



YAMADA GREEN RESOURCES LIMITED
(Company Registration No. 201002962E)
(Incorporated in the Republic of Singapore)

DISPOSAL OF MOSO BAMBOO PLANTATIONS

Unless otherwise specified, all capitalised terms used herein shall have the meanings ascribed to them in the announcements dated 21 August 2018 and 12 September 2018 (the “Announcements”).

1. INTRODUCTION

The board of directors (the “**Board**”) of Yamada Green Resources Limited (the “**Company**”) and together with its subsidiaries, the “**Group**”) refers to the Announcements and wishes to update on the appointment of Foo Kon Tan LLP (“**FKT**”) to conduct the due diligence investigation into the Disposal (the “**Disposal Investigation**”) by Nanping Lijiashan Forestry Co., Ltd (南平市李家山林业有限公司) (“**LJS**”) and Sanming Shansheng Forestry Co., Ltd. (三明山盛林业有限公司) (“**SS**”) (LJS and SS together referred to as the “**Subsidiaries**”) of moso bamboo plantations (gross land area measuring approximately 129,696 mu¹) in Jiangle County and Pucheng County, in Fujian Province, People’s Republic of China (the “**Plantations**”) and also, update on the details of the Disposal.

Initial investigations by the management suggested that the Plantations were disposed in mid August 2017 by the legal representative of LJS and SS, Mr Xiong Puyin and Mr Cai Jiqiang respectively, as the Plantations have been facing problems including rising labour cost, pest infestation, outstanding maintenance fees and poor market conditions in 2016 and 2017.

The scope of work agreed between the Audit Committee and FKT in respect of the Disposal Investigation (the “**Agreed Upon Procedures**” or “**AUP**”) included the following:

- (a) Control over legal representative(s):
 - i. verify whether there are records or registers indicating the dates and purposes of the uses of the chop/stamp of the legal representative(s);
 - ii. ascertain whether there are sufficient controls over the custody and security of the seals;

¹ Equivalent to approximately 86,507,232 square metres based on the measurement of 1 mu: 667 square metres.

- iii. ascertain the limits of authority of legal representative(s) to prevent abuse, and whether the powers have been exercised in accordance with the constitutional documents of the Subsidiaries;

(b) Lease of bamboo plantations:

- i. policies and procedures on the maintenance of the Plantations;

(c) Disposal Transactions:

- i. interview the past and present legal representative(s) and directors of the Subsidiaries;
- ii. look at the economics and commercial reasoning for the Disposal, including a market research to the forestry industry economics, and consider the chronology of the Disposal Transaction;
- iii. examine the basis for the sale consideration, whether an independent valuation was used, and the manner of settlement and the set-off if any;
- iv. ascertain the authorisation process for the Disposal;
- v. examine correspondences relating to the Disposal;
- vi. ascertain existence of any related party transaction;
- vii. examine the reporting process from the Subsidiaries' legal representative(s) to the Board of the Company and the date the Disposal was reported along the reporting chain;
- viii. determine the date of the Disposal;
- ix. determine the subject matter and extent of and lessor's consent to the Disposal;
- x. determine requirement of any tendering process;
- xi. verify consideration sum, receipt and payables used in offset;
- xii. verify encumbrances on the bamboo plantations, if any;

(d) Use of management experts

- i. review and consult the professor from the Fujian Agriculture and Forestry University (福建农林大学) who specialises in forestry to explain the underlying cause and effect and impact of the damage caused by insect infestation on bamboo forest which cause significant damage to the Plantations;
- ii. To consult possible treatments of the insect infestation;

(e) Government officer(s)

- i. obtain an understanding from the government officer(s) related to Fujian Provincial Department of Forestry (福建省林业厅) regarding the insect infestation conditions and situation in Fujian province during the relevant period(s);

(f) Independent valuer

- i. examine the manner, basis and assumptions used in the independent valuation on the Disposal, whether it is prepared on a forced-sale or market value – willing buyer/seller basis.

(g) Sub-contractors of Plantations

- i. interview with the sub-contractors of the Plantations as to the contractual arrangements, determine the policies, procedures and scope of the maintenance of the Plantation, harvesting and the treatment of the pest infestation. This provides an insight of the underlying cause of whether the infected plantations can continue to remain in business or possibly be disposed of.

(h) Buyer(s)

- i. interview the buyer(s) of the lease of the Plantation as to the contractual arrangement, existence of guarantees, warranties or commitments in the Disposal, and if there are any claims or disputes made by the buyer(s) arising from the Disposal.

