or Singapore Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to the Disposal Transaction above and does not extend to any financial statements of Yamada Green Resources Limited, taken as a whole.

This report has been prepared solely for the information of the Audit Committee of Yamada Green Resources Limited for the purpose set out in our engagement letter dated 27 August 2018 and is not intended for general circulation or publication nor is it to be used for any other purpose without our prior consent in each specific instance. We do not assume responsibility for loss or liability to any party whatsoever, howsoever arising, out of the use of this report contrary to the provisions of this paragraph.

Yours faithfully,

For and on behalf of Foo Kon Tan LLP

Appendices enclosed as attachments:

<i>Appendix A</i>	<i>Interview with the legal representative of Lijiashan, Xiong</i>
<i>Appendix B</i>	<i>Interview with the legal representative of Shansheng, Cai</i>
<i>Appendix C</i>	<i>Interview with director of the Company, Wangsheng and Yuanwang, Lin</i>
<i>Appendix D</i>	<i>Interview with professor from the Fujian Agricultural and Forestry University</i>
<i>Appendix E</i>	<i>Interview with ministry from the Fujian Provincial Department of Forestry</i>
<i>Appendix F</i>	<i>Interview with independent valuer, Jones Lang</i>
<i>Appendix G</i>	<i>Interview with assignee of Lijiashan's Plantations, Mao</i>
<i>Appendix H</i>	<i>Interview with assignee of Shansheng's Plantations, Ni</i>
<i>Appendix I</i>	<i>Interview with Danggui</i>
<i>Appendix J</i>	<i>Interview with Yuantou villagers' committee</i>
<i>Appendix K</i>	<i>Interview with Shan Feng</i>
<i>Appendix L</i>	<i>Interview with Peng</i>

YAMADA GREEN RESOURCES LIMITED

(the “Company”)

AND ITS SUBSIDIARIES

(the “Group”)

EXECUTIVE SUMMARY

ON AGREED UPON PROCEDURES

ON THE DISPOSAL TRANSACTION

Contents

Glossary

1. Executive Summary.....	11
1.1 Background.....	11
1.2 Interview venue.....	12
1.3 Objectives of the agreed upon procedures.....	13
1.4 Fact-finding observations and conclusion.....	13
1.4.1 Control over legal representatives.....	13
1.4.2 Rationale of leases of Plantations.....	15
1.4.3 Process of the Disposal Transaction.....	16
1.4.4 Independent valuer.....	23
1.4.5 Ministry from the Fujian Provincial Department of Forestry.....	24
1.4.6 Internal reporting to the Board by Chen and Rex.....	24
1.4.7. The facts surrounding the Disposal Transaction.....	24
1.4.8. Whether the Plantation had encumbrances when it was disposed. If so, to ascertain the circumstances under which the encumbrances were created and for whose benefits.	24
1.4.9. Interview with the Plantations’ contractor and/or subcontractor.....	25
1.4.10. Interview with the assignees.....	26
2. Scope of Work.....	27
Appendix A Interview with the legal representative of Lijiashan, Xiong	
Appendix B Interview with the legal representative of Shansheng, Cai	
Appendix C Interview with director of the Company, Wangsheng and Yuanwang, Lin	
Appendix D Interview with professor from the Fujian Agricultural and Forestry University	
Appendix E Interview with ministry from the Fujian Provincial Department of Forestry	
Appendix F Interview with independent valuer, Jones Lang	
Appendix G Interview with assignee of Lijiashan’s Plantations, Mao	
Appendix H Interview with assignee of Shansheng’s Plantations, Ni	
Appendix I Interview with Danggui	
Appendix J Interview with Yuantou villagers’ committee	
Appendix K Interview with Shan Feng	
Appendix L Interview with Peng	

Glossary

Allbright	Allbright Law Offices (锦天城律师事务所), PRC legal counsel appointed by the Board
Assignment of land lease (also known as “transfer of the land lease”)	The transfer of the land lease together with the Plantations to the contracting party (Assignee) to continue the lease.
Assignee	In the case of Lijiashan, the assignee was Mao under the Disposal Agreements in the Deed of Third Assignment. In the case of Shansheng, the assignee was Ni under the Disposal Agreement in the Deed of Fourth Assignment.
Audit committee	Audit Committee of the Company
BDO	BDO LLP
Board	Board of Directors of the Company
Cai	蔡继强, former legal representative, chairman and general manager (法定代表人, 董事长兼总经理) of Shansheng. Appointed for the period from 19 March 2015 to 26 July 2018
Chen	陈秋海 (Chen Qiu Hai), Executive Chairman and Chief Executive Officer (执行主席兼首席执行官) of the Company
Chua	Chua Ser Miang, Lead Independent Director of the Company and a member of the Audit Committee
Company	Yamada Green Resources Limited (山田绿色资源有限公司)
Contractor	<u>Lijiashan</u> The contracting party (known as the contractor) for Lijiashan for the maintenance of the Plantations (also known as “maintenance”) was Danggui. The contract for maintenance was transferred by Danggui to Mao as subcontractor (known as the subcontractor) with the consent of Lijiashan on 29 April 2016. The contractor for Lijiashan for pest control of the Plantations (also known as “pest control”) was Mao. The contract for pest control was dated 28 July 2016. The contractor for Lijiashan for the harvesting of bamboo shoots was Danggui. The contract for the harvesting of bamboo shoots was transferred by Danggui to Mao as subcontractor with the consent of Lijiashan on 23 January 2017. <u>Shansheng</u> The contractor for Shansheng for maintenance was Shan Feng. The contract for maintenance was transferred by Shan Feng to Ni as subcontractor with the consent of Shansheng on 28 April 2016. The contractor for Shansheng for pest control was Ni. The contract for pest control was dated 28 July 2016.

Glossary

	The contractor for Shansheng for harvesting of bamboo trees (the harvesting of bamboo shoots and bamboo trees are collectively known as “harvesting services”) was Ni. The contract for harvesting services was dated 28 July 2016.																																				
Danggui	Pu Cheng county Min Pu Osmanthus Seedling Plants Cooperative (浦城县闽浦丹桂苗木种植专业合作社) (“Danggui”)																																				
Deed of First Assignment	<p>In the case of Lijiashan, a binding agreement for the assignment of land lease entered into between Lijiashan and Yuantou villagers’ committee on 23 April 2013 whereby the land lease was transferred by Yuantou villagers’ committee to Lijiashan (“Part 1”), and two binding agreements for the assignment of land lease entered into between Lijiashan and Danggui on 5 May 2014 and 26 June 2015 whereby the land leases were transferred by Danggui to Lijiashan respectively (“Part 2 and Part 3”) as follows:</p> <table border="1"> <thead> <tr> <th colspan="6">Land lease by Lijiashan:</th> </tr> <tr> <th>Part</th> <th>Transferred by</th> <th>Location</th> <th>Area (mu)</th> <th>Period (years)</th> <th>Commencing</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Yuantou villagers’ committee</td> <td>Pucheng</td> <td>11,302</td> <td>15</td> <td>16 April 2013</td> </tr> <tr> <td>2</td> <td>Danggui</td> <td>Pucheng</td> <td>22,543</td> <td>10</td> <td>5 May 2014</td> </tr> <tr> <td>3</td> <td>Danggui</td> <td>Pucheng</td> <td>15,147</td> <td>10</td> <td>26 June 2015</td> </tr> <tr> <td></td> <td></td> <td>Total</td> <td>48,992</td> <td></td> <td></td> </tr> </tbody> </table> <p>Yuantou villagers’ committee and Danggui are known as the “lessor(s)”.</p>	Land lease by Lijiashan:						Part	Transferred by	Location	Area (mu)	Period (years)	Commencing	1	Yuantou villagers’ committee	Pucheng	11,302	15	16 April 2013	2	Danggui	Pucheng	22,543	10	5 May 2014	3	Danggui	Pucheng	15,147	10	26 June 2015			Total	48,992		
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Deed of Second Assignment	<p>In the case of Shansheng, two binding agreements for the assignment of land lease entered into between Shansheng and Shan Feng on 9 September 2014 and 28 January 2016 whereby the land leases were transferred by Shan Feng to Shansheng respectively (“Part 1 and Part 2”) as follows:</p> <table border="1"> <thead> <tr> <th colspan="6">Land lease by Shansheng:</th> </tr> <tr> <th>Part</th> <th>Transferred by</th> <th>Location</th> <th>Area (mu)</th> <th>Period (years)</th> <th>Commencing</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Shan Feng</td> <td>Jiangle</td> <td>67,000</td> <td>10</td> <td>9 September 2014</td> </tr> <tr> <td>2</td> <td>Shan Feng</td> <td>Jiangle</td> <td>13,704</td> <td>10</td> <td>28 January 2016</td> </tr> <tr> <td></td> <td></td> <td>Total</td> <td>80,704</td> <td></td> <td></td> </tr> </tbody> </table> <p>Yuantou villagers’ committee, Danggui together with Shan Feng are collectively known as the “lessor(s)”.</p>	Land lease by Shansheng:						Part	Transferred by	Location	Area (mu)	Period (years)	Commencing	1	Shan Feng	Jiangle	67,000	10	9 September 2014	2	Shan Feng	Jiangle	13,704	10	28 January 2016			Total	80,704								
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Deed of Third Assignment	<p>In the case of Lijiashan, the Deed of Third Assignment arising from the Disposal Transaction for an aggregate consideration sum of RMB 13,291,349 as follows:</p> <ul style="list-style-type: none"> - An agreement dated 23 August 2017 for the assignment of the land lease by Lijiashan to Mao for the land area of 11,302 mu for a consideration sum of RMB 3,997,235 with the lessor in Part 1 of the Deed of First Assignment, Yuantou villagers’ committee, agreeing to Mao as the new contracting party to the land lease; and 																																				

Glossary

	<ul style="list-style-type: none"> - An agreement dated 23 August 2017 for the assignment of the land lease by Lijiashan to Mao for the land area of 37,690 mu for a consideration sum of RMB 9,294,114 with the lessor in Part 2 and Part 3 of the Deed of First Assignment, Danggui, agreeing to Mao as the new contracting party to the land lease. <p>The Disposal Transaction entered into between Lijiashan and Mao are summarised as follows:</p> <table border="1"> <thead> <tr> <th>Assignee</th> <th>Consent by</th> <th>Location</th> <th>Area (mu)</th> <th>Consideration sum (RMB)</th> </tr> </thead> <tbody> <tr> <td>Mao</td> <td>Yuantou villagers' committee</td> <td>Pucheng</td> <td>11,302</td> <td>3,997,235</td> </tr> <tr> <td>Mao</td> <td>Danggui</td> <td>Pucheng</td> <td>37,690</td> <td>9,294,114</td> </tr> <tr> <td></td> <td></td> <td>Total</td> <td>48,992</td> <td>13,291,349</td> </tr> </tbody> </table>	Assignee	Consent by	Location	Area (mu)	Consideration sum (RMB)	Mao	Yuantou villagers' committee	Pucheng	11,302	3,997,235	Mao	Danggui	Pucheng	37,690	9,294,114			Total	48,992	13,291,349
Assignee	Consent by	Location	Area (mu)	Consideration sum (RMB)																	
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Mao	Danggui	Pucheng	37,690	9,294,114																	
		Total	48,992	13,291,349																	
Deed of Fourth Assignment	<p>In the case of Shansheng, the Deed of Fourth Assignment arising from the Disposal Transaction for an aggregate consideration sum of RMB 33,943,766 as follows:</p> <ul style="list-style-type: none"> - An agreement dated 23 August 2017 for the assignment of the land lease by Shansheng to Ni for the land area of 80,704 mu for a consideration sum of RMB 33,943,766 with the lessor in Part 1 and Part 2 of the Deed of Second Assignment, Shan Feng, agreeing to Ni as the new contracting party to the land lease. <p>The Disposal Transaction entered into between Shansheng and Ni is summarised as follows:</p> <table border="1"> <thead> <tr> <th>Assignee</th> <th>Consent by</th> <th>Location</th> <th>Area (mu)</th> <th>Consideration sum (RMB)</th> </tr> </thead> <tbody> <tr> <td>Ni</td> <td>Shan Feng</td> <td>Jiangle</td> <td>80,704</td> <td>33,943,766</td> </tr> <tr> <td></td> <td></td> <td>Total</td> <td>80,704</td> <td>33,943,766</td> </tr> </tbody> </table>	Assignee	Consent by	Location	Area (mu)	Consideration sum (RMB)	Ni	Shan Feng	Jiangle	80,704	33,943,766			Total	80,704	33,943,766					
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Ni	Shan Feng	Jiangle	80,704	33,943,766																	
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Disposal Agreement	<p>In the case of Lijiashan, refer to the Disposal Agreements as mentioned in the Deed of Third Assignment.</p> <p>In the case of Shansheng, refer to the Disposal Agreements as mentioned in the Deed of Fourth Assignment.</p> <p>The Disposal Agreements as mentioned in the Deed of Third Assignment and in the Deed of Fourth Assignment are collectively known as the "Disposal Agreements".</p>																				
Disposal Transaction	The assignment of land lease to the assignee(s) arising from the execution of the Disposal Agreement.																				
Equity Law	Equity Law LLC, Singapore legal counsel appointed by the Board																				
Feng	冯文新, Village party secretary (村支书) and President of Family Planning Association (计生会长) of Yuantou villagers' committee																				
FKT	Foo Kon Tan LLP																				

