

OPERATIONS REVIEW



Business Overview

Yamada is a major supplier of edible fungi with one of the largest shiitake mushroom cultivation bases in Fujian Province, PRC. We currently occupy approximately 5,134 mu of shiitake mushrooms farmland and 86 mu of black fungus farmland (1 mu equals to approximately 667 square metres). We possess potential upstream resource sustainability with sawdust obtained from our own eucalyptus trees. Sawdust is the raw material used to produce synthetic logs which are, in turn, used in the cultivation of shiitake mushrooms. Our eucalyptus plantations now cover over 30,000 mu.

Our products include self-cultivated edible fungi, such as shiitake mushrooms and black fungus, which are mainly sold as fresh produce to wholesalers of agricultural food products in the PRC, as well as processed food products such as dried mushrooms, water-boiled/dried vegetables and konjac-based dietary fibre food products which are sold in major cities in the PRC under trademark brands like  山田坊 懒人厨房. We also export our processed food products, mainly to Japan under our customers' brand names.

Financial Highlights

For comparative purposes, due to the change of financial year end from 31 December to 30 June, the financial year 2011 covered a period of six months from 1 January 2011 to 30 June 2011 ("FY2011"). We compare that against the previous corresponding period from 1 January 2010 to 30 June 2010 ("2H2010"). Using this comparison, revenue increased 30.4% from RMB165.8 million to RMB216.3 million.

This was due to several factors. Firstly, we saw an increase of approximately RMB39.3 million in sales of self-cultivated fresh shiitake mushrooms because of an expansion in cultivation bases. In FY2011, we operated approximately 2,614 mu of mushroom cultivation bases compared to approximately 2,213 mu in 2H2010. We produced and sold approximately 20,000 tonnes of self-cultivated fresh shiitake mushrooms in FY2011.

Secondly, we started producing and selling approximately 2,000 tonnes of fresh black fungus, generating revenue of approximately RMB9.1 million in FY2011. Thirdly, we managed to increase our average unit selling price of self-cultivated fresh shiitake mushrooms by approximately 4.6%, from approximately RMB6.50/kg in 2H2010 to RMB6.80/kg in FY2011. Fourthly, with intense promotional efforts in the PRC, we managed to increase sales of konjac-based dietary fibre food products, especially konjac instant noodles, from approximately RMB16.1 million in 2H2010 to approximately RMB17.9 million in FY2011. The increase in revenue from other processed food products was approximately RMB0.4 million. Export sales of processed food products were relatively stable at approximately RMB44.1 million for FY2011 and 2H2010.

With healthy revenue expansion, gross profit increased by approximately RMB16.3 million or 22.0% from RMB73.9 million in 2H2010 to RMB90.2 million in FY2011. Gross profit margin, however, narrowed from 44.6% in 2H2010 to approximately 41.7% in FY2010, with the overall increase in raw material costs.

On a segmental basis, gross profit margin for our self-cultivation business segment decreased from approximately 52.8% in 2H2010 to approximately 48.3% in FY2011 due essentially to rising raw material costs of synthetic logs while the selling price of our shiitake mushrooms did not increase in tandem. Our self-cultivated black fungus commanded a relatively lower gross profit margin of approximately 40.5%, compared to our self-cultivated shiitake mushrooms of approximately 48.9%.

Meanwhile, the gross profit margin for our processed food products segment decreased from 33.4% in 2H2010 to 28.2% in FY2011 due to rising raw material costs of our processed food products, specifically bamboo shoots and other vegetables. All in, net profits grew 15.6% from RMB60.2 million in 2H2010 to RMB69.6 million in FY2011. This was achieved on the back of revenue of RMB216.3 million in FY2011.