FKT had in September 2018 conducted field trips in the PRC for the Disposal Investigation together with the Company's PRC and Singapore legal counsels, Allbright Law Offices and Equity Law LLC, who were appointed by the Board, along with Yuan Tai Law Offices, representing FKT.

1.1 Report made available to the Audit Committee and the Singapore Exchange Securities Trading Limited ("SGX-ST")

FKT has on 28 January 2019 provided the Audit Committee with its report on findings dated 14 January 2019 (the "**Report**") setting out the procedural steps involved in the AUP as well as its findings arising from the performance of the AUP. A copy of the Report has been made available to the SGX-ST and is attached to this announcement.

Key Findings

- (a) Allbright Law Offices had examined the articles of association of LJS and SS and confirmed that under Article 22 of Chapter 7 of their respective Articles of Association and the law in PRC, the legal representatives possessed the authority to enter into the LJS Transfer Agreements and SS Transfer Agreement (defined below) . From corporate governance perspective, FKT was 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 as the stamp records/register of legal representatives had been

destroyed in the fire incident on 30 August 2017 (announced by the Company on 4 September 2017);

- (b) There were internal control procedures on the maintenance of Plantations for the Subsidiaries as laid down in the policies. During the course of its investigation FKT understands from both legal representatives Mr Xiong and Mr Cai that they had observed and adhered to such procedures. However, FKT was unable to verify the implementation of the procedures in view of the long lapse in time since the disposal;
- (c) The professor visited the Plantations and reported 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;
- (d) The consideration sum for the Disposal Transaction was offset against the amounts owed to the Buyer(s)(assignees) who were also the contractor and/or subcontractors for maintenance, pest control and harvesting services for the Subsidiaries. As the consideration sum was less than the amounts owed to the Buyer(s)(assignees), the net amounts after offsetting were settled in cash by LJS and SS to the relevant Buyer(assignee). There were no escrow accounts as the settlement was largely executed by way of the offsetting of accounts agreements;
- (e) 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 Lijashan 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;
- (f) After discussions between Mr Xiong and Mr Cai on the problems faced by LJS and SS, Mr Xiong delivered a written report to Lin Weibin (the Group's Executive Director) on 17 August 2017 to seek Lin's approval on whether to (i) suspend the operations of the plantations, or (ii) dispose of the plantations, or (iii) obtain instructions from superior on future direction. Having perused Mr Xiong's report, Mr Lin informed Mr Xiong by fax to deal with the matter in the Company's best interest, which Mr Xiong took it to mean the granting of full authority to deal with the matter including disposal and the terms of such disposal. Mr Xiong then informed Mr Cai what Mr Lin had told Xiong. Negotiations and finalization of the terms of the disposal were conducted by Mr Xiong and Mr Cai with the respective Purchasers (Assignees);
- (g) Mr Xiong stated that on 25 August 2017, he submitted a written report on the disposals by LJS and SS to Mr Lin by leaving it on Mr Lin's table at the office in the latter's absence. Lin does not recall receiving the report. Mr Lin did not follow up on Mr Xiong's report on 17 August 2017 whereby Mr Lin gave full authority to Mr Xiong on the disposition of the Plantations and he expected Mr Xiong to report to him again upon finding suitable buyers for his approval of the disposal. Mr Lin also did not visit LJS or

SS after the disposal. As a result, Lin was not aware of and did not report the Disposal to the Board;

- (h) The Buyer(s)(assignees) of the Plantations, are Mao Xinxian (“**Mao**”) (for LJS) and Ni Yongchang (“**Ni**”) (for SS) and they were also the contractor and/or subcontractors for maintenance, pest control and harvesting services for LJS and SS respectively. They had confirmed that the Plantations did not have any encumbrances when they were disposed of by the Subsidiaries. As to the existence of the guarantees, warranties and commitments in the Disposal Transaction, the Purchasers confirmed that there were none. The Buyers have expressed challenges in taking over the plantations. However, given that there are a few more years of unexpired lease, there can still be some opportunities to explore the underlying value; and
- (i) 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 consideration sum for the Disposal Transaction were equivalent to the valuation of the Plantations as at 30 June 2017 as stated in the valuation report by Jones Lang LaSalle dated 21 August 2017.

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.

2. THE DISPOSAL

The Disposal was completed on 23 August 2017 pursuant to (i) two (2) transfer agreements (“**LJS Transfer Agreements**”) both dated 23 August 2017 entered into between LJS and Mao, and (ii) a transfer agreement (“**SS Transfer Agreement**”) dated 23 August 2017 entered into between SS and Ni (“collectively, the “**Transfer Agreements**”).