Glossary

FY2016	Financial year ended 30 June 2016 of the Company																																																																																																					
FY2017	Financial year ended 30 June 2017 of the Company																																																																																																					
George Xiong	Independent valuer (独立评估师) of Jones Lang LaSalle Corporate Appraisal and Advisory Limited (仲量联行企业评估及咨询有限公司) (“Jones Lang”) to Shansheng and Lijiashan																																																																																																					
Group	Comprising the Company and its subsidiaries																																																																																																					
Jiangle	Jiangle county 将乐县, Fujian Province, PRC																																																																																																					
Lai	赖学舜, Commissioner (处长) of Fujian Provincial Department of Forestry (福建省林业厅)																																																																																																					
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Glossary

Lessor(s)	Refer to the lessors defined in the Deed of First Assignment and Deed of Second Assignment.
Lian	练伟雄, Assistant of the village head of Yuantou villagers' committee.
Lijiashan	Nanping Lijiashan Forestry Co., Ltd. (南平市李家山林业有限公司). Lijiashan is the immediate holding company of Shansheng. Lijiashan is the wholly-owned subsidiary of Yuanwang.
Lin or Lin Weibin	林卫斌, Executive Director and Group Head of Production and Sales of the Company; Director of Yuanwang; Director and Head of Sales Department of Wangsheng. Yuanwang is the holding company of Lijiashan.
Liu	刘立平, Legal representative (法定代表人) of Lijiashan (appointed since 31 July 2018) and Shansheng (appointed since 26 July 2018)
Mao	毛信贤, Assignee (individual) of the land lease from Lijiashan. Mao was also the subcontractor for maintenance and harvesting services for Lijiashan and the contractor for pest control for Lijiashan.
Mu	亩, a Chinese measuring unit currently equivalent to 666 and 2/3 meters squared
Ni	倪永长, Assignee (individual) of the land lease from Shansheng. Ni was also the subcontractor for maintenance for Shansheng and the contractor for harvesting services and pest control for Shansheng.
Offsetting of accounts agreement (also known as "offset agreement")	<p>The offset of the consideration sum(s) due by the assignee(s) under the Disposal Agreement against the amounts owed to the assignees for maintenance, pest control and harvesting services (refer to "Contractor" for the definition of maintenance, pest control and harvesting services) where:</p> <p>In the case of Lijiashan, the Offsetting of accounts agreement dated 23 August 2017 entered into between Lijiashan and Mao providing for aggregate consideration of RMB 13,291,349 pursuant to the Deed of Third Assignment to be offset against the sum of RMB 13,369,504 owed to Mao for maintenance, pest control and harvesting services.</p> <p>In the case of Shansheng, the Offsetting of accounts agreement dated 23 August 2017 entered into between Shansheng and Ni providing for aggregate consideration of RMB 33,943,766 pursuant to the Deed of Fourth Assignment to be offset against the sum of RMB 33,960,160 owed to Ni for maintenance, pest control and harvesting services.</p>
Peng	彭林安, lawyer from 福建皇华律师事务所 for Lijiashan
Plantations	The Moso bamboo plantations
PRC	People's Republic of China
Professor	赖日文, Professor, Faculty of Agriculture, Fujian Agricultural and Forestry University (福建农林大学)

Glossary

Pucheng	Pucheng county 浦城县, Fujian Province, PRC
Rex	Rex, Zhou Chen, Chief Financial Officer of the Company
SGX	Singapore Exchange Limited (“SGX”)
Shan Feng	Jiangle Shanfeng Bamboo Co., Ltd. (将乐县山丰竹业有限公司).
Shansheng	Sanming Shansheng Forestry Co. Ltd. (三明山盛林业有限公司). Shansheng is the wholly-owned subsidiary of Lijiashan.
Subsidiaries	Lijiashan and Shansheng are collectively known as the “Subsidiaries” or “Subsidiaries” of Yuanwang.
Wangsheng	Fujian Wangsheng Industrial Co., Ltd. (福建望盛实业有限公司). Previously known as Fuzhou Wangcheng Foods Development Co., Ltd (福州旺成食品开发有限公司). Wangsheng is a wholly-owned subsidiary of the Company.
Xiong	熊浦印, former legal representative, chairman and general manager (法定代表人, 董事长兼总经理) of Lijiashan. Appointed for the period from 23 April 2013 to 31 July 2018.
Ye	叶林庆, General manager of Shan Feng
Yuanwang	Nanping Yuanwang Foods Co., Ltd. (南平市元旺食品有限公司). Yuanwang is a wholly-owned subsidiary of the Company. Yuanwang is the immediate holding company of Lijiashan.
Yuan Tai	Yuan Tai Law Offices (上海源泰律师事务所), PRC legal counsel acting for FKT
Yuantou village	Yuantou village, Shanxia Town, Pucheng county, Fujian Province, PRC
Yuantou villagers’ committee	Villagers’ committee of Yuantou village (源头村)
Zhou	周济才, General manager of Danggui

9 October 2018

To: The Audit Committee of Yamada Green Resources Limited

1. Executive Summary

1.1 Background

The Board of Yamada Green Resources Limited (the "Company") announced on 21 August 2018 that Sanming Shansheng Forestry Co., Ltd. (三明山盛林业有限公司) and Nanping Lijiashan Forestry Co., Ltd (南平市李家山林业有限公司) (collectively the "Subsidiaries"), both wholly-owned subsidiaries of the Company, had in August 2017 disposed of all their leases to the Plantations (gross land area measuring approximately 129,696 亩 (mu)) in Jiangle county and Pucheng county, in Fujian province, People's Republic of China ("PRC") (the "Disposal Transaction"). The disposal was not brought to the Board's attention previously and was made without the approval of the Board.

On 27 August 2018, the Board of Directors appointed Foo Kon Tan LLP ("FKT") to conduct agreed upon procedures in connection with the Group's disposal of the Plantations by certain of its subsidiaries, namely: Shansheng and Lijiashan, which occurred in August 2017 but was not made known to the Board until August 2018.

We have carried out the agreed upon procedures including interviewing the legal representatives of the Subsidiaries, namely, Mr. 熊浦印 ("Xiong") and Mr. 蔡继强 ("Cai"), who were the then legal representatives of Lijiashan and Shansheng respectively. We also interviewed Mr. 林卫斌 ("Lin Wei Bin") who is an executive director and group head of production and sales of the Company, a director of 南平市元旺食品有限公司 ("Nanping Yuanwang Foods Co., Ltd.") ("Yuanwang") and a director and head of sales department of 福建望盛实业有限公司 ("Fujian Wangsheng Industrial Co., Ltd.") ("Wangsheng"). In the course of our work, we also interviewed other parties (Refer to Section 1.2 interview venue).

The interviews were conducted together with the Company's PRC and Singapore legal counsels, Allbright and Equity Law, who were appointed by the Board, along with Yuan Tai, representing FKT. Chen, Rex and Liu also attended the interview while Chua attended the interviews of Lin, the professor and Jones Lang.

1.2 Interview venue

The interviews were carried out at the following venue:

Description	Parties	Address
Former legal representative, chairman and general manager (法定代表人, 董事长兼总经理) of Lijiashan	Xiong	浦城县盛丰路 2 号
Former legal representative, chairman and general manager (法定代表人, 董事长兼总经理) of Shansheng	Cai	福建省三明市将乐县古镛镇七星街先进巷 9 号 501 室
Director of Company, Wangsheng and Yuanwang	Lin	闽侯荆溪镇厚屿入园路 12 号福建望盛实业有限公司
Professor of Fujian Agricultural and Forestry University (福建农林大学)	Professor	闽侯荆溪镇厚屿入园路 12 号福建望盛实业有限公司
Commissioner (处长) of Fujian Provincial Department of Forestry (福建省林业厅)	Lai	Fujian Provincial Department of Forestry (福建省林业厅)
Valuer - Jones Lang	George Xiong	Conference call at 闽侯荆溪镇厚屿入园路 12 号福建望盛实业有限公司
Lawyer for Lijiashan	Peng	浦城县盛丰路 2 号
Assignee (individual) for the land lease at Shansheng	Ni	福建省三明市将乐县古镛镇七星街先进巷 9 号 501 室
Assignee (individual) for the land lease at Lijiashan	Mao	浦城县盛丰路 2 号
General manager of Shan Feng – lessor to Shansheng	Ye	福建省三明市将乐县古镛镇七星街先进巷 9 号 501 室
General manager of Danggui – Lessor to Lijiashan	Zhou	浦城县盛丰路 2 号
Yuantou villagers' committee – Lessor to Lijiashan	Feng	浦城县山下乡源头村村民委员会

1.3 Objectives of the agreed upon procedures

The key objectives are to obtain the relevant facts, circumstances and events leading to the disposition of the Disposal Transaction and how the reporting and communication were carried out.

The experts consisting of the valuer, professor and the ministry from the Fujian Provincial Department of Forestry were to provide us with the understanding of the Plantations in so far as it relates to the insect infestation and plant diseases as well as the turn of the market for bamboos since 2016 and the decline in the value of the Plantations.

1.4 Fact-finding observations and conclusion

We completed the scope of work under the agreed upon procedures in our engagement letter dated 27 August 2018 and we set out below our fact-finding observations and conclusions in Sections 1.4.1 to 1.4.10.

1.4.1 Control over legal representatives

Through the Company's legal counsel,

- a. We were unable to verify to the stamp records/register of legal representatives showing the dates and purposes of the uses of the chop/stamp of the legal representatives, and were unable to ascertain whether there were sufficient controls over the custody and security of the legal representative(s) seal/stamp, in particular, whether the contract execution require the use of the seals. This was because the stamp records/register of legal representatives had been destroyed in the fire incident.
- b. The then legal representatives, Xiong and Cai, had been replaced by a new legal representative Mr Liu (刘立平) in July 2018 and Mr Liu discovered the disposal from the then legal representatives when he took office.
- b. The PRC legal counsel of the Company had examined the articles of association of the Subsidiaries, Lijiashan and Shansheng, and confirmed that under Article 22 of Chapter

7 of the Articles of Association of the Subsidiaries and the law in PRC, the then legal representatives possessed the authority to enter into the Disposal Agreement in the Disposal Transaction.

1.4.2 Rationale of leases of Plantations

We interviewed the relevant parties regarding the policies and procedures on the maintenance of the Plantations including the professor of forestry to the extent of the damages and possible treatment.

Director of the Company - Lin

- a. Lin reported that every industry had its own risks. He made the decision to recommend to the Board to lease the Plantations in 2013 as he was optimistic about its future prospects. In addition, after obtaining the land leases to the Plantations, Shansheng and Lijiashan were reporting profits from the bamboo operations. At the time of obtaining the land leases to the Plantations, he did not expect any insect infestation at the Plantations. There were internal control procedures for the management of pest control. These include the use of chemical ingredient formula, weeding, fertilisation and soil loosening to destroy the insect ovum, and the removal of insect chrysalis. The pest control work was carried out by contractor and/or subcontractors and supervised by the management.

Professor

- b. It was apparent that there were insect pest at the Subsidiaries' Plantations and the professor had recommended the scientific procedures to resolve the insect pest and plant diseases. The Plantations in Jiangle and Pucheng were badly affected by the unusually dry weather conditions with low rainfalls recorded in 2016 in these regions. His investigation and analysis in his report dated 28 April 2017 showed that the Plantations in Jiangle and Pucheng were also affected by plant diseases and insect pest such as Pantanaphyllostachysae (刚竹毒蛾), pest mites (害螨) and Ceracris kiangsu (黄脊竹蝗). He was of the view that a combination of factors, such as poor soil conditions, insufficient maintenance and incorrect cultivation methods, and the plant diseases and insect infestation had led to serious damages to the Plantations. As a result of his analysis, the professor estimated that the productivity and yield of the Plantations may have reduced by at least 30 percent due to the dry weather conditions and the insect infestation problems. The professor recommended several measures to minimize the loss from plant disease and insect pest such as (a) improving

soil fertility, (b) curing the insect infestation areas with the use of chemicals, (c) weeding to loosen soil to inhibit the growth of weeds and (d) implementing proper cultivation measures including the use of biological natural inhabitants to combat the growth of plant disease and insect pest.

- c. The professor had confirmed that he had visited the Subsidiaries' Plantations in early April 2017. This was corroborated by Xiong and Cai who had confirmed that the professor had visited the Plantations during that period to investigate into the seriousness of the insect infestation and plant diseases.

1.4.3 Process of the Disposal Transaction

- a. We interviewed the past legal representative(s) and directors of the Subsidiaries on the authorisation process for the Disposal Transaction and amongst others:
- The economics and commercial reasoning for the Disposal Transaction, including a market research to the forestry industry economics, and consider the chronology of the Disposal Transaction; and
 - The basis for the sale consideration, whether an independent valuation was used and to obtain a copy of the independent valuation report on the Disposal Transaction, and the manner of settlement, whether gross or net. If net, the rationale in arriving at the netting arrangement and whether there exists a legal right of offset. In this regard, we have also interviewed the Plantation contractors and/or subcontractors and the valuer.
- b. At the meeting, it was represented that the Plantations require high (However FKT is unable to comment on whether it is high or low) maintenance including pest control of more than RMB 40 million in the case of Shansheng and that the sustainability of the bamboo operations was affected by the poor economic conditions for the bamboo business and the low bamboo productivity.
- c. Whether there existed related party relationships, if any, in respect of the Disposal Transaction and the manner to which how the process of authorisation and disclosure had been carried out to identify the related party relationships, it was represented throughout the meetings that there were no related party relationships and/or transactions and balances.

