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SIIC ENVIRONMENT HOLDINGS LTD.

上海實業環境控股有限公司*

(Incorporated in the Republic of Singapore with limited liability)

(Hong Kong stock code: 807)

(Singapore stock code: BHK)

RESPONSES TO QUESTIONS RECEIVED FROM SHAREHOLDERS FOR THE 28 APRIL 2023 ANNUAL GENERAL MEETING

The Board of Directors of SIIC ENVIRONMENT HOLDINGS LTD. ("**SIIC Environment**" or the "**Company**", together with its subsidiaries, the "**Group**") refers to the publishing of its annual general meeting-related documents on the SGXNET and SEHK on 23 March 2023 and 5 April 2023. As at 14 April 2023, the Company has received the following questions from shareholders and Securities Investors Association (Singapore) ("SIAS"). The Company wishes to provide its responses as below:

Section A – Questions from Shareholders:

Question 1:
Could you provide the gearing ratio of the company for the past five financial years? What is the comfortable level for the company?

Response to Question 1:

The gearing ratio of the company for the past five financial years were shown below:
2018 – 0.10 times
2019 – 0.13 times
2020 – 0.15 times
2021 – 0.68 times
2022 – 0.73 times
The Board and management have been committed to managing and controlling the Company's gearing ratio and will maintain a relatively reasonable and healthy ratio in accordance with the Company's development strategy of high quality and sustainable growth.

Question 2:
What concrete measures will the company take to narrow the widening gap of share price and asset value as well as increasing the liquidity of the shares?

Response to Question 2:

The share price of the company is determined by both external and internal factors. The external factors include macroeconomy, industry competition, capital market, preference of investors and other factors. The Company is committed to focusing on improving our performance by increasing revenue, reducing costs, and exploring new business development opportunities, which can help increase the company's intrinsic value. The company aims to build a good shareholders base and attract potential investors by actively engaging with shareholders, providing timely updates, addressing investors' concerns, declaring stable and persistent dividends, and continues to enhance investor relations.

Question 3:
The tagline of the FY 2022 annual report is "Returning to our original aspiration". Does it imply that there are non-core assets to be divested? If so, what are these?

Response to Question 3:

The Company will further improve its organizational structure and team, return to its original entrepreneurial spirit, initiate a new round of rapid development, consolidate its business layout in different regions, and accelerate its business expansion in the Yangtze River Economic Belt and the Guangdong-Hong Kong-Macao Greater Bay Area, so that it can once again resume rapid development, achieve new breakthroughs, and scale new heights. In addition, the Company will strengthen our technological and digital empowerment, continuously improve our management standard and operational efficiency, and further promote our employee incentive policy to maintain the leading position among the top-tier players in China's water treatment and environmental protection industries. The Company will insist on focusing on the development of core business in the long term.

Section B – Questions from SIAS:

Question 4:

As shown in Note 34 (pages 226 – Bank and other borrowings), the group's borrowings have increased to RMB19.15 billion as at 31 December 2022, up from RMB16.63 billion a year ago. The amount repayable within one year or on demand is lower at RMB3.77 billion.

For FY2022, the group's cash flow from operations was negative RMB(1.39) billion. Trade and other receivables increased from RMB3.40 billion as at 31 December 2021 to RMB4.52 billion as at 31 December 2022. This was primarily due to the expansion in operation scale in 2022 and the impact of longer collection period affected by the strict COVID restriction measures in 2022. Average trade receivable turnover days increased by more than 21 days, increasing from 108 days to 129 days.

(i) Can management provide an update on the current challenges the group faces in collecting its debt? Has the situation improved since the lifting of COVID-19 restrictions? Are there indications of increased difficulties in collecting receivables given the macroeconomic challenges in China?

(ii) The loss allowance of trade receivables for the year increased from RMB7.3 million to RMB31.8 million. What are the reasons for the significant increase in loss allowance?

(iii) The group received RMB7.08 billion in FY2022 from the "PRC government". What is the group's largest exposure to a single local government unit?

(iv) Following the white paper titled "China's Green Development in the New Era" (《新時代的中國綠色發展》白皮書) released in early 2023, what specific opportunities has management identified?

(v) Given that interest rates have increased significantly and remained elevated, what is the impact on the carrying value of the service concession arrangements?

(vi) Could management help shareholders better understand how the company factors in interest rate trends before entering into long-term (20 years, 30 years) service concession arrangements?

RMB15.3 billion of its borrowings, or 80.1%, are variable-rate borrowings, with repricing done at intervals ranging from monthly to annually. Interest paid was RMB793 million in FY2022 (2021: RMB648 million).

(vii) What steps is management taking to actively manage and optimise the company's financing costs?

Response to Question 4:

(i) Our customers are usually governments in China, and they focused their money dealing with Covid-19 during pandemic, financial situation was seriously affected, it was quite challenging for the Group to collect its debts in the past years. The situation improved since the lifting of COVID-19 restrictions in 1QFY2023. However, the difficulty in collecting the debts is possible in the short term. The company will continue to monitor the development of the financial situation for all levels of governments in China and maintain effective communication and relationship with them, put in efforts to implement all possible actions to reinforce and improve the collection of debts.