2.1 The Plantations

The Plantations, which are situated in Jiangle County and Pucheng County, in Fujian Province, People's Republic of China have a gross land area measuring approximately 129,696 mu².

The Plantations were used solely for the cultivation and harvest of moso bamboo trees, spring bamboo shoots and winter bamboo shoots.

2.2 Buyers

Mao and Ni (collectively, the "**Buyers**") are both natural persons. Mao provides maintenance, pest control and harvesting services to LJS and Ni provides maintenance, pest control and harvesting services to SS. Save for the aforesaid, to the best of the Company's knowledge, Mao and Ni do not have any other business relationship with the Group and are not related to any of the Company's Directors, substantial shareholders or controlling shareholders.

2.3 The aggregate value of the consideration, including factors taken into consideration in arriving at the value of the consideration

- 2.3.1 Pursuant to the LJS Transfer Agreements, an aggregate of approximately 48,992 mu of moso bamboo plantations was assigned to Mao for a total consideration of RMB 13,291,349 ("**LJS Consideration**"). The LJS Consideration was offset against the sum of RMB 13,369,504 due and owing by LJS to Mao for provision of maintenance, pest control and harvesting services by Mao to LJS pursuant to an offsetting of accounts agreement ("**LJS Offset Agreement**") dated 23 August 2017 entered into between LJS and Mao. The balance sum of RMB 78,155 was paid by LJS to Mao in final settlement on 23 August 2017.
- 2.3.2 Pursuant to the SS Transfer Agreement, an aggregate of approximately 80,704 mu of moso bamboo plantation was assigned to Ni for a total consideration of RMB 33,943,766 ("**SS Consideration**"). The SS Consideration was offset against the sum of RMB 33,960,160 due and owing by SS to Ni for provision of maintenance, pest control and harvesting services by Ni to SS pursuant to an offsetting of accounts agreement ("**SS Offset Agreement**") dated 23 August 2017 entered into between LJS and Ni. The balance sum of RMB 16,394 was paid by SS to Ni in final settlement on 23 August 2017.
- 2.3.3 The LJS Consideration and SS Consideration were equivalent to the valuation of the Plantations as at 30 June 2017 as stated in the valuation report by Jones Lang LaSalle dated 21 August 2017 ("**Valuation Report**") which was prepared for accounting reference for the purpose of the annual audit. The valuation was conducted on a fair value basis which is defined as "the price that would be received to sell an asset, or paid to transfer a

² Equivalent to approximately 86,507,232 square metres based on the measurement of 1 mu: 667 square metres.

liability, in an orderly transaction between market participants at the measurement date". The valuation Report stated, *inter-alia*, that

"Our opinion on the fair values of the Biological Assets was developed through the application of the income approach technique which is known as the discounted cash flow valuation. In conducting our valuation of the Biological Assets, we have reviewed information from several sources, conducted interviews and discussions with the management and conducted research using various public sources and publication.

Under this method, value depends on the present worth of future economic benefits to be derived from the projected sales income. Indications of value have been developed by discounting projected future net cash flows available for payment of shareholders' interest to their present worth.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on our use of numerous assumptions and our consideration of various factors that are relevant to the operation of the Company. We have also considered various risks and uncertainties that have potential impact on the Company."

The Company understands that "available for payment of shareholders' interest" above means "free cash flow i.e. without debt when computing" and "present worth" above means today's value.

2.4 Other Material Terms of the Transfer Agreements

2.4.1 Encumbrance

During the course of the Disposal, the Subsidiaries shall not cause any encumbrance, charge or joint venture to be created over the Plantations or do anything that will affect the ownership of the Plantations, and the Subsidiaries shall not allow any third party to have any rights over the Plantations. All obligations and benefits, rights to the Plantation shall belong to the Buyers(assignees) from the date of the LJS Transfer Agreements and SS Transfer Agreement, being 23 August 2017.

2.4.2 Fees and expenses

The Buyers(assignees) agree that they shall not request the Subsidiaries to pay any additional expenses and/or fees for any reasons whatsoever from the date of the LJS Transfer Agreements and SS Transfer Agreement, being 23 August 2017. The Subsidiaries agree that they shall not illegally interfere with the Buyers'(assignees') business operations, use or purport to use the Plantations assigned to the Buyers(assignees) for any reasons whatsoever from the date of the LJS Transfer Agreements and SS Transfer Agreement, being 23 August 2017.