- d. We enquired the process by which the legal representative(s) communicated the Disposal Transaction to the directors of the Subsidiaries and noted that the communications were mainly verbal as to the approval procedures until the signing of the Disposal Agreement on the disposition of the Disposal Transaction. During the process, there was an internal report on the Disposal Transaction which was submitted by the legal representative, Xiong, to Lin, the director of Yuanwang. To the extent the Disposal Transaction was reported to the Board, it was only restricted to the legal representatives reporting to Lin, the director of the Yuanwang.
- e. We reviewed the original Disposal Agreements provided to us by the assignees. The PRC legal counsel of the Company had reviewed the authenticity of the Disposal Agreements. The date of the Disposal Agreements and completion of the Disposal Transaction was on 23 August 2017 which was confirmed by the assignees, Mao and Ni. On whether the disposal was made known to the Board, the legal representatives confirmed that his reporting process was limited to the immediate holding company, Yuanwang. As to the existence of the guarantees, warranties and commitments, the assignees confirmed that there were none.
- f. At the meeting, it was confirmed by the assignees that no other assets were included in the Disposal Transaction. The PRC legal counsel of the Company confirmed that the terms of the Disposal Agreement were crafted on the basis of the land lease arrangement entered into between the lessors and the Subsidiaries.
- g. We checked the identification of the leases/parcels of land that constitute gross land area measuring approximately 129,696 mu. We agreed the leased areas to the Disposal Agreements under the Deed of First Assignment and Deed of Second Assignment.
- h. The legal representatives confirmed to us that there was no tendering process though they had obtained offers from several third parties. For Lijiashan, there were offers from three parties; two of which offered a few million yuan and only Mao offered RMB 10 million. The agreed price after negotiation was RMB 13.29 million. For Shansheng, there were several offers. The third parties who were interested in the land lease of Shansheng were 恒盛达公司的周总 and 谢总, and there was also an offer from 叶总 who was holding a position in the village. Their offers ranged between RMB 20 million to RMB 30 million.

i. We reviewed whether the consideration sum for the Disposal Transaction, included any cash involved, or money being escrowed or banked directly to the bank account:

- The consideration sum for the Disposal Transaction was offset against the amounts owed to the assignees who were also the contractor and/or subcontractors for maintenance, pest control and harvesting services for the Subsidiaries. According to the Offsetting of accounts agreement, the settlement of the consideration sum was purely by way of offsetting of accounts due to the fact that there were amounts owed to the assignees for maintenance, pest control and harvesting services. The net amount after the offsetting was paid in cash. In the case of Lijiashan, the net amount paid to Mao was approximately RMB 70,000. In the case of Shansheng, the net amount paid to Ni was more than RMB 10,000. The table below summarises the information on the consideration sum which was offset against amounts owed to the assignees who were also the contractors and/or subcontractors for maintenance, pest control and harvesting services:

	Lijiashan	Shansheng
Offsetting of consideration sums	RMB' million	RMB' million
Maintenance	5.77	13.11
Pest control	5.19	12.84
Harvesting services	2.4	8.01
Amounts due to contractor and/or subcontractor	13.36	33.96
Consideration sums	13.29	33.94
Net amount due to assignees after offset	0.07	0.02

- There were no escrow accounts as the settlement of the consideration sum was based on the Offsetting of accounts agreement. The PRC legal counsel of the Company had reviewed and confirmed that the Disposal Agreements under the Deed of Third Assignment and Deed of Fourth Assignment and the Offsetting of accounts agreements were valid and were legally enforceable given that there were also amounts owed to the assignees who were also the contractor and/or subcontractors for the Subsidiaries' Plantations.

Legal representatives

- j. The legal representative of Lijiashan, Xiong, reported the Disposal Transaction of Lijiashan and Shansheng (executed and completed on 23 August 2017) by way of an internal report on the Disposal Transaction on 25 August 2017 to Lin, the director of Yuanwang. Yuanwang is the immediate holding company of the Subsidiaries (Lijiashan and Shansheng). Xiong relied on the valuation report for the sale consideration in the Disposal Transaction.
- k. The independent valuer, Jones Lang LaSalle Corporate Appraisal and Advisory Limited (仲量联行企业评估及咨询有限公司) (“**Jones Lang LaSalle**”), confirmed that the valuation was prepared for the purpose of the annual audit and not for the Disposal Transaction. The valuation amount, valuation date and valuation basis for the moso bamboo plantations in the valuation report by Jones Lang LaSalle, that was commissioned for audit purposes were as follows:

	Plantation area (mu)	Valuation amount (RMB)	Valuation date	Valuation basis
Lijiashan	48,992	13,291,349	30 June 2017	Income approach
Shansheng	80,704	33,943,766	30 June 2017	Income approach

The valuer took into account the “projected harvest and market prices of the bamboo trees and bamboo shoots, and the conditions of the biological assets as to its growth cycle” in its valuation approach.

- l. The legal representative of Shansheng, Cai, reported the Disposal Transaction of Shansheng to Xiong. Cai received the valuation report on the Plantations of Shansheng from Lijiashan and relied on it in determining the consideration sum in the Disposal Transaction of Shansheng. He had obtained the draft Disposal Agreement from Xiong for the Disposal Transaction.
- m. The legal representatives, Xiong and Cai, were responsible for managing the Plantations including the pest control at the Plantations in accordance with the internal control procedures adopted by the Subsidiaries.
- n. They had reported in writing to Lin on the severity of the insect infestation and discussed with Lin whether, (i) to suspend the Plantations operations, or (ii) to dispose of the Plantations, or (iii) obtain instructions from superior on the direction. Consequently, Lin gave his written approval by fax to Xiong with full authority to decide on the disposition of the Plantations.

- o. There was a Disposal Agreement for the Disposal Transaction. The PRC legal counsel of the Company had confirmed that the Disposal Agreements including the Offsetting of accounts agreements were valid and were legally enforceable though the Disposal Agreement was not drafted by a legal firm. The Disposal Agreements were acknowledged by the lessors when the land leases to the Plantations were transferred to the assignees.
- p. The legal representative, Xiong, prepared and submitted his internal report on the Disposal Transaction on 25 August 2017 to Lin. We understand that Xiong had placed the internal report on Lin's office desk when Lin was not in his office at that point of time.
- q. Xiong reported that his request for the course of action on the disposition of the Plantations to Lin was made on 17 August 2017 and he received Lin's approval on 18 August 2017.
- r. Cai had reported that he understood from Xiong that the approval from Lin was granted on 17 August 2017 where he commenced the search for interested parties to transfer the land lease on 18 August 2017.

Director of the Company and immediate holding company of the Subsidiaries, Yuanwang

- s. Lin had given his written approval by fax to Xiong with full authority to decide on the disposition of the Plantations when, the legal representative, Xiong, had sought his view on the course of action as to whether (i) to suspend the Plantation operations, or (ii) to dispose of the Plantations, or (iii) to obtain instructions from superior on the direction. Xiong previously informed Lin about the severity of the insect infestation and plant diseases, and the damages it had caused to the Subsidiaries' Plantations.
- t. By his own admission, Lin claimed that he was busy with attending to the auditing matters by the then auditors, BDO, in August 2017 and he also had personal family problems to manage at that time. Although he was not aware that the internal report on the Disposal Transaction which Xiong said he placed on Lin's desk in Lin's absence on 25 August 2017, Lin had omitted to follow up on Xiong's earlier report on 17 August 2017. He admitted that there was a neglect of fiduciary duties of himself as a director, namely, he did not realise that his response (全权处理 or full authority to decide on the disposition of the Plantations) given to the legal representative, Xiong, would lead

to the Disposal Transaction. Had he been aware of the Disposal Transaction, he would have reported the matter to the Board.

- u. In addition, Lin admitted that there was some misunderstanding in communications between Lin and the legal representatives i.e. had the Plantations been disposed of, he would have expected the legal representatives to report the matter to him again upon finding suitable buyers for his approval of the disposal but they did not. This was the reason why he did not report the Disposal Transaction to the Board.
- v. As a key member of the management of the Company, Lin did not make any reporting to the Board. The failure to report to the Board was due to his omission and apparently neglecting his management responsibility.
- w. Subsequently, on 19 August 2018, the new legal representative, Mr Liu (刘立平), informed Mr Chen and the CFO Mr Rex Zhou, who then reported the Disposal Transaction to the Board.
- x. In so far as internal control on reporting and communication is concerned, FKT interviewed Xiong and understand that from Xiong's perspective, so long as he reported to Lin on the Disposal Transaction, he had complied with the internal control. FKT further observed that there was only unilaterally communication made by Xiong to Lin where the authorization for the Disposal Transaction is concerned. There was also a lapse in the reporting where Yuanwang is concerned for Lijiashan to make known the Disposal Transaction to its immediate holding company. Furthermore, Lin also failed to follow up on the reporting by Xiong. No approval of the Disposal Transaction was obtained from the Board and shareholders of the Company.

Process by which the legal representative(s) communicate the Disposal Transaction to the director of Yuanwang, the immediate holding company of the Subsidiaries, and whether it reflected the reporting channel for normal and/or significant transactions including Disposal Transaction

- y. The consideration sums for the Disposal Transaction of Lijiashan and Shansheng were RMB 13,291,349 and RMB 33,943,766 respectively. Both transactions were regarded as significant as they were the core assets of the Subsidiaries and these assets were reflected as prepayments and biological assets in the annual report of the Company in FY2016.

- z. In so far as the Disposal Transaction was concerned the legal representatives, Xiong and Cai, reported that they had submitted their management accounts to the holding company, Wangsheng on a monthly basis. Regarding the July/August 2017 management accounts, the accounts were updated to record and recognise the disposition of the Disposal Transaction. In order to facilitate the subsequent follow up audit work by BDO, the relevant books and records up to August 2017, though not closed, were submitted to Wangsheng's office at 闽侯县荆溪镇厚屿村食品工业园 on 28 August 2017. The accountant of Lijiashan, 黄祖萍, represented that the accounting software was linked to Wangsheng's office via a server. When the file servers were destroyed due to the fire incident, she could not access to any data from the server as to their records.

Existence, validity and reasonableness of the payables and payments

- aa. As mentioned in the aforesaid paragraph, when the July/August 2017 accounting records were submitted to the head office and the inability to access them, we were not provided with any documents or evidence to support the payables and payments made. We were informed by Xiong and Cai that the full settlement with the assignees was made in August 2017.
- bb. The PRC legal counsel of the Company had examined the Deed of Third Assignment and Deed of Fourth Assignment together with the Offsetting of accounts agreement and have confirmed the validity and enforceability of these contracts. On this basis, the payables and payments in so far as it relates to the Disposal Transactions were confirmed to be in order from the legal perspectives.

1.4.4 Independent valuer

- a. The valuation of the Subsidiaries' Plantations was used solely for financial reporting purposes for the audit of the financial statements of the Company and its subsidiaries and were shown as biological assets in the FY2016 annual report of the Company and for the purpose of this due diligence. The valuer confirmed that the valuation was not prepared for the Disposal Transaction. We have requested the working papers of the valuer to show that the work was performed prior to the date of the Disposal Transaction. Based on the email correspondences provided by Rex which he obtained from the valuer, it was shown that there were communications between the valuer and BDO as early as 10 August 2017. The valuation reports for the Plantations for the year ended 30 June 2017 were dated on 21 August 2017.
- b. We have reviewed the valuation reports on the Plantations by the valuer of the Subsidiaries the basis of the calculations of which included the projected harvest and market prices of the bamboo trees and bamboo shoots, and the conditions of the biological assets as to its growth cycle. The valuer also had a team of agricultural experts who assisted them in the valuation exercise which had considered the risk from the plant disease and insect pest control measures.

1.4.5 Ministry from the Fujian Provincial Department of Forestry

- a. The market value of the Plantations had declined due in part to governmental environmental control measures by the Ministry of Ecology and Environment of the PRC.
- b. According to the Company's searches, the prices for bamboos had fallen from approximately RMB 800 per ton in year 2015/2016 to approximately RMB 400 per ton in year 2017/2018.

1.4.6 Internal reporting to the Board by Chen and Rex

- a. We found the information in the internal reporting to the Board by Chen and Rex to be consistent with our fact-finding and observations.

1.4.7. The facts surrounding the Disposal Transaction

The facts surrounding the Disposal Transaction by reviewing email correspondences in relation to the Disposal Transaction, including Lin Weibin's correspondences with Xiong and Cai involved in the Disposal Transaction as well as reports submitted in relation to the disposal.

- a. To the best of Lin's belief, all communications were made verbally; there were no email transmissions. The only written document made known in the meeting between Lin and Xiong was the written internal report of the Disposal Transaction. Lin reported that there was only one fax transmission from Lin to Xiong for his approval to Xiong on the disposition of the Plantations. Management represented that the internal report on the Disposal Transaction and the fax transmission copy were destroyed in the fire incident.

1.4.8. Whether the Plantation had encumbrances when it was disposed. If so, to ascertain the circumstances under which the encumbrances were created and for whose benefits.

- a. The assignees of the Plantations, Mao (Lijiashan) and Ni (Shansheng) had confirmed that the Plantations did not have any encumbrances when they were disposed of by

the Subsidiaries. We checked to the Disposal Agreements and the PRC legal counsel of the Company had confirmed that there were no encumbrances.

1.4.9. Interview with the Plantations' contractor and/or subcontractor

- a. There were internal control procedures on the maintenance of Plantations for the Subsidiaries. According to Xiong and Cai, the internal control procedures were observed as to the process of the maintenance and pest control services. We interviewed the assignees of Lijiashan (Mao) and Shansheng (Ni) who were also the contractors and/or subcontractors for maintenance, pest control and harvesting services. Mao and Ni confirmed that they complied with the instructions given by the management of the Subsidiaries, but they would not be responsible for the outcome of the maintenance nor the effectiveness of pest control. The management of the Subsidiaries confirmed that they did carry out sample checks on the contractors and/or subcontractors to ensure they comply with the requirements laid out in the maintenance contract and the pest control contract. Mao and Ni reported that for the maintenance and the pest control work, they engaged experienced farmers in the Plantations. The records for maintenance and pest control were destroyed in the fire incident.

