



YANGZIJIANG FINANCIAL HOLDING LTD.

(Company Registration No. 202143180K)

(Incorporated in the Republic of Singapore on 14 December 2021)

OVERVIEW OF INVESTMENT STRATEGIES AND FREQUENTLY ASKED QUESTIONS

The Board of Directors of Yangzijiang Financial Holding Ltd. (“**Yangzijiang Financial**”), together with its subsidiaries, the “**Group**”) wishes to improve the communication and engagement with Yangzijiang Financial’s stakeholders and has accordingly prepared this document to set out the investment strategy of the Group as it works towards its long-term plan of creating a diversified portfolio to optimise risk-adjusted returns for shareholders, as well as create additional sources of revenue through fees from its fund and wealth management business. The document also answers frequently asked questions to address some of the comments raised by various stakeholders.

Group’s overview

Yangzijiang Financial (SGX:YF8) is the spinoff of the investment arm of Yangzijiang Shipbuilding (Holdings) Ltd (SGX:BS6) (“**Yangzijiang Shipbuilding**”) established in April 2022. Prior to the spinoff, the Group has been primarily focused on investments in China, in particular, debt investments. As of 31 December 2021, the Group’s debt and equity investments portfolio stands at approximately 83% and 17% respectively.

With the spinoff, the Group aims to create a more diversified portfolio across asset classes and geographies to maximise risk-adjusted returns for shareholders. Over the long term, the Group intends to allocate 50% of its funds to investments in China and the remaining 50% to investments beyond China. As of 30 June 2022, the Group has reduced its debt investments to approximately 57% of the total portfolio. Cash and yield enhancement products and equity investments form approximately 29% and 14% of the total portfolio respectively. 11% of the Group’s assets are in Singapore as of 30 June 2022. In the coming months, the Group intends to grow its fund and wealth management business to generate an additional source of recurring income.

Strategies for investments:

With the Group’s deep domain knowledge of the maritime industry and investment management in China, the Group is well-positioned to tap into its industry knowhow and network in China to reposition its existing portfolio. Since April 2022, the Group has been rapidly adding to its headcount, building a team of 70 seasoned professionals across China and Singapore.

The Group has identified 5 key areas for investments:



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Investments in China

1. **Clean Energy:** With the rising focus on ESG initiatives (Environmental, Social and Governance), investors have been increasingly funding projects grounded in clean energy and its ancillary services. Within the shipping industry itself, the Group has observed a surge in demand for green shipbuilding projects that utilise clean energy, such as Liquefied Natural Gas (LNG). The Group intends to leverage its strategic affiliation with Yangzijiang Shipbuilding to access opportunities to provide ship financing for the segment, which, in turn, will generate a steady stream of recurring income.
2. **Capital markets in China:** The Group currently sees several opportunities within the capital markets in China in particular, (i) Chinese companies that are looking to list in China after being delisted in the US; (ii) placement or mezzanine financing opportunities for companies post-listing; and (iii) special situation companies that are trading at distressed asset valuations. The Group's extensive network in China ideally positions it to secure potentially lucrative opportunities such as pre-IPO investments and share-placements in the Chinese capital markets.
3. **Logistics for the mining sector:** The Group anticipates a long-term demand for logistics providers in the mining sector in China as the country looks to boost domestic consumption to bolster economic growth. Currently, the Group is in discussions with local authorities to provide financing for logistics investments for upcoming mining projects in China.

Investments in China and beyond China

4. **Maritime Fund:** The Group sees a significant opportunity in the ship financing sector globally. Currently, shipping companies have limited access to loans from banks. This provides attractive prospects for Yangzijiang Financial, which can leverage its strategic affiliation with Yangzijiang Shipbuilding for access to potential customers. This may include ship financing and the facilitation of sales and leaseback of vessels. The Group has announced earlier the setting up of a maritime fund with an initial expected fund size of US\$250 million, of which the Group will contribute US\$100 million, and raise the remaining US\$150 million.

Investments beyond China

5. **Capital markets outside of China:** The Group is looking to allocate up to 30% of its portfolio to this segment over the next few years through direct investments as well as fund investments. Earlier this year, the Group announced its intentions to set up the GEM Asia Growth Fund with an initial expected fund size of S\$100 million, of which the Group will contribute S\$80 million and raise the remaining S\$20 million.



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Commonly Asked Questions

Investment portfolio management

1. What is the Group's competitive advantage over its peers?

The Group has deep domain knowledge of the maritime industry in China, allowing it to gain a competitive advantage in maritime-related funds which the Group is looking to launch. Coupled with its robust capital base in both China and Singapore, the Group is well-positioned to capture opportunities from China and beyond.

The Group's strong balance sheet and its ability to mobilise capital into and out of China will enable the Group to access attractive cross-border investment opportunities both in China and globally, and in a tax efficient manner. This is also our unique value proposition for our wealth management business.