2.4.3 Rights, benefits and obligations

All rights, benefits and obligations between (i) Nanping Lijiashan Forestry Co., Ltd. and Village Committee of Yuantou Village, Shanxia Town, Pucheng County (浦城县山下乡源头村村民委员会) under the lease agreement dated 23 April 2013, (ii) Nanping Lijiashan Forestry Co., Ltd. and 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) under the lease agreements dated 5 May 2014 and 26 June 2015, (iii) Sanming Shansheng Forestry Co., Ltd and Jiangle Shanfeng Bamboo Industry Co., Ltd. under the lease agreements dated 9 September 2014 and 28 January 2016, shall cease from the date of the LJS Transfer Agreements and SS Transfer Agreement, being 23 August 2017, and all such rights, benefits and obligations which originally belonged to LJS and SS shall be transferred to Mao and Ni respectively.

3. **RATIONALE FOR THE DISPOSAL**

Following a review of the Report and the reconstructed accounts, the Board noted that the Plantations has faced problems including rising labour cost, pest infestation, outstanding maintenance fees and poor market conditions during 2016 and 2017. Based on the reconstructed management accounts, the Plantation business recorded a net losses of RMB 141.2 million for the financial year ended 30 June 2017. According to information released by the Nanping Municipal Forestry Department and the Sanming Municipal Forestry Department on the Nanping Municipal People's Government³ and Sanming Municipal People's Government⁴ websites respectively, pest infestation problem faced by bamboo plantations located in the Nanping and Sanming Municipalities was expected to worsen. In view of the foregoing, the Subsidiaries expected challenging business environment and market conditions to continue in foreseeable future.

The Board also noted the Disposal allowed the Group to dispose of the loss-making Plantations. It also allowed the Company to take steps to review its options to restructure its business, operations, and balance sheet to preserve the value of the Company for its stakeholders.

In view of the above, the Board is of the view that the Disposal was in the commercial interests and benefit to the Group as all proceeds from the Disposal was applied towards settlement of outstanding amount due and owing to the Purchasers for provision of maintenance, pest control and harvesting services, which reduced the Group's current financial liabilities and borrowings.

³ <http://www.np.gov.cn/cms/html/npszf/2016-02-16/1690819833.html> (last accessed on 17 October 2018)

⁴ http://xxgk.sm.gov.cn/szfgzjg/lyj/zfxgkml/gfwj/201703/t20170321_655499.htm (last accessed on 17 October 2018)

4. USE OF PROCEEDS

The net proceeds from the Disposal (“**Net Proceeds**”), based on the LJS Consideration and SS Consideration and after deducting estimated costs and expenses to be incurred in connection with the Disposal, are approximately RMB 47,235,115.

All of the Net Proceeds was applied towards settlement of outstanding amount due and owing to the Purchasers for provision of maintenance, pest control and harvesting services pursuant to the LJS Offset Agreement and SS Offset Agreement. Please refer to paragraph 2.3 above for further details on the LJS Offset Agreement and SS Offset Agreement.

5. INTEREST OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Save for their shareholdings in the Company (if any), none of the Directors or controlling shareholders of the Company, and their associates, has any interest, whether direct or indirect, in the Disposal.

6. RESIGNATION OF EXECUTIVE DIRECTOR

Following the review of the draft Report and management’s findings, the Board had spoken to our Executive Director, Mr Lin Weibin and following the discussion, Mr Lin had tendered his resignation as a director of the Company. He has also stepped down as vice-chairman of the board of Fujian Wangsheng Industrial Co., Ltd. and legal representative of Nanping Yuanwang Foods Co., Ltd., both wholly-owned subsidiaries of the Company.

The Plantation business was under the charge of Mr Lin Weibin.

Please refer to the Company’s announcements via the SGXNet on 22 January 2019.

7. RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this announcement and confirm, after making all reasonable enquiries, that to the best of their knowledge and belief, this announcement constitutes full and true disclosure of all material facts about the LJS Transfer Agreements and SS Transfer Agreement, the Disposal, the Company and its subsidiary, and the Directors are not aware of any facts the omission of which would make any statement in this announcement misleading. Where information in this announcement has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the announcement in its proper form and context.

8. DOCUMENTS FOR INSPECTION

A copy of the following agreements is available for inspection during normal business hours at the registered office of the Company at 7 Temasek Boulevard, #43-03 Suntec Tower One, Singapore 03898 for a period of three (3) months from the date of this announcement:

- (i) LJS Transfer Agreements;
- (ii) SS Transfer Agreement
- (iii) LJS Offset Agreement;
- (iv) SS Offset Agreement; and
- (v) Valuation Report.

BY ORDER OF THE BOARD

Chen Qiu Hai
Executive Chairman and Chief Executive Officer
28 January 2019