1.4.10. Interview with the assignees

- a. The assignees, Mao and Ni, who were also the Plantations' contractors and/or subcontractors confirmed that they obtained the transfer of the land leases to the Plantations from Xiong and Cai respectively and agreed that the liability owing to them by the Subsidiaries are to be paid to them by the Subsidiaries by way of offsetting of accounts. They also confirmed that there were no guarantees, warranties or commitments in the Disposal Transaction. There were no encumbrances that were created when they acquired the Plantations. There were no claims or disputes with the assignees arising from the Disposal Transaction.

- b. It was noted that the assignees, Mao and Ni, transferred most of the land leases to the farmers within 6 months after acquiring the land leases from Lijiashan and Shansheng respectively. Mao and Ni retained about 500 mu of the land lease each for their own purpose. The assignees represented that the reason for the transfer of the land leases to the farmers was due to low productivity from insect infestation and a decline in bamboo prices coupled with the decline in the market demand for bamboos and the negative impact from the strict environmental requirements. In addition, they represented that they also owed the farmers for the maintenance, pest control and harvesting services, and such amounts were offset when they transferred the land lease to the farmers. The assignees represented that the amounts owed to the farmers were because they engaged the farmers to carry out the maintenance, pest control and harvesting services in their own personal capacity when they were the contractors and/or subcontractors for Lijiashan and Shansheng.

2. Scope of Work

Our fact-findings and observations from the agreed upon procedures are enclosed in the following appendices:

Appendices	Description
Appendix A	Interview with the legal representative of Lijiashan, Xiong
Appendix B	Interview with the legal representative of Shansheng, Cai
Appendix C	Interview with director of the Company and Yuanwang, Lin
Appendix D	Interview with professor from the Fujian Agricultural and Forestry University
Appendix E	Interview with Ministry from the Fujian Provincial Department of Forestry
Appendix F	Interview with independent valuer, Jones Lang
Appendix G	Interview with assignee of Lijiashan's Plantations, Mao
Appendix H	Interview with assignee of Shansheng's Plantations, Ni
Appendix I	Interview with Danggui
Appendix J	Interview with Yuantou villagers' committee
Appendix K	Interview with Shan Feng
Appendix L	Interview with Peng

Yours faithfully,

For and on behalf of Foo Kon Tan LLP

Interview with the legal representative of Lijiashan, Xiong

Interviewee: Xiong
Venue: 浦城县盛丰路 2 号
Objective: (A) Control over legal representative(s)
(B) Rationale of leases of Plantation
(C) Process of the Disposal Transaction

Xiong was the legal representative, Chairman and General Manager of Lijiashan.

Shansheng is a wholly-owned subsidiary of Lijiashan. The accountant of Lijiashan, 黄祖萍, was present at the interview.

Below is the information obtained from the interview. Xiong has confirmed to us before the parties namely: FKT, Allbright, Equity Law and Yuan Tai the following matters to the best of his belief:

A. Commencement of lease

- i. In April 2013, Lijiashan signed a Deed of First Assignment (Part 1) of 11,302 mu with Yuantou villagers' committee. Xiong was introduced to Yuantou villagers' committee by Mao. In 2014, as the legal representative, Xiong signed a Deed of First Assignment (Part 2 and Part 3) of 22,543 mu and 15,147 mu respectively. In total, the land lease areas acquired by Lijiashan were 48,992 mu. Xiong represented that the consideration sums for the land lease were agreed according to valuation reports (评估报告) and feasibility study reports (可行性报告).
- ii. As required by Lijiashan's internal control procedures, Xiong had informed the director of Yuanwang, which is the immediate holding company of Lijiashan, Lin Wei Bin, of the land lease acquisitions and he believed that Lin would have informed the Board. He believed that the Board would have also made the necessary announcements on the acquisition of the land lease to the Plantations.
- iii. Xiong represented that there were internal control procedures (管理制度) over the financial and risk management of Lijiashan, pest control and maintenance.

B. Circumstances and rationale leading to the Disposal Transaction

- i. Initially when insect pest was discovered, they were not considered severe.
- ii. Owing to poor market outlook for bamboos, high labour cost, insect infestation problems and outstanding maintenance fees and other amounts owing to the contractor and/or subcontractor, there was a business case for urgent action to be taken whether to continue operating the Plantations business which were incurring losses.
- iii. There were demands for payment made by the contractor and/or subcontractor for outstanding maintenance fees and other fees owed to Mao. There were similar problems noted at Shansheng.
- iv. The legal representatives of Lijiashan and Shansheng arranged to discuss the matters with a view to finding a solution.
- v. The professor from the Fujian Agricultural and Forestry University was also called to the Plantations at Lijiashan in April 2017.
- vi. The Disposal Agreement was prepared by Lijiashan and it was reviewed by a lawyer, Peng, from 福建皇华律师事务所 for consistency with local laws and regulations on an informal basis without any legal fees being incurred. The legal counsel was referred to Xiong through a friend of his.
- vii. Xiong initiated discussions with three interested parties, two of which offered a few million yuan and only Mao offered RMB 10 million in June/July 2017. Xiong believed the price was too low. Mao was a farmer and had been in the bamboo shoots business for some time. He sold bamboo shoots to Yuanwang previously.
- viii. The agreed price after negotiation was set at approximately RMB 13 million which was based on the professional valuation from Jones Lang. The accountant of Lijiashan, 黄祖萍, represented that the valuation report was obtained from Wangsheng's office.

C. The entering of the Disposal Agreement and Offsetting of accounts agreement

- i. Xiong represented that Lin had given him the full authority (全权处理 or full authority to decide on the disposition of the Plantations) to manage the Plantations on 18 August 2017 and to do what was in the interest of the Company (以公司利益最大化为原则).
- ii. Xiong believed it was not necessary to communicate the agreed consideration sum of RMB 13.29 million and the execution of the Disposal Agreement to Lin as Lin already authorised him to decide on the disposition of the Plantations. In addition, Xiong believed he had the right to dispose the Plantations which was in accordance with his right as a legal representative, and that he complied with the internal control procedures of Lijiashan. Under the reporting and authorization protocol of the Group, Xiong's and Lijiashan's channel is through Mr Lin and Lijiashan's immediate holding company Yuanwang respectively.
- iii. The Deed of Third Assignment to transfer the land lease to Mao was executed on 23 August 2017. According to their internal control procedures, the Disposal Agreement under the Deed of Third Assignment was kept by the finance department. Xiong represented that he did not have the original copy of the Disposal Agreement as it had been submitted to Wangsheng for audit purpose on 27 August 2017. A copy of the Disposal Agreement was obtained from the assignee, Mao, in August 2018.
- iv. Following the disposal, Xiong represented that he had prepared an internal report on the Disposal Transaction and had placed it on Lin's desk when Lin was not in the office on 25 August 2017. He further represented that other than the internal report, there were no other documents such as the Disposal Agreement that was given to Lin. The internal report was kept at Lijiashan's finance department.
- v. It was the finance department who keyed the internal report on the Disposal Transaction in their computer. The file servers at Wangsheng were destroyed during the fire incident. No other soft copy could be retrieved.
- vi. In addition to the Disposal Agreement, the Offsetting of accounts agreement was also signed. This was because there were amounts owed to the assignee, Mao, and therefore offsetting of accounts was considered. Mao was also the subcontractor for maintenance and harvesting services and the contractor for pest control for Lijiashan.

- vii. The Offsetting of accounts agreement was signed on 23 August 2017 which was the same day as the Disposal Agreement. Xiong represented that he had discussed and obtained the agreement of the lessors, Danggui and Yuantou villagers' committee, to transfer the land lease to Mao. The representatives of Danggui and Yuantou villagers' committee were present on the same day to affix their company seals on the Disposal Agreement.
- viii. As Lijiashan had already made payment for the 10-year land lease period out of a total land lease period of 15 years in 2013 on its land lease with Yuantou villagers' committee, the assignee, Mao, would only be responsible for the remaining five years of the land lease as stated in the Deed of Third Assignment. After the offsetting of accounts, there was still a net amount of approximately RMB 70,000 owing to Mao. This was settled in cash on the same day the contracts were signed at Lijiashan's premises. The cash was obtained by Lijiashan from the collections from bamboo shoots sales.
- ix. Xiong believed it was not necessary to obtain Lin's approval for the Offsetting of accounts agreement as Lin had already given approval for him to deal with the Plantations. Lijiashan owed a total of RMB 13.36 million to Mao as a contractor and/or subcontractor. The amounts owed consisted of the cost of maintenance, pest control and harvesting services for the period from May 2016 to August 2017.
- x. The table below summarises the consideration sum which was offset against amounts owed to Mao. The net amount due to Mao was settled in cash on 23 August 2017 by Lijiashan.

Offsetting of consideration sum	RMB' million
Maintenance	5.77
Pest control	5.19
Harvesting services	2.4
Amounts due to contractor and/or subcontractor	13.36
Consideration sum	13.29
Net amount due to assignee after offset	0.07

- xi. Xiong confirmed that Lijiashan became dormant following the Disposal Transaction.

D. Controls over company seal

Xiong made the following statements:

- i. There was a record for the use of the company seal indicating the time and purpose for using the company seal.
- ii. Xiong kept the company seal and the legal representative seal with him.
- iii. The legal representative seal was not required for contract signing.

The accountant of Lijiashan, 黄祖萍, made the following statements:

- i. There was no finance seal; they used the invoice seal instead.
- ii. The invoice seal was kept by the finance department.

E. Communication with the Board

- i. The accountant at Lijiashan represented that the management accounts of Lijiashan were submitted to Wangsheng on a monthly basis via Wangsheng's computer server (精算盘).
- ii. The accounting entries relating to the Disposal Transaction had also been recorded and recognised in the accounting records up to 27 August 2017 and all books and records had been delivered to the new office, 闽侯县荆溪镇厚屿村食品工业园 of Wangsheng on 28 August 2017.
- iii. The accounting software including the accounting entries for the Disposal Transaction had been updated and recorded onto the accounting system (精算盘) and the file servers (服务器) of Wangsheng up to 27 August 2017.
- iv. The accountant of Lijiashan, 黄祖萍, represented that after Wangsheng submitted all the hardcopy of the accounting records (which also contained the accounting records of Lijiashan) together with the computers from the new office to the existing office (at 福州市闽侯县甘蔗街道闽侯经济技术开发区东岭路 2 号) on 30 August 2017, their books and records had been destroyed by the fire incident. Following the fire incident, which also destroyed the file servers maintained by Wangsheng, she claimed that she could not register onto or have access to the accounting system of Wangsheng.

- v. After the fire incident, the accounting records of Lijiashan were prepared by Wangsheng from that time onwards. 黄祖萍 further represented that as Xiong already reported the Disposal Transaction to Lin, they thought that Wangsheng was aware of the disposal of the Plantations. 黄祖萍 confirmed that only their accounting records were delivered to Wangsheng's new office. The computer of Lijiashan remained in their office. However, she represented that after their computer underwent a tax software upgrade (税控), they could not recover the internal report on the Disposal Transaction that was submitted by Xiong to Lin on 25 August 2017.
- vi. Xiong represented that he had complied with the internal control procedures of Lijiashan as Lin had given his approval (全权处理 or full authority to decide on the disposition of the Plantations) to him on the disposition of the Plantations on 18 August 2017. He had also given the internal report on the Disposal Transaction to Lin on Lin's desk on 25 August 2017. He cited that he had the right to approve the Disposal Agreement. He also had the power to sign the Disposal Agreement under the Articles of Association of Lijiashan.
- vii. Xiong did not discuss the Disposal Transaction with Lin or with anyone else in the Group after the disposal. Xiong represented that he also did not communicate the Disposal Transaction with Wangsheng or with the Executive Chairman and Chief Executive Officer of the Company, Chen, since the Disposal Transaction in August 2017.

Fact-finding observations

(Arising from interviews with the legal representatives, Xiong and Cai (refer to Appendix B))

1. We were unable to verify to the stamp records/register of legal representatives showing the dates and purposes of the uses of the chop/stamp of the legal representatives; and were unable to ascertain whether there were sufficient controls over the custody and security of the legal representative(s) seal/stamp, in particular, whether the contract execution require the use of the seals. This was because the stamp records/register of legal representatives were destroyed in the fire incident.
2. The then legal representatives, Xiong and Cai, had been replaced by a new legal representative, Mr Liu (刘立平) in July 2018 and Mr Liu discovered the disposal from the then legal representatives when he took office.
3. No related party relationships and/or transactions and balances had been identified throughout the interviews.

