YANGZIJIANG FINANCIAL HOLDING LTD.

(Company Registration No. 202143180K)
(Incorporated in the Republic of Singapore on 14 December 2021)

RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

The Board of Directors (the "**Board**") of Yangzijiang Financial Holding Ltd. (the "**Company**" and together with its subsidiaries, collectively the "**Group**") refers to questions raised by Securities Investors Association (Singapore) ("**SIAS**") in relation to the Company's Annual Report for the financial year ended 31 December 2022, released on 5 April 2023 ("**Annual Report FY2022**") and wishes to provide the following information in response to the queries:

Q1. As noted in the chairman's statement, the group successfully spun off as a separate listed entity from Yangzijiang Shipbuilding (Holdings) Ltd on the Mainboard of the Singapore Exchange, which will enable the group to pursue its goal of becoming a leading investment manager in Asia.

Prior to the spin-off, the group primarily focused on investments in China, particularly debt investments. Following the spin-off, management aims to create a more diversified portfolio across asset classes and geographies to maximise risk-adjusted returns for shareholders.

The management intends to allocate 50% of its funds to investments in China and the remainder to investments beyond China over the long-term.

(i) Investment management: In November 2022, the company announced that it was awarded the liquidity pool scheme of up to RMB10 billion (or approximately $1.9 billion) from the People's Bank of China. Under the liquidity pool scheme, the group will be able to deploy its capital in and out of China in a cost-efficient manner through intra-group transfers. Can management elaborate further on the significance of gaining access to the liquidity pool scheme? How fast are such transfers and how much of the RMB10 billion allotment has been utilised since?

Company's response to Q1 (i)

The liquidity pool scheme will enable the Group to centralize its treasury functions, facilitating rapid fund deployment. Key benefits include optimizing liquidity, reducing short-term borrowing costs and capitalizing on interest rate differentials across various economies.

As the liquidity pool serves as a tool to address funding needs within the Group operating in multiple countries, the utilization of the facility is on a rolling basis. Consequently, disclosing the amount utilized is not meaningful. The amount used depends on the funding requirements across various operations and fluctuates from time-to-time.

(ii) Wealth management: In 2022, the group signed up a family office that has assets under management (AUM) of $500 million. Can management elaborate further on the business (and revenue) model of the wealth management business? Specifically, how does it acquire new customers, and in this particular case, does the group provide advisory services for the entire $500 million portfolio (and charges a fee on it)?

Company's response to Q1 (ii)

The Group is well-equipped to offer advisory services to family offices, addressing the distinct needs of affluent families and their investment objectives. These services encompass portfolio management, research and investment analysis, risk management, access to alternative investments, networking opportunities, tax and regulatory compliance, as well as performance reporting.

The Group's fund management division charges a fee on the $500 million portfolio.

The Group aims to acquire clients through its extensive network, cultivated through years of industry experience and investment activities.

(iii) Fund management: What strategy does management have to raise funds from external parties under the fund management segment and how much more challenging is it to raise funds in a high-interest rate environment? For instance, the group is seeding 40% and 80% of the GEM Growth Fund and Maritime Fund respectively.

Company's response to Q1 (iii)

Our fundraising strategy at Yangzijiang Financial is to differentiate ourselves from other asset managers by developing a robust product offering, such as the Maritime Fund, and providing access to alternative investment opportunities in Southeast Asia and China. This approach has allowed us to establish our own fundraising avenues and leverage our leadership in the shipbuilding industry, as well as our years of investing activities in China. The Group is committed to making profitable investments while adeptly navigating any challenges that may arise in raising external funds.

Q2. "Debt investments at amortised cost" is a key audit matter (KAM) highlighted by the independent auditors in their report on the audit of the financial statements. Key audit matters are those matters that, in the professional judgment of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, as of 31 December 2022, the carrying amount of the group's debt investments at amortised cost was $2.67 billion, representing 64% of the group's total assets. This is net of allowance for impairment loss of $255.1 million at that date.

In determining the expected credit loss ("ECL") impairment model in accordance with SFRS(I) 9 Financial Instruments, management employs a comprehensive approach, incorporating significant judgment and assumptions, including forward-looking information to estimate the probability of default, loss has given default, and exposure at default for each financial instrument. Information on financial risk management relating to debt investments at amortised costs can be found on pages 136 to 140.

Details of the expected credit loss is shown below:

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The Group provides for credit losses against debt investments as follows:

Category	Performing S$'000	Under-performing S$'000	Non-performing S$'000	Total S$'000
2022				
Expected credit loss rates	**5.6%**	**10.9%**	**–***	13.4%
Gross carrying amount	**1,347,746**	**149,382**	**1,141,897**	**2,639,025**
Credit loss allowance	**(84,135)**	**(17,373)**	**(153,636)**	**(255,144)**
Currency translation difference	**8,873**	**1,147**	**8,333**	**18,353**
Net carrying amount of fixed interest debt instruments through intermediary financial institutions in China	**1,272,484**	**133,156**	**996,594**	**2,402,234**
Government bonds and other short-term investments offered by various banks	**269,673**	**–**	**–**	**269,673**
Net carrying amount	**1,542,157**	**133,156**	**996,594**	**2,67[illegible],907**
2021				
Expected credit loss rates	4.0%	4.7%	–*	
Gross carrying amount	3,158,504	123,430	638,224	[illegible],920,158
Credit loss allowance	(125,182)	(5,749)	(267,774)	(398,705)
Currency translation difference	(2,154)	(98)	(4,606)	(6,858)
Net carrying amount	3,031,168	117,583	365,844	3,514,595

* The ECL for non-performing investment is determined on an individual basis using a discounted cash flow methodology. Expected future cash flows are based on the management estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at the original effective interest rate.