2. What is the Group's current investment exposure and view on the market?

The Group has been reducing its debt investments, in particular its exposure to real estate debt. The Group intends to reduce its exposure to China's real estate market and will explore projects that are in collaboration with the government to safeguard against unforeseeable risks.

In view of the current economic climate in China, the Group is neutral on the Chinese market and will be conservative in its portfolio positioning. The Group's current equity portfolio contains mainly legacy holdings (i.e. the Group invested in the companies during the private equity phase and they have since IPO-ed). The Group has since not been actively investing in the Chinese equity market.

The Group is taking a more cautious approach in response to the recent economic pressures globally and, hence, is not in a rush to deploy its capital. As for asset allocation, the Group's key focus is diversification – across markets, products and maturity.

3. How many real estate financing projects does the Group have currently?

Currently the Group has debt investments mostly in major cities in the Jiangsu province. In terms of lending to real estate developers, the Group does not lend via corporate bonds. Instead, it typically lends via a closed loop system, whereby a joint venture would be set up to manage cash flow and the land title is held as collateral by the Group. In addition, a corporate guarantee is obtained from the parent company of the debtor. The goal is to ensure multiple layers of security in order to better secure the financial position of the Group. As such, the risk on the loan is segregated from other projects or external risks associated with the Group's clients in the property development sector.

4. How does the China policy on tech companies impact the business?

The Group has a private equity portfolio in China that is seeking exits via various options including IPOs. Hence, there may be some impact in terms of capital markets sentiment affecting the exits of its private equity portfolio. The portfolio is well-diversified across sectors.



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5. What are the plans or strategies involved in hydrogen fuel cell technology or investment in China?

In line with the Group's clean technology strategy, it is always on the lookout for emerging technologies that are both sustainable and viable in the long-term. In the maritime space, the Group's greatest advantage is derived from its strategic affiliation with Yangzijiang Shipbuilding, a key industry player that operates one of the largest shipyards in China. This strategic affiliation enables the Group to test and commercialize new technological developments at scale.

6. What is the targeted ROA over the long term given the shift in portfolio mix?

In the long term, the Group aims to maximise its risk adjusted returns to a level that is at least comparable to prior to its restructuring.

7. How long will the transition period be to reach the Group's target return

Portfolio returns are subjected to market fluctuations which may be volatile in the short term, making it difficult to precisely estimate when the Group will reach its target. Nonetheless, the Group seeks to maximise its risk adjusted return within 18 to 36 months.

8. How much of the Group's cash has been set aside for investments, and how much has been conserved?

Out of the SGD1.3 billion in cash and short-term investments that have been set aside for investment as of 30 June 2022, the Group's intention is to maintain a minimum of 10% of its total investment portfolio in such assets (approximately SGD400 million) to ensure sufficient liquidity.

The deployment of cash for investments is currently in line with the Group's plan and target timeline.

9. Is management confident of replicating a similar track record outside of China?

The Group is confident about replicating a similar track record outside of China as it believes there are more opportunities for diversification in terms of asset classes that the Group can explore and leverage to its benefit.

The Group has been building a team of professionals to strengthen its network and investment and risk competence. In the coming months, the Group anticipates a series of collaboration opportunities between China and Singapore as it taps into the growing network.

10. How does the Group transfer funds out of China?

The Group is also in the midst of applying for the Qualified Domestic Limited Partnership ("QDLP") program. As mentioned previously in the introductory document, the QDLP program is one that allows foreign and domestic (PRC) asset managers to raise RMB from high net worth and institutional investors in China to be channelled towards offshore investments through a Chinese product or fund.



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For an offshore entity to participate in the QDLP program, it will first have to apply for the “QDLP allocation quota” from the local authority, which the Group has obtained. Subsequently, to utilise its allocated quota, the Group shall (i) seek a license under the Asset Management Association of China (“AMAC”); and (ii) be registered as a QDLP manager. The Group is currently in the process of fulfilling the AMAC licensing requirements.

The Group can also repatriate funds via dividend payments, of which full provision for the withholding tax has been made.

11. How is the Group affected by the government’s audit of the trust industry? What kind of licence does the Group hold in China? Is the licence renewable every year? How will it affect the Group’s Qualified Domestic Limited Partnership (“QDLP”) to deploy cash into Singapore?

The news relating to the government’s audit of the trust industry does not affect the Group’s business as the loans granted in China are mostly through its microfinance company, Jingjiang Runyuan, which holds a microfinance licence. All the loans taken through the Group’s subsidiary that conducts the entrusted loan business had been fully paid.

Jingjiang Runyuan is a Chinese entity with a microfinance business licence that is set to expire on 12 June 2033. The Group intends to renew this licence before the expiration date.

The QDLP program is a program that allows Yangzijiang Financial to raise RMB to invest outside China, therefore, the audit of the trust industry does not have any impact on this program.

Risk management

12. How is the Group’s credit loss on its debt portfolio, and how does it compare to Chinese banks?

The Group is very focused on liquidity. As such, the Group typically disburses short-term and asset-backed loans. When making lending decisions, the Group