4. We enquired the process by which the legal representative(s) communicate the Disposal Transaction to the directors of the Subsidiaries and noted that the communications were mainly verbal as to the approval procedures until the signing of the Disposal Agreement under the Deed of Third Assignment and Deed of Fourth Assignment on the disposition of the Disposal Transaction. During the process, there was an internal report on the Disposal Transaction which was submitted by the legal representative to Lin, the director of Yuanwang. On whether the Disposal Transaction was reported to the Board, Xiong confirmed that he was only required to and did report the Disposal Transaction to Lin, the director of Yuanwang.
5. Whether the date of the transaction was made known to the Board, the legal representatives confirmed that the process was limited to the immediate holding company, Yuanwang.
6. The legal representatives had confirmed to us that there was no tendering process though they had obtained offers from several interested parties.
7. According to the Offsetting of accounts agreement, the settlement of the consideration sum was purely by way of offsetting of accounts due to the fact that there were amounts owed to the assignees for maintenance, pest control and harvesting services. The net amount after the offsetting was paid in cash. In the case of Lijiashan, the net amount paid to Mao was approximately RMB 70,000.
8. There were no escrow accounts as the settlement was largely executed by way of the Offsetting of accounts agreements.
9. The legal representative of Lijiashan, Xiong, reported the Disposal Transaction of Lijiashan and Shansheng (executed on 23 August 2017) by way of an internal report on 25 August 2017 to Lin in his absence.
10. The legal representatives, Xiong and Cai, were responsible for managing the Plantations including pest control at the Plantations in accordance with the internal control procedures adopted by the Subsidiaries.
11. They had reported to Lin on the severity of the insect infestation and discussed with Lin whether, (i) to suspend the Plantations operations, or (ii) to dispose of the Plantations, or (iii) obtain instructions from superior on the direction. Consequently, Lin gave his approval to Xiong with full authority to decide on the disposition of the Plantations.

12. The Disposal Agreements were acknowledged by the lessors when the leases to the Plantations were transferred to the assignees.
13. The legal representative, Xiong, prepared and submitted his internal report on the Disposal Transaction on 25 August 2017 to Lin, in his absence.
14. Regarding the July/August 2017 management accounts, the accounts were updated to record and to recognise the disposition of the Disposal Transaction.
15. Xiong reported that his request for the course of action on the disposition of the Plantations to Lin was made on 17 August 2017 to which Lin replied with a fax written instruction indicating “全权处理 (or full authority to decide on the disposition of the Plantations), 以公司利益最大化为原则 (or what was in the interest of the Company)” which was received by Xiong on 18 August 2017.
16. Cai had reported that he was aware that the approval from Lin was granted on 17 August 2017 where he commenced the search for interested parties to transfer the land lease on 18 August 2017.

Interview with the legal representative of Shansheng, Cai

Interviewee: Cai

Venue: 福建省三明市将乐县古镛镇七星街先进巷 9 号 501 室

Objective: (A) Control over legal representative(s)
(B) Rationale of leases of Plantations
(C) Process of the Disposal Transaction

Xiong was the legal representative, Chairman and General Manager of Lijiashan.

Shansheng is a wholly-owned subsidiary of Lijiashan. Yuanwang is the holding company of Lijiashan. The legal representative of Shansheng was Cai.

Shan Feng was the lessor who had leased the Plantations to Shansheng.

Below is the information obtained from the interview. Mr. Cai has confirmed to us before the parties namely: FKT, Allbright, Equity Law and Yuan Tai the following to the best of his belief:

A. Commencement of lease

- i. At the meeting, both original copies of the Deed of Second Assignment (Part 1 and Part 2) were not available for inspection. However, details of the transfer of the land lease could be found in the announcements made on the SGX by the Company then.
- ii. Wang expressed interest in the Plantations business to representatives from Shan Feng. The Deed of Second Assignment (Part 1) was signed by 王长荣 (“Wang”), who was the then legal representative and general manager of Shansheng in 2014.
- iii. According to Cai, ShanSheng reported accumulated profits of RMB 22 million up to FY 2016.

- iv. With Xiong's approval, a second Plantation land lease was entered by Shansheng. Compared to the first land lease, the consideration sum was lower. However, the business climate for bamboo business had declined further due to a fall in the prices for bamboos and the imposition of environmental regulations.

B. Process of the Disposal Transaction

- i. In 2016, there was an unusual winter frost where the bamboo produce saw a huge decline coupled with the insect infestation which Shansheng faced difficulties to contain the plant disease.
- ii. The problems of the Plantations were brought to Xiong's attention for cause of action to be taken. Given the full authority from Lin to decide on the disposition of the Plantations, Xiong and Cai assessed the conditions of the existing problems to the extent of whether the business remained viable. Both understood that they were faced with strict environmental requirements from the Ministry of Ecology and Environment (中华人民共和国生态环境部) of the PRC. In addition, there were reported financial difficulties from companies within the Jiangle county. The option to the disposition of the Plantations was considered as an alternative to cut losses. There were several discussions held between Cai and Xiong as to the possible disposition.
- iii. On 18 August 2017, Cai commenced the search for interested parties after the approval from Lin was obtained on 17 August 2017. Only orally communication was made between Cai and Xiong as to the search for interested parties. There were in total about three or four interested parties who expressed interest. Amongst them were 恒盛达公司的周总, 谢总 and 叶总 who was holding a position in the village. There were proposals for the transfer of the land lease with offer prices between RMB 20 million to RMB 30 million. The latest interest was expressed from Ni, who had a prior business relationship with Shansheng. The initial offer from Ni was RMB 30 million, which was close to the then market price. But there was counter offer to the sum of RMB 40 million from Cai according to the professional valuation which Cai obtained from Xiong then.

- iv. Cai represented that Ni was not a party related to Shansheng or its employees.
- v. A Disposal Agreement was prepared by Xiong where the drafting was reviewed by a lawyer known to Xiong. On 20 August 2017, Cai obtained the Disposal Agreement from Xiong for discussion with Ni. However, the consideration sum was not stated. The consideration sum was agreed using the pricing available from the professional valuation. Cai received the valuation report on Shansheng's Plantations from the finance department of Lijiashan on 21 August 2017. The land lease of the Plantations had a remaining lease period of 7 years.
- vi. At the Shan Feng office, the Deed of Fourth Assignment was signed by the three parties, namely, Shansheng, Ni and Shan Feng on 23 August 2017. Together with the Disposal Agreement under the Deed of Fourth Assignment, there was also the Offsetting of accounts agreement signed on the same date. This was because, there were amounts owed by Shansheng to Ni, as contractors and/or subcontractors for maintenance, pest control and harvesting services for Shansheng. The Offsetting of accounts agreement was signed on 23 August 2017.
- vii. The net effect was an amount owing to Ni to the sum of approximately RMB 10,000, which was paid by Shansheng to Ni in cash on 23 August 2017. A summary of the consideration sum which was offset against amounts owed to Ni which was settled in cash on 23 August 2017 is tabulated below:

Offsetting of consideration sum	RMB' million
Maintenance	13.11
Pest control	12.84
Harvesting services	8.01
Amounts due to contractor and/or subcontractor	33.96
Consideration sum	33.94
Net amount due to assignee after offset	0.02

- viii. There was no amount owing to/from Ni by Shansheng after the settlement of the Disposal Transaction. There were no transactions entered since then.
- ix. The Offsetting of accounts agreement and the Disposal Agreement could not be found when the original copies were submitted to Wangsheng office for audit purpose, believed to be destroyed by the fire incident. Original copies of the Deed of Fourth Assignment and the Offsetting of accounts agreement were obtained from Ni.
- x. Regarding Shan Feng who acted as the original contractor for maintenance for Shansheng, they transferred the contracts for maintenance and harvesting services with the consent of Shansheng from Shan Feng to Ni as the subcontractor. For the pest control, the contract was between Shansheng and Ni around that time.
- xi. At the meeting, the maintenance contract with Shan Feng cannot be made available. Shan Feng also did not have a copy either. The terms amongst others include an amount of RMB 275 per mu payable over a two-month period for maintenance work which was carried out once in a year under the supervision of Shansheng. Shansheng settled the maintenance amounts owing annually. However, the maintenance charges for FY2017 remained unpaid. Xiong had been kept informed about the delayed payment. The estimated maintenance cost was approximately RMB 41 million.
- xii. Regarding the insect infestation, a professor visited Shansheng in April 2017.

C. Communication and Reporting

- i. As far as all communications were concerned, Cai only discussed with Xiong. There was no communication with Lin. There were written internal control procedures. Efforts were made to comply with them such as the events surrounding the disposition of the Plantations where Xiong was kept informed.
- ii. For financial matters, monthly management accounts were submitted to Wangsheng on a regular basis. All accounting records had been submitted to Wangsheng for annual audit purposes. The last time where the accounting records were submitted to Wangsheng was on 27 August 2017.

- iii. There was no other reporting channel as Xiong was the legal representative, chairman and general manager of Lijiashan, which is the immediate holding company of Shansheng. Cai had no knowledge of the reporting channels by Xiong to his immediate holding company or to Wangsheng.

D. Control over company seal

- i. There were internal control procedures for the use of company seals, namely, for use of signing of contracts.
- ii. Approval must be obtained with explanation and the purpose for the use of the company seal.
- iii. There were records kept for the use of the company seal. The records were kept at their office which were submitted to Wangsheng for the annual audit purposes.
- iv. Cai kept the company seal. The other seals were kept by the finance department.
- v. All contracts involving finances were kept at the finance department.

Fact-finding observations

Refer to Appendix A – interview with legal representative, Xiong.

Interview with director of the Company, Wangsheng and Yuanwang, Lin

Interviewee: Lin

Venue: 闽侯荆溪镇厚屿入园路 12 号福建望盛实业有限公司

Objective: (A) Control over legal representative(s)
(B) Rationale of leases of Plantations
(C) Process of the Disposal Transaction

Yuanwang is the immediate holding company of Lijiashan. Shansheng is a subsidiary of Lijiashan.

Lin is the director of the Company, Wangsheng and Yuanwang, and he confirmed the Disposal Transaction was within his scope of work.

Below is the information obtained from the interview. Mr. Lin has confirmed to us before the parties namely: FKT, Allbright, Equity Law and Yuan Tai the following to the best of his belief:

Control over company seal

- i. The Subsidiaries had an internal control procedures including the management of pest control.
- ii. As to the Disposal Transaction, only the company seal was required for the signing of contracts.
- iii. The legal representative and the general manager of a company had the right to use the company seal for signing contracts for the Disposal Transaction. If the subordinate needed to use the company seal, they must complete an application form. As far as he was aware, the company seal and the finance seal were kept by the Finance department.
- iv. The legal representatives informed him for his decision on whether (i) to suspend the Plantations operations, or (ii) to dispose of the Plantations, or (iii) obtain instructions from superior on the direction. He gave his written approval by fax to Xiong indicating (全权处理) or full authority to decide on the disposition of the Plantations based on what was in the interest of the Company (以公司利益最大化为原则), and thereby giving the legal representatives a free hand to deal with the issues as they deem fit. After that, he believed that the legal representatives had dealt with their request accordingly. The records of company seal uses were kept at the Subsidiaries offices.

Lin reported that:

- i. The legal representatives realised that they needed to report on the Disposal Transaction, but they did not know who to report to.
- ii. The legal representatives thought it would be appropriate for Lin to report to the Board. Lin was too busy managing the audit by the then, BDO auditors, and he did not follow up on the Disposal Transaction.
- iii. The legal representatives sought his view as to whether (i) to suspend the Plantations operations, or (ii) to dispose of the Plantations, or (iii) obtain instructions from superior on the direction.
- iv. When the legal representatives did not report to him after he gave them full authority to decide on the disposition of the Plantations, Lin thought that the legal representatives only suspended the Plantations operation. This was because had the Plantations being disposed of, he believed that the legal representatives would report the disposal to him again. This was the reason why he did not report to the Board on time.
- v. Lin admitted that he had personal problems.

Rationale for leasing the Plantations

- i. Every industry had its own risks. However, Lin made the decision to acquire the land leases to the Plantations at that time (in 2013 and 2014) as he was optimistic about its future prospects. In addition, after acquiring the land leases, Shansheng and Lijiashan were profitable from the bamboo operations. At the time of acquiring the land leases, he was not aware of any insect infestation on the Plantations. He became aware of it subsequently.

Reason for the Disposal Transaction

- i. He was not aware whether there were any special report or feasibility studies (可行性报告) being carried out prior to acquiring the land leases to the Plantations.
- ii. He was not aware as to the extent of the yield of the produce from the Plantations. However, based on his understanding, Shansheng and Lijiashan were profitable with net profits of more than RMB 20 million and more than RMB 10 million respectively.

- iii. There were three propositions by the legal representatives, namely,
 - a. suspend the existing operations and business development;
 - b. dispose of the Plantations to offset the trade payables; or
 - c. obtain instructions from superior on the direction.
- iv. the Plantations were disposed on 23 August 2017.
- v. As to the date of the disposition of the Disposal Transaction, he represented that he was not aware. However, he did mention that the harvesting of bamboo trees and bamboo shoots should be in July and again in December.
- vi. Whether there were any tender process or offset of transactions arising from the Disposal Transaction, he affirmed that he had no knowledge.
- vii. Whether the legal representatives had fulfilled their responsibilities, he believed they had fulfilled.
- viii. There were some proposals discussed before him and the legal representatives as well as with the Executive Chairman, Chen. However, Lin could not remember whether these were properly communicated.
- ix. Lin represented that he was not aware of the insect infestation problems at the time of disposal. Anyway, such problems would be settled by the legal representatives. The instruction from Lin was to ensure the benefits accrue to the Company and the manner in which the execution was conducted was left entirely to the discretion of the legal representatives.
- x. Lin represented that the cost of maintaining the Plantation was estimated at RMB 200 per 畝 (mu) but he had no knowledge of the selling price including how and the manner the Disposal Transaction price was derived.
- xi. Authorisation was given to the general manager and legal representative to use the company seal. Lin represented that he had no knowledge whether the party to the Disposal Agreement was a related party to the Disposal Transaction.
- xii. Lin represented that he was not aware whether the Plantations of the Subsidiaries were disposed of at the same time i.e. 23 August 2017.