(Source: company annual report; emphasis added)

(i) What are the reasons for the $503 million increase in the gross carrying amount of non-performing debt investments to $1.14 billion?

Company's response to Q2 (i)

As highlighted in our financial statements, the increase of non-performing loans during 2H2022 was mainly a result of deteriorating China real estate market.

(ii) Can the company provide a breakdown of the non-performing debt investments?

Company's response to Q2 (ii)

According to slide 16 of the 2022 Full year Results Presentation posted on SGX, the breakdown of the debt investments is disclosed. However, we are unable to disclose the names of any specific companies due to confidentiality obligations.

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(iii) Can the audit committee help shareholders understand the reasons for the lower credit loss allowance ($153.6 million) and if it is reasonable to expect the overall expected credit loss rate to be lowered to 13.4% (estimated)?

Company's response to Q2 (iii)

One reason for the lower credit loss allowance is the spin-off carried out in FY2022, which resulted in non-performing debt being divided into two independent groups. Management utilizes a comprehensive approach that incorporates judgment and assumptions, including forward-looking information, to estimate the probability of default, loss given default, and exposure at default for each financial instrument. Information regarding financial risk management related to debt investments at amortized cost can be found on pages 136 to 140. The provision for expected credit losses takes into account a fair number of factors and is deemed reasonable and in compliance with IFRS 9 Financial Instruments.

Q3. The group recognised that as a steward of capital and a listed company, it has to meet evolving environmental, social, and governance ("ESG") regulations globally. Management intends to integrate ESG into its day-to-day operations through an ESG framework, complete with organisation-wide objectives, policies, and strategies that support the group in its sustainability efforts.

The board statement in the sustainability report on page 22 disclosed the following:

As a first step, we will be forming a dedicated sustainability committee in the second half of 2023 that will report directly to the Board of Directors ("Board"). Our Chief Executive Officer ("CEO") will lend weight to the committee by helming it. The committee will subsequently implement a sustainability framework by the end of 2023 and seek to integrate ESG investing across the board in the coming years. In addition, we will prepare and adopt the disclosures recommended by the Task Force on Climate-Related Financial Disclosures ("TCFD") in 2023.

Can management provide shareholders with greater clarity on its thinking on the sustainability governance framework? Specifically:

(i) What are the roles of the directors in the governance framework to drive, govern and manage the sustainability function within the group?

Company's response to Q3 (i)

The Board of Directors via the sustainability committee will provide strategic direction and oversight for the formulation and implementation of the firm's ESG framework. The framework will include efforts to collaborate with our partners and investee companies to enhance their ESG performance and contribute towards achieving a net-zero carbon future.

As stated on page 23 of our annual report, the team outlines the direction that YZJF aims to take in achieving its net-zero carbon goal.

(ii) How frequently and to what extent will the board be reviewing the group's sustainability strategies and progress?

Company's response to Q3 (ii)

The Board will review the group's sustainability strategies and progress quarterly to ensure that the firm's sustainability and reporting remain relevant.

(iii) When will material ESG risks be integrated into the group's overall risk management framework, monitored and reported to the board?

Company's response to Q3 (iii)

As mentioned in our sustainability report, we plan to set up a dedicated sustainability committee by the second half of 2023 to formalize our sustainability strategies, policies and reporting. We view sustainability as an evolving and continual strategic imperative, and as part of our risk management, we will continue to strengthen and align the frameworks where appropriate.

(iv) Are there plans to progressively link the compensation of senior executives to key ESG performance indicators?

Company's response to Q3 (iv)

Yes, there are plans to progressively link the compensation of senior executives to key ESG performance indicators. This is part of Yangzijiang Financial's broader commitment to sustainability and responsible corporate governance. By aligning executive compensation with ESG goals, Yangzijiang Financial aims to incentivize its leadership team to prioritize and actively work towards achieving these objectives.

(v) How does the group guard against greenwashing?

Company's response to Q3 (v)

As stated, we will formulate and implement a comprehensive ESG framework with a well-defined policy and measurable goals for sustainability. Communications and appropriate trainings will be provided to internal stakeholders including the Board, senior management and employees to ensure that they understand their roles in the respective sustainability initiatives and stay accountable accordingly. To prevent greenwashing, a culture of honesty and transparency will be fostered, with continual monitoring and reporting of sustainability goals. In addition, we will continue to benchmark our framework against industry standards and engage external stakeholders for any constructive feedback on the firm's sustainability efforts.

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(vi) Can the company also elaborate on how logistics investments in China's mining sector can meet the group's ESG guidelines?

Company's response to Q3 (vi)

We do not provide detailed information on any specific individual investment, but we adhere to the ESG framework and investment criteria that we have established when evaluating potential investment opportunities.

To ensure compliance with ESG guidelines when investing in a less environmentally friendly business, in general, we assess the investee's environmental impact, social responsibility, and governance practices. This can be achieved through due diligence and engagement with the company's management and stakeholders. The investee company should be directed by its board to work closely with local communities and stakeholders to ensure that their operations do not have any negative impact on the environment or the people living nearby.

By Order of the Board

Toe Teow Heng
Executive Director and CEO
28 April 2023