(ii) The loss allowance of trade receivables for the year increased from RMB7.3 million to RMB31.8 million was due to the recognition of Expected Credit Losses "ECL". The ECL on trade receivables are estimated by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

(iii) The group aims to diversify the exposure for the overall portfolio of more than 250 projects across 20 municipalities, provinces, and special administrative region in China, and hence no largest exposure to a single local government unit was noted.

(iv) In the white paper "China's Green Development in the New Era" released in early 2023, the Central Government clearly stated that it will unswervingly follow the path of green development; remain committed to eco-environmental conservation; It also outlined the development direction for the environmental protection industry. The policy will provide more opportunities for the Company to further expand and improve the construction of an environmental, social and corporate governance (ESG) system, implement ESG management, optimize target setting and build more modern environmental protection projects of high standards to achieve steady and high-quality growth.

(v) The interest rates related to the service concession arrangements is determined based on the China Loan Prime Rate ("LPR") in long term which is not rising but relatively stable, and so far no impact to the carrying value.

(vi) The Group usually considers the China Loan Prime Rate ("LPR") in long term for interest rate trends before entering long-term (20 years, 30 years) service concession arrangements.

(vii) The management is actively evaluating diverse sources of funding to manage and optimize finance costs.

Question 5:

For the financial year ended 31 December 2022 (FY2022), revenue increased by 14.3% to RMB8.3 billion. Operating and maintenance income and financial income from service concession arrangements amounted to RMB4.7 billion, an increase of 9.7%. This was mainly due to an increase in wastewater treatment and water supply volumes, as well as the higher average wastewater treatment tariffs.

Revenue from the water supply segment increased by 27.4%, from RMB1.05 billion in FY2021 to RMB1.34 billion in FY2022. The group's net profit attributable to shareholders for the period amounted to RMB780.2 million, an increase of 10.5% year-on-year.

As of the end of FY2022, the group boasted an overall portfolio of nearly 250 wastewater treatment and water supply projects, with a total production capacity of 13,040,000 tonnes per day.

(i) Wastewater treatment tariff: The average wastewater treatment tariff increased by 9.5% YOY to RMB1.86 per tonne. Given the cost pressure from a high inflation environment, what is the group's strategy to be more agile in passing on the cost increases and getting faster and larger tariff revision? Is the group able to adjust the service concessions based on changes in interest rates, particularly in a high-inflation environment?

(ii) Shanghai Baoshan Renewable Energy Utilization Center ("Baoshan project"): Has the Baoshan project reached the maximum capacity or optimum utilisation rate? If not, how much time is needed to reach that mature stage?

Response to Question 5:

(i) According to the concession arrangements signed, we are allowed to periodically review the costs and submit for price adjustment to governments. The group's strategy is to monitor the costs timely and submit the price revision request based on the procedure indicated in the concession arrangements, which can help us to be more agile in absorbing the costs. The group can adjust the service concessions based on changes in interest rates, particularly in a high-inflation environment.

(ii) The Baoshan project has not reached its maximum capacity. The processing ability will be expected to reach the designed production capacity before the end of this year.

Question 6:

The gearing ratio, defined as net debt as a percentage of total equity, has been stable in recent years. The trend in the group's gearing is shown below:

2018 – 1.01 times
2019 – 1.01 times
2020 – 0.97 times
2021 – 0.99 times
2022 – 1.13 times

(i) Has the board established a specific limit for the gearing ratio?

The directors have proposed a final dividend of $0.01 per share to be paid to shareholders. The total estimated dividend to be paid is $25.8 million, approximately RMB128.8 milllion. An interim one-tier tax exempt dividend of $0.005 per ordinary share, totalling S$12.8 million (RMB70.7 million), was paid out to shareholders in 2022.

(ii) How does the high-interest-rate, high-inflation environment affect the board's decision-making process regarding declaring and paying dividends to shareholders?

(iii) What specific financial or operational targets must be achieved for the company to be in a strong position to increase its dividend? In fact, will the higher-than-usual leverage level and net cash outflows from operating activities (2022: RMB1.39 billion) and investing activities (2022: RMB658 million) pose constraints on the company's ability to declare higher dividends in the future?

Response to Question 6:

(i) The Board has been closely monitoring and managing the Group's gearing ratio, as the environment business is capital-intensive industry and currently in the development stage, the Group committed to providing shareholders with higher returns, hence, the Board has not set a specific limit to the Group's gearing ratio.

(ii) The Board will strive for a balance between investment return for shareholders and achieving the Group's continuous development goal in the long term, upon decision-making process regarding declaring and paying dividends to shareholders. The Group will consider increasing the dividends to shareholders as long as the profitability has been improved.

(iii) So far, the Group does not have any specific target set for dividends to shareholders. However, the Group may increase the shareholders' dividends once the financial position has been improved.

By Order of the Board
SIIC ENVIRONMENT HOLDINGS LTD.
Mr. Yang Jianwei
Executive Director

Hong Kong and Singapore, 19 April 2023

As at the date of this announcement, the non-executive Chairman is Mr. Zhou Jun; the executive Directors are Mr. Yang Jianwei, Mr. Zhu Dazhi, Mr. Xu Xiaobing, Mr. Huang Hanguang and Mr. Yang Wei; and the independent non-executive Directors are Mr. Yeo Guat Kwang, Mr. An Hongjun and Mr. Zhong Ming.

* *For identification purpose only*