- xiii. Whether the Disposal Transaction consisted of assets other than the land lease, he was not aware.
- xiv. Lin represented that there were proper internal control procedures regarding the financial reporting deadlines and communications with Yuanwang and to the ultimate holding company, Yamada, which is a listed company on the SGX. However, he was not aware of any deadlines the Subsidiaries must report their financial management information and other communications matters or the frequency of the reporting by the Subsidiaries. He represented that the specific financial matters and their reporting are the responsibilities of the Finance department.
- xv. As to how subsidiaries like Lijiashan and Shangsheng should deal with their asset disposal given that Lin is the executive director at the listed company (Yamada), and that he is also the director of Yuanwang, and that the following two subsidiaries, Lijiashan and Shansheng, were under his leadership, he represented that he did not see the internal report on the Disposal Transaction that was prepared by the legal representative who purportedly submitted to him.
- xvi. Despite the assertion by Lin that they had proper internal control procedures in place, it was contrary to Lin's representation that he was not aware of the Disposal Transaction by the legal representatives in August 2017. Lin informed that the Disposal Agreements for the Disposal Transaction were not made available to him. As to whether the Disposal Transaction should have been reported to the Board or announced on the SGX, he was not aware of the Disposal Transaction at that time. In his view, the legal representatives were expected to report the actual disposal to him. He was aware of the operational difficulties at the Plantations, but he claimed that he was not provided any detailed information on whether the operational difficulties were in part due to insect infestation problems.
- xvii. On whether he ought to report the Disposal Transaction to any members of the Board, he did not realise that his instructions to the legal representatives would lead to the Disposal Transaction. Lin admitted that had he been aware of the disposal, he would have reported the matter to the Board.
- xviii. Lin represented that the Disposal Agreements were kept by the Subsidiaries. He further represented that many contracts were destroyed in the fire incident. Lin became aware of the Disposal Transaction only on 20 August 2018.

- xix. He was not aware as to how and whether the internal report on the Disposal Transaction submitted to him by the legal representative was destroyed in the fire incident. He represented that in order to facilitate the subsequent audit work by BDO, many documents were transported and were destroyed as a result of the fire incident which occurred on 30 August 2017. He was not aware whether the internal report on the Disposal Transaction or the Disposal Agreements were included in the burnt documents. While he was informed by the legal representatives that a report was provided to him, he was not aware of the contents of the report as he did not see it. Neither was he aware about the whereabouts of the internal report, how it got onto the truck and whether it was destroyed in the fire incident.

Fact-finding observations

1. Lin had given his written approval by fax to Xiong with full authority to decide on the disposition of the Plantations when, the legal representative, Xiong, had sought his view on the course of action as to whether (i) to suspend the Plantation operations, or (ii) to dispose of the Plantations, or (iii) to obtain instructions from superior on the direction. Xiong previously informed Lin about the severity of the insect infestation and plant diseases, and the damages it had caused to the Subsidiaries' Plantations.
2. By his own admission, Lin claimed that he was too busy with attending to the auditing matters by the then auditors, BDO, in August 2017 and he also had personal family problems to manage at that time. Although he was not aware that the internal report on the Disposal Transaction which Xiong said he placed on Lin's desk in Lin's absence on 25 August 2017, Lin had omitted to follow up on Xiong's earlier report on 17 August 2017. Had he been aware of the Disposal Transaction, he would have reported the matter to the Board.

3. In addition, Lin admitted that there was some misunderstanding in communications between him and the legal representatives. This was the reason why he did not report the Disposal Transaction to the Board. As a key member of the management of the Company, Lin did not make any reporting to the Board. The failure to report to the Board was due to his omission and apparently neglecting his management responsibility.

4. To the best of Lin's belief, all communications were made verbally; there were no email transmissions. The only written document made known in the meeting between Lin and Xiong was the written internal report of the Disposal Transaction. Lin reported that there was only one fax transmission from Lin authorizing Xiong on the disposition of the Plantations. The Company represented that the internal report on the Disposal Transaction and the fax transmission copy were destroyed in the fire incident.

Interview with professor from the Fujian Agricultural and Forestry University

Interviewee: Professor

Venue: 闽侯荆溪镇厚屿入园路 12 号福建望盛实业有限公司

Objective: (D) Use of management experts - Professor

Yuanwang is the holding company of Lijiashan.

Xiong was the legal representative, Chairman and General Manager of Lijiashan.

Shansheng is a wholly-owned subsidiary of Lijiashan. The legal representative of Shansheng was Cai.

The location of the Plantations of Lijiashan and Shansheng were at Pucheng county and Jiangle county respectively.

The Group had previously collaborated with the Institute of Food Science and Technology, Fujian Agricultural and Forestry University several years ago and had engaged the professor on some occasions.

Below is the information obtained from the interview with the Professor. The Professor confirmed to us before the parties namely: FKT, Allbright, Equity Law and Yuan Tai the following to the best of his belief:

- i. The then legal representatives of Lijiashan and Shansheng, Xiong and Cai, including the director of Yuanwang, Lin Wei Bin, were of the view that the yield and quality of the Plantations had deteriorated significantly during 2016 and in the early part of 2017 and decided to engage the professor to investigate and analyse the situation.
- ii. According to the professor, he was requested in March 2017 to investigate the current situation of the Plantations in Pucheng county and Jiangle county. The professor began his investigation work in early April 2017, visited the above Plantations between 6 and 8 April 2017 and issued his report on 28 April 2017 to the management of the Subsidiaries.

- iii. Based on his research, historically, the Plantations located within Jiangle and Pucheng regions were not considered ideal lands (i.e. lower-tiered Plantations) to cultivate good quality bamboo trees and bamboo shoots. He also stressed that other vegetation plantations in the same locations were similarly affected by the lack of quality land, soil nutrients and climate conditions. The professor explained that the bamboo shoots would grow into mature bamboo trees in about five years' time which are then ready to be harvested. When the mature bamboo trees were cut, the second and future generation of bamboo trees that grew up in the same land area will become smaller in size. This is because the first-generation mature bamboo trees had already absorbed most of the nutrients from the ground leaving little nutrients for subsequent cultivation of bamboo shoots. The professor further indicated that the production and the productivity of the Plantations would depend on the application of proper management and cultivation procedures such as weeding, fertilisation, soil loosening and the supply of adequate water to the Plantations.
- iv. The professor noted that the demand in the market for bamboo products for use in the construction and agriculture industries were declining in recent years owing to alternative widely available materials such as wood, timber & other substitutes. In addition, the cultivation and harvesting of Plantations involved high labour cost.
- v. The Plantations in Jiangle and Pucheng were badly affected by the unusually dry weather conditions with low rainfalls recorded in 2016 in these regions. Furthermore, based on his investigation and analysis, the Plantations in Jiangle and Pucheng were also affected by plant diseases and insect pest such as *Pantanaphyllostachysae* (刚竹毒蛾), pest mites (害螨) and *Ceracris kiangsu* (黄脊竹蝗). When *Pantanaphyllostachysae* (刚竹毒蛾) happened for a period of time, the professor explained that not only bamboo leaves will be eaten up, but the bamboo will accumulate water, causing plots of Plantations to wither which will easily lead to the decrease of bamboo shoots production in the following year. In the case of *Ceracris kiangsu* (黄脊竹蝗), the bamboo shoots will be reduced, and it will also cause the affected bamboo tree to die.

- vi. While plant diseases and insect pest were noted to be prevalent in the past few years, the professor was of the view that a combination of factors, such as poor soil conditions, insufficient maintenance and incorrect cultivation methods, and the plant diseases and insect infestation had led to serious damages to the Plantations. In serious cases, the insect infestation could cause the death of the whole Plantation. As a result of his analysis, the professor estimated that the productivity and yield of the Plantations would have been reduced by at least 30 percent due to the dry weather conditions and the insect infestation problems. The professor elaborated that the bacteria can be spread by water, wind and rain. While it was not possible to completely cure the Plantations of plant diseases and insect infestation, it was, however, possible to prevent and slow down the growth of insect pest through proper cultivation methods. In addition, once the insect infestation was discovered, immediate action should be taken to prevent it from spreading. The actions to prevent the spreading include the use of biological, physical and chemical treatments. Biological treatment involves the growing of other vegetation plantation in-between the Plantations to isolate and prevent the spreading of plant disease and insect infestation to another Plantations.
- vii. For serious cases of insect infestation spreading, the professor advised that the affected Plantations could be completely cut in order to remove the insect pest hosts. It would take several years later to recover production. However, based on the professor's analysis, it would be too costly to do so as the affected areas would produce lower quality Plantations which in turn, attract lower selling prices and yet incur high labour and transportation cost due to the steep land area where the Plantations are located. In addition, if the current situation continues, there will be no way to achieve sustainable operations.
- viii. The following recommendations to minimize the loss from plant disease and insect pest were noted:
- proper fertilization and improving soil fertility;
 - curing the insect infestation areas with the use of chemicals;
 - weeding to loosen soil to inhibit the growth of weeds;
 - implementing proper cultivation measures including the use of biological natural inhabitants to combat the growth of plant disease and insect pest; and
 - physical isolation of Plantations to prevent and control the spreading of plant diseases and insect pest.

Fact-finding observations

1. It was apparent that there were insect pest at the Subsidiaries' Plantations and the professor had recommended the scientific procedures to resolve the insect pest and plant diseases.
2. The professor estimated that the productivity and yield of the Plantations could be reduced by at least 30 percent due to the dry weather conditions and the insect infestation problems.

Interview with ministry from the Fujian Provincial Department of Forestry

Interviewee: Lai

Venue: Fujian Provincial Department of Forestry (福建省林业厅)

Objective: (D) Use of management experts – Government officer(s)

Yuanwang is the holding company of Lijiashan.

Shansheng is a wholly-owned subsidiary of Lijiashan.

The location of the Plantations of Lijiashan and Shansheng were at Pucheng county and Jiangle county respectively.

The Subsidiaries had noted severe plant diseases and insect infestations on their Plantations since 2016.

Below is the information obtained from the interview with Lai, the Commissioner of 福建省林业厅. Lai has confirmed to us before the parties namely: FKT, Allbright, and Yuan Tai (collectively the “professionals”) the following to the best of his belief:

- i. On 14 September 2018, the Company arranged for the professionals to meet with Lai (处长) who is from the Fujian Provincial Department of Forestry.
- ii. Mr. Lai is a 处长 in the ministry who oversees the Plantations amongst others. He gave an overview of the Plantations in the Fujian province in the PRC and its use in the market. Briefly, he saw an upmarket of the moso bamboo business in the early 2000. However, arising from changes in market forces, the industrial and commercial needs saw a rapid decline. Due to this external reason, the value of the Plantations was greatly affected. He indicated that during the up-market, the value of bamboo per tonnage was worth about RMB 700. In 2017, there was a significant decline to as low as RMB 300; causing the cutting of bamboo trees for use in the market to be barely reasonable for economic and commercial reasons.

- iii. The outbreak of insect infestation was briefly explained which, in his view, was somewhat to be an acceptable cause in Plantations which an enterprise ought to be aware of. He further emphasised that the overall market outlook for the bamboo continued to be bleak.

Fact-finding observations

The market value of the Plantations had declined due to in part to governmental environmental control measures by the Ministry of Ecology and Environment of the PRC.

Interview with independent valuer, Jones Lang

Interviewee: George Xiong

Venue: Conference call at 闽侯荆溪镇厚屿入园路 12 号福建望盛实业有限公司

Objective: (D) Use of management experts – Independent valuer

On 14 September 2018, Foo Kon Tan LLP together with the professionals interviewed Jones Lang. Jones Lang had been the appointed valuer of the Company since 2011.

- i. Jones Lang were engaged by the Company towards the end of June 2017 to determine the valuation of the Plantations. They began their valuation work in early July 2017 and issued their draft report towards the end of July 2017. The Plantation locations they visited include Jiangle and Pucheng.
- ii. Jones Lang carried out their visit to the Plantations. The existence of some plant diseases and insect infestation was noted but they did not consider such diseases to be serious. In their assessment, in terms of productivity, the factors to be considered for Plantations include the winter frost during 2016. Such conditions were factored in their observations as a risk into their valuation model. In their risk assessment, a factor of “1” or 1% was added as a specific risk premium to the valuation model for the plant disease and insect pest subject to the control measures by the Subsidiaries for the valuation carried out for FY2016. They increased the grading to 3% for FY2017 when the impact was considered to be considerable. In the valuation reports for FY2016 and FY2017, however, there was no mention of the impact from insect infestation. According to Jones Lang, it was presumed.
- iii. Jones Lang indicated that the purpose of the valuation of the Plantations was only for the Company’s annual audit. They confirmed that the Company did not inform them that the valuation was for any other purposes. In addition, there was also no other communication by management.

- iv. The valuation of the Plantations was based on the income approach which was derived from the forecasts prepared by the Management. The actual and projected harvest of bamboo trees and bamboo shoots including the market prices and the conditions of the biological assets as to its growth cycle were highlighted in their basis of assumptions in their valuation model. They had a team of agricultural experts who assisted them in the valuation exercise.

Fact-finding observations

- i. The valuation of the Subsidiaries' Plantations biological assets was used solely for financial reporting purposes for the audit of the financial statements of the Company and its subsidiaries. The valuer confirmed that the valuation was not prepared for the Disposal Transaction.

Interview with assignee of Lijiashan's Plantation, Mao

Interviewee: Mao

Venue: 浦城县盛丰路 2 号

Objective: Interview with Plantation contractor/subcontractor
Interview with assignee

Xiong was the legal representative, Chairman and General Manager of Lijiashan. Lijiashan had an existing 15-year land lease of the Plantations with Yuantou villagers' committee and two 10-year period land lease with Danggui.

Lijiashan entered into a Deed of Third Assignment with the assignee, Mao.

Below is the information obtained from the interview. Mao has confirmed to us before the parties namely: FKT, Allbright, Equity Law and Yuan Tai the following to the best of his belief:

A. Introduction

- i. Mao introduced himself as an experienced farmer in the agriculture business. He claimed to be familiar with the maintenance of Plantations.
- ii. Mao had been acquainted with Xiong for over 9 years. He claimed that he introduced Xiong to the Yuantou villagers' committee when Lijiashan had an interest in the Plantations business.

B. Transfer of lease to assignee, Mao

- i. Lijiashan did not have copies of the Disposal Agreement and the Offsetting of accounts agreement as these were destroyed in the fire incident. Mao had been requested by Xiong to bring the original contracts to the meeting. The PRC legal counsel of the Company had reviewed the original copies of the Disposal Agreement and the Offsetting of accounts agreement against the copies provided to us at the meeting.

- ii. The discussion on the transfer of lease was initiated in 2016. Mao discussed it with Xiong. He explained that at that time, he did not have the intention to acquire the land lease from Lijiashan because the returns were not attractive. Xiong persisted and requested him for a quote. He offered a few million yuan but Xiong requested for more than RMB 10 million.
- iii. He believed the price proposed by Xiong was too high. However, as there were still several years left before the lease expires, he was willing to invest and hoped to profit from the bamboo business in the future. Mao proposed a price that was based on a professional valuation.
- iv. According to Mao, Lijiashan owed him approximately RMB 10 million for more than one year. The amounts outstanding consisted of the costs for the maintenance, pest control and harvesting services that Mao had rendered to Lijiashan as a contractor and/or subcontractor.
- v. Based on Mao's understanding, it was Lijiashan that prepared the Disposal Agreement and the Offsetting of accounts agreement. He agreed to the terms of the contracts after reviewing them.
- vi. Mao agreed to the consideration sum a few days prior to signing the contract.
- vii. The Disposal Agreement was signed by him and Xiong at Lijiashan's office. After that, they went to the Yuantou villagers' committee for endorsement.
- viii. Mao signed the Disposal Agreement and the Offsetting of accounts agreement. He was owed more than RMB 70,000 after the offset. This was paid to him in cash by Lijiashan on 23 August 2017. No receipt was issued for the cash payment. At the meeting, Mao confirmed the cash payment was made to him.

C. Guarantees, warranties or commitments and disputes

- i. At the meeting, Mao confirmed that there were no guarantees or warranties under the Disposal Agreement.
- ii. According to him, the assignee to the lease had no recourse to the transfer of the land lease by Lijiashan in respect of any future productivity or harvest income. He further asserted that the assignee was not in a position to transfer the risks to Lijiashan.

- iii. Mao confirmed that there were no further liabilities between both parties after the Disposal Agreement and the Offsetting of accounts agreement had been concluded.
- iv. Mao confirmed that he had no disputes with Lijiashan.

D. Related party

- i. Mao confirmed that he was not related to Lijiashan or any of its employees.

E. 林权证 (“Plantation ownership certificate”).

- i. Mao explained that the farmers who are the owners of the Plantations did not have any Plantation ownership certificate. Mao further explained that there were administrative difficulties in obtaining the said certificate.
- ii. He elaborated that traditionally, the farmers have been cultivating and harvesting the Plantations based on the land areas they were assigned or brought forward from past generations. No disputes had occurred between the farmers on the land areas that they had managed.

F. Subsequent transfer of lease

- i. Lijiashan had prepaid on the 10-year land lease period out of the 15-year land lease period in cash when the land lease was first acquired from the farmers through Yuantou villagers’ committee in 2013.
- ii. Under the Disposal Agreement, Mao would be responsible for the remaining 5 years of land lease payment.
- iii. When the land lease was transferred in August 2017, the balance in the prepaid land lease was approximately six (6) years and the farmers would have to refund the balance sum of the prepaid land lease to Mao.
- iv. Because he owed the farmers on the maintenance, pest control and harvesting services costs, the prepaid land lease sums would have been used to offset the amounts he owed to them.

- v. He would not be responsible for the balance 5-year land lease payments if the land lease had been transferred to the farmers.
- vi. In December 2017, Mao transferred most of the land leases to the farmers through the Yuantou villagers' committee. He only retained a few hundred mu of land lease area for himself.
- vii. The reason for transferring the land leases to the farmers was because of low productivity due to insect infestation and a decline in the market demand for bamboos coupled with the strict environmental requirements in the PRC.

G. Plantations subcontractor

- i. The following contracts were entered into with the contractor and/or subcontractor:

Date	Contract period	Location	Area 亩 (mu)	Amount (RMB)
毛竹林病虫害防治合同 (Pest control contract)				
28-Jul-16	1 August 2016 – 31 July 2017	蒲城县山下乡王柏村	15,147	5,195,421
毛竹林管护劳务转包协议 (Maintenance transfer contract)				
29-Apr-16	1 May 2016 to 30 June 2016	源头村	11,302	3,108,050
		王柏村	15,147	4,165,425
挖春笋劳务转包协议 (Harvesting services transfer contract)				
23-Jan-17	1 February 2017 to 30 April 2017	蒲城县	48,992	2,351,616

H. 毛竹林病虫害防治合同 (Pest control contract)

- i. The 毛竹林病虫害防治合同 (Pest control contract) was signed by Lijiashan and Mao.
- ii. The work on the pest control was not that effective. The farmers worked according to the instructions (including the application of the chemicals ingredients formula) for the pest control as specified in the contract by Lijiashan to apply 黄泥土 (“yellow soil”) with 农药 (“pesticides”). These were then sprayed onto the Plantations using an insecticide sprayer.

iii. Under the contract with Lijiashan, Mao was not responsible should the pest control measures be ineffective. He also commented that Lijiashan supervised their work by carrying out sample checks to ensure that the practices they used meet their requirements.

iv. Based on the terms of the pest control contract, the contractor (Mao) would not be responsible for the outcome of the pest control results if he complied with the instructions and the use of specified chemical ingredient formula, weeding, fertilisation and soil loosening (to destroy the insect ovum), and the removal of insect chrysalis as stated in the contract.

I. 毛竹林管护劳务转包协议 (Maintenance transfer contract)

i. The 毛竹林管护劳务转包协议 (Maintenance transfer contract) was entered into between Mao and Danggui. It was stated in the contract that Danggui entered into a maintenance contract with Lijiashan dated 25 April 2016. It was agreed in this contract that following the agreement of Lijiashan, the maintenance contract would be performed by Mao. The contract was signed by Mao, Danggui and Lijiashan.

ii. With his upbringing in the rural areas, the use of the traditional rural soil approach to maintain the Plantations was prevalent. The scientific approach to maintain the Plantations was known but not commonly in use. The maintenance contract was for two (2) months from May to June 2016.

iii. Mao engaged farmers to carry out the maintenance work for Lijiashan under his personal capacity. The farmers would be responsible for purchasing the fertiliser supplies according to Lijiashan's requirements. Mao would make payments to the farmers on a periodic basis.

iv. Under the terms of the contract, the contractor's scope of work was as follows:

- a. Weeding and soil loosening;
- b. Fertilising based on ingredients specified in the contract;
- c. Prevention of theft of biological assets;
- d. Fire prevention;
- e. Prepare maintenance supplies; and
- f. Safety of workers

J. 挖春笋劳务转包协议 (Bamboo shoots labour transfer contract)

- i. The 挖春笋劳务转包协议 (Bamboo shoots labour transfer contract) was entered into between Mao and Danggui. It was stated in the contract that Danggui entered into a Bamboo shoots labour transfer contract with Lijiashan dated 11 January 2017. It was agreed in this contract that that following the agreement of Lijiashan, the maintenance contract would be performed by Mao.
- ii. For the harvesting of bamboo shoots, Mao claimed that he engaged approximately 200 to 300 workers from the farmers during the period from February to April 2017 to carry out the raising and harvesting of 春笋 (“spring bamboo shoots”). He would make certain payments to the farmers for the cost of labour and recover these costs from Lijiashan under the contract.
- iii. Based on the terms of the contract, the contractor’s work consisted of the following:
 - a. Responsible for finding and arranging workers for the raising and harvesting of the bamboo shoots according to the requirements of Lijiashan;
 - b. Responsible for safety and injury measures of the workers;
 - c. Responsible for the supervision of the biological assets to prevent losses;

Fact-finding observations

(Arising from interviews with the assignees, Mao and Ni (refer to Appendix H))

1. As to the existence of the guarantees, warranties and commitments, the assignees confirmed that there were none.
2. At the meeting, it was confirmed by the assignees that no other assets were included in the Disposal Transaction.
3. The maintenance was subcontracted to third parties.
4. Mao and Ni, the contractor and/or subcontractors, confirmed that they complied with the instructions given by the management of the Subsidiaries, but they would not be responsible for the outcome of the maintenance or the effectiveness of the pest control.

5. The assignees, Mao and Ni, who were also the contractor and/or subcontractors confirmed that they acquired the land leases to the Plantations from Xiong and Cai respectively and agreed that the liability owing to them by the Subsidiaries are to be paid to them by the Subsidiaries by way of offsetting of accounts. They also confirmed that there were no guarantees, warranties or commitments in the Disposal Transaction. There were no encumbrances that was created when they acquired the Plantations. There were no claims or disputes with the assignees arising from the Disposal Transaction.
6. It was noted that the assignees, Mao and Ni, had transferred most of the land leases to the farmers within 6 months after acquiring the land leases from Lijiashan and Shansheng respectively. Mao and Ni only retained about 500 mu of the land lease each for their personal use. In addition, they represented that they also owed the farmers for maintenance, pest control, harvesting services, and such amounts were offset when they transferred the land lease to the farmers. The assignees represented that the amounts owed to the farmers were because they engaged the farmers to carry out the maintenance, pest control and related work in their own personal capacity when they were the contractors and/or subcontractors for Lijiashan and Shansheng.

Interview with assignee of Shansheng's Plantation, Ni

Interviewee: Ni

Venue: 福建省三明市将乐县古镛镇七星街先进巷 9 号 501 室

Objective: Interview with Plantation contractor/subcontractor
Interview with assignee

Xiong was the legal representative, Chairman and General Manager of Lijiashan.

Shansheng is a wholly-owned subsidiary of Lijiashan. Yuanwang is the holding company of Lijiashan.

The legal representative of Shansheng was Cai.

Shan Feng had entered into a Deed of Second Assignment (Part 1 and Part 2) with Shansheng.

The land leases of Shansheng were transferred to the assignee, Ni, in August 2017.

Below is the information obtained from the interview with Ni. Ni has represented to us before the parties namely: FKT, Allbright, Equity Law and Yuan Tai the following to the best of his belief:

A. Introduction

- i. Ni had business dealing in bamboo shoots with Shansheng prior to the acquisition of the land leases by Shansheng.

B. Transfer of lease to the assignee, Ni

- i. On 17 August 2017, a preliminary discussion was held between Ni and Cai on the proposed transfer of the land lease of the Plantations. Ni, as a businessman in Plantations and related activities, had been seeking interested sellers then. Ni was aware of the Shansheng group structure, the ultimate holding company which is a listed entity on the SGX.
- ii. Ni made an initial offer about RMB 30 million but the asking price from Cai was about RMB 40 million. Because there was a valuation report which Cai produced, the consideration sum was agreed at RMB 33.9 million. The Disposal Agreement was executed on 23 August 2017.

- iii. There were amounts owing to Ni as a contractor and/or subcontractor for the provision of services to Shansheng for maintenance, pest control and harvesting services. Therefore, both parties agreed to the Offsetting of accounts agreement, executed on 23 August 2017. The net effect was an amount of about RMB 10,000 owing to Ni by Shansheng which was settled on same date. No receipt was issued for the cash payment. At the meeting, Ni confirmed the cash payment was made to him. There were no further dealing since then.

C Guarantees, warranties or commitments and disputes

- i. There were no guarantees or warranties under the Disposal Agreement. There were no amount owing between parties since then. Also, there was no disputes with Shansheng.

D Related party

- i. Ni was not a party related to Shansheng nor to any of its employees.

E Subsequent transfer of lease

- i. Due to poor market condition for bamboos coupled with strict environmental control requirement from the environmental authority, between December 2017 and January 2018, Ni with the assistance from Shan Feng, transferred the land lease to the farmers; he retained about 500 mu land lease for himself.
- ii. The prices of bamboo had declined significantly. There were some companies facing financial distress. Whilst, there may be potential customers for bamboos, but the selling price was too depressed such that it made no economic sense to engage in selling bamboos. High transport costs became unattractive to make bamboo delivery.
- iii. As for the 500 mu of land lease that was retained by him, Ni was facing challenges to maintain the Plantation.

F Guarantees, warranties or commitments and disputes

- i. There were no guarantees or warranties under the Disposal Agreement. There were no disputes with Shansheng.

G Contractor

- i. The following contracts were entered into with the contractor and/or subcontractor:

Date of contract	Contract period	Location	Area 亩 (mu)	Amount (RMB)
毛竹林病虫害防治合同 (Pest control contract)				
28 July 2016	1 August 2016 – 30 July 2017	光明乡上地村	4,792	12,841,998
		漠源乡张源村	7,524	
		漠源乡圭洋村	11,886	
		漠源乡上洋村	13,680	
Sub-total			37,882	
毛竹林管护劳务转包协议 (Maintenance transfer contract)				
28 April 2016	1 May 2016 to 30 June 2016	上地村	4,792	16,105,650
		坡坎村	14,504	
		圭洋村	11,886	
		上洋村	13,680	
		大坊村	13,704	
Sub-total			58,566	
30 August 2016	1 Sep 2016 to 30 June 2017	光明乡	80,704	8,312,512
		漠源乡		

- ii. The maintenance and harvesting of bamboo shoots commenced from May/June 2016.
- iii. The pest control services were engaged in August 2016. The supervision was from Shansheng and Ni only carried out in accordance with Shansheng's requirements. Ni had no responsibility over the outcome of the pest control. His role was to provide pest treatments (e.g. use of chemical ingredient formula, weeding, fertilisation and soil loosening to destroy the insect ovum, and the removal of insect chrysalis) as stated in the contract. Shangsheng took random samples of the chemicals used.
- iv. Under the terms of the maintenance contract, the contractor's scope of work was as follows:
 - a. Weeding and soil loosening;
 - b. Fertilizing based on ingredients specified in the contract;
 - c. Prevention of theft of biological assets;
 - d. Fire prevention;
 - e. Prepare maintenance supplies; and
 - f. Safety of workers
- v. As to the supplies for maintenance, he explained that the raw materials were purchased by the farmers themselves in accordance with the requirements of Shansheng. He then paid the farmers for the supplies, after which he would claim from Shansheng under the maintenance contract.

H 毛竹林管护劳务转包协议 (Maintenance transfer contract)

- i. The 毛竹林管护劳务转包协议 (Maintenance transfer contract) was entered into between Ni and Shan Feng on 20 April 2016 where Ni would be the party to provide the maintenance services for Shansheng as a subcontractor. The contract was signed by Ni, Shansheng and Shan Feng.

I 毛竹林砍伐劳务转包协议 (Cutting of bamboo trees and labor transfer contract)

- i. The 毛竹林砍伐劳务转包协议 (Cutting of bamboo trees and labor transfer contract) was entered into between Ni and Shan Feng on 22 August 2016 where Ni would be the party to provide the cutting service for the Plantation for Shansheng as a subcontractor.
- ii. The terms of the contract, inter-alia include the following:
 - a. Responsible for harvesting of bamboo trees and delivering them to the location according to the requirements of Shansheng;
 - b. Responsible for removing the bamboo trees that were older than three years old and dead bamboo. The process of cutting the bamboo trees should comply with the requirements of Shansheng;
 - c. Responsible for safety and injury measures of the workers; and
 - d. Responsible for the supervision of the biological assets to prevent losses.

Fact-finding observations

Refer to Appendix G – Interview with assignee, Mao

Interview with Danggui

Interviewee: Zhou, General manager of Danggui. Danggui was lessor to Lijiashan

Venue: 浦城县盛丰路 2 号

Objective: Interview with lessor

Xiong was the legal representative, Chairman and General Manager of Lijiashan.

Lijiashan had entered into a Deed of Third Assignment with the assignee, Mao.

Zhou is the general manager of Danggui. Danggui was the lessor to Lijiashan.

Below is the information obtained from the interview. Zhou has confirmed to us before the parties namely: FKT, Allbright, Equity Law and Yuan Tai the following to the best of his belief:

A. Land lease by Lijiashan

- i. As an introduction, Mao was the party who introduced Lijiashan to Danggui. Danggui had the rights obtained and accepted from the farmers to lease the Plantations to Lijiashan on their behalf. Danggui entered into a Deed of First Assignment (Part 2) in 2014 and Deed of First Assignment (Part 3) in 2015 at RMB 350 per mu per year and RMB 320 per mu per year respectively for a 10-year lease each with Lijiashan on an agreed basis. There were no valuer reports that were relied upon when determining the rental rate for the land lease. The farmers did not hold any Plantation ownership certificate (林权证) to the Plantations.
- ii. The consideration for the two part of land leases was RMB 78.9 million (22,543 mu) and RMB 48.4 million (15,147 mu) respectively. Payment to the farmers was in cash at that time via Danggui in several phases. Danggui did not have the original copies of the Deed of First Assignment (Part 2 and Part 3).

B. Transfer of lease to Mao

- i. Approval was obtained from Danggui for the transfer of the lease from Lijiashan to Mao on 23 August 2017. Whether Lijiashan had approached him as the contracting party, Danggui could not recall. However, he did sign on the Disposal Agreement by affixing his company seal on 23 August 2017.
- ii. At the meeting, Danggui produced the company seal for authentication purpose. However, at the meeting, no original copy of the Deed of First Assignment (Part 2 and Part 3) between Lijiashan and Danggui was provided. The Deed of First Assignment (Part 2 and Part 3) was destroyed when Mao took over the land leases.

C. Transfer of land leases by Mao to the farmers

- i. It was mutually agreed that the farmers and Mao would call upon Zhou over the transfer of the land lease. As the essence of the Deed of First Assignment (Part 2 and Part 3) held by Zhou did not have any implications following the transfer of the land leases by Lijiashan to Mao, the original copies belonging to Zhou were destroyed; including the letter containing the rights vested upon him by the farmers. As to whether any legal advice had been sought, Zhou, in his view, did not see any relevance, as there was no more business dealing in these land leases.
- ii. There were no disputes with Mao. To his belief, Mao informed the farmers that the Deed of First Assignment (Part 1, Part 2 and Part 3) was destroyed.

Fact-finding observations

Refer to Appendix G – Interview with assignee, Mao

Interview with lessor of Lijiashan's Plantations, Yuantou villagers' committee

Interviewee: Feng

Venue: 浦城县山下乡源头村委会

Objective: Interview with lessor

Xiong was the legal representative, Chairman and General Manager of Lijiashan.

Lijiashan entered into Deed of First Assignment (Part 1) with the lessor, Yuantou villagers' committee.

Lijiashan had entered into a Deed of Third Assignment with the assignee, Mao.

Feng is the Yuantou villagers' committee party secretary (“村支书”) and the president for family planning (“计生会长”) of the Yuantou villagers' committee.

Below is the information obtained from the interview. Mr. Feng has confirmed to us before the parties namely: FKT, Allbright, Equity Law and Yuan Tai the following to the best of his belief:

A. Land lease between Yuantou villagers' committee and Lijiashan

- i. The Yuantou villagers' committee leased the Plantations to Lijiashan since 2013. Lian, who was the assistant of the Yuantou villagers' committee head then, oversaw this land lease arrangement.
- ii. The land lease period was for a 15-year period with the rental rate at approximately RMB 59.3 million. Under the Deed of First Assignment (Part 1), Lijiashan prepaid for the 10-year lease period. The land leases with the respective farmers were executed with the Yuantou villagers' committee, acting as the party to the lease. The total leased area was approximately 11,300 mu. The prepaid land lease was paid by Lijiashan in cash over a period of time.

- iii. The rental rate of the land lease was agreed upon based on the value assessed by a professional valuation for which the Yuantou villagers' committee did not have a copy of the valuation report. The Yuantou villagers' committee also did not retain an original copy of the Deed of First Assignment (Part 1) between Yuantou villagers' committee and Lijiashan.

B. Transfer of land lease to Mao

- i. In August 2017, Lijiashan transferred the land lease to Mao with the consent of the Yuantou villagers' committee.
- ii. The transfer of the land lease was approved by Feng as he had personally affixed the stamp of the Yuantou villagers' committee's stamp on the Disposal Agreement under the Deed of Third Assignment. But there was no signature from him. With the transfer, Mao was liable for the remaining unpaid 5-year land lease as the assignee under the Disposal Agreement with Lijiashan. However, Mao transferred the land lease to the farmers in November or December 2017 in the presence of the Yuantou villagers' committee. About 500 mu was kept by Mao.
- iii. The Yuantou villagers' committee also persuaded the farmers to accept the return of Plantations by Mao owing to insect infestation as well as difficulties faced in maintaining the Plantations amongst others. The farmers did not have the Plantation ownership certificate (林权证). Neither did the farmers have separate contracts of land leases with Mao.
- iv. To the best of his knowledge, the Yuantou villagers' committee did not maintain any records for the above land lease transactions. There were approximately 700 to 800 farmers that were involved in the land lease arrangement.

- v. As to the provision of the maintenance services, the farmers in the Yuantou village did not participate.

- vi. To the best of his knowledge, there were no disputes between Lijiashan and the Yuantou villagers' committee after the completion of the Deed of Third Assignment with Mao.

Fact-finding observations

The Disposal Agreement was acknowledged by the lessor when the land leases were transferred to the assignees.

Interview with lessor of Shansheng's Plantations, Shan Feng

Interviewee: Ye, General manager of Shan Feng

Venue: 福建省三明市将乐县古镛镇七星街先进巷 9 号 501 室

Objective: Interview with lessor

Xiong was the legal representative, Chairman and General Manager of Lijiashan.

Shansheng is a wholly-owned subsidiary of Lijiashan. Yuanwang is the holding company of Lijiashan. The legal representative of Shansheng was Cai.

Shan Feng was the lessor who had leased the Plantations to Shansheng. Ye is the General Manager of Shan Feng.

Below is the information obtained from the interview. Mr. Ye has confirmed to us before the parties namely: FKT, Allbright, Equity Law and Yuan Tai the following to the best of his belief:

A. Introduction

- i. Ye could not recall as to when he had established the business relationship with Shansheng.
- ii. He claimed that he had participated in the drafting of the Deed of Second Assignment (Part 1 and Part 2) with the Shan Feng management for the land lease to Shansheng.

B. Transfer of land lease to Shansheng

- i. The Deed of Second Assignment (Part 1 and Part 2) between Shan Feng and Shansheng was signed for 67,000 mu land lease area in September 2014 and 13,704 mu land lease area in January 2016.
- ii. He recalled that the Plantations were leased at the price of RMB 350 per mu in 2014 and approximately RMB 300 per mu in 2016.
- iii. The Deed of Second Assignment (Part 1 and Part 2) was signed after both parties negotiated and agreed on the price. The price was set based on the prevailing market conditions. Based on his understanding, no valuation report was used.

C. Transfer of lease to assignee, Ni

- i. He claimed that Shansheng informed Shan Feng regarding the transfer of the land lease to the assignee, Ni. He claimed that he gave his approval in August 2017.
- ii. He knew who the new assignee was as the Disposal Agreement was signed at Shansheng's office.
- iii. Based on his understanding, Shansheng and Ni had discussed internally before they met up with him.

D. Subsequent transfer of lease

- i. According to Ye, he claimed that Ni, subsequently, in December 2017 and in January 2018, transferred most of the land leases back to the farmers (who are the legal owners of the Plantations).
- ii. Based on his understanding, Ni transferred the land leases back to the farmers because of the negative market outlook for bamboo, low market prices and insect infestation problems. He explained that the bamboo price per tonnage had dropped from approximately RMB 800 from 2014 to 2016 to RMB 550 in 2017.
- iii. According to Ye, the current cost to maintain the Plantations was RMB 500 per mu. The cost includes the cost of cutting, labour and transport cost.
- iv. Following the transfer, Ni retained approximately 500 mu of Plantations.
- v. When we enquired Ye as to whether he had participated in the transfer of the leases by Ni back to the farmers, he claimed that he did not as he was away at that time. However, Ye confirmed that the transfer of the land leases to the farmers must go through Shan Feng.
- vi. As far as he was aware, all monies had been settled between all parties following the transfer of the land lease by Shansheng to Ni.

E. Maintenance contractor

- i. We further asked Ye as to whether Shan Feng had provided other services. He claimed that Shan Feng provided maintenance service to Shansheng. Shan Feng signed the contract with Shansheng for maintaining the Plantations, but he claimed that it was signed by another representative from Shan Feng.
- ii. He further claimed that Shan Feng transferred the contract for the maintenance to Ni as the subcontractor in April 2016 with the consent of Shansheng. The above contract was signed by Shan Feng, Ni and Shansheng.
- iii. According to Ye, he was not certain whether the original maintenance contract, signed in April 2014, between Shan Feng and Shansheng was still available.

F. Related party

- i. He confirmed that he was not related to Shansheng or anyone of its employees.

Fact-finding observations

The Disposal Agreements was acknowledged by the lessors when the land leases to the Plantation were transferred to the assignees.

Interview with Peng

Interviewee: 彭林安 (福建皇华律师事务所) lawyer for Lijiashan

Venue: 浦城县盛丰路 2 号

Objective: Interview with Peng

Xiong was the legal representative, Chairman and General Manager of Lijiashan.

Lijiashan transferred its land leases under a Disposal Agreement to the assignee, Mao.

Xiong had consulted a lawyer, Peng, from 福建皇华律师事务所 (Fujian Huanghua law firm) on an informal basis to review the Disposal Agreement to transfer the land lease to Mao.

Below is the information obtained from the interview. Peng has confirmed to us before the parties namely: FKT, Allbright, Equity Law and Yuan Tai the following to the best of his belief:

A. Introduction

- i. Xiong visited Peng in 2017 to find out if the draft Disposal Agreement of Lijiashan was in compliance with local laws and regulations. Lijiashan was introduced to him through friends of Xiong.

B. Review of Disposal Agreement

- i. Peng reviewed the Disposal Agreement for compliance with local laws and regulations. The draft Disposal Agreement was received from Lijiashan. Peng did not enquire the background of the transaction of the contract. Peng did give some comments orally only. There were no professional services rendered or professional fees charged by Peng.

Fact-finding observations

- i. There was a Disposal Agreement for the Disposal Transaction. The PRC legal counsel of the Company confirmed that the Disposal Agreement including the Offsetting of accounts agreement were valid and were legally enforceable though the Disposal Agreement was not drafted by a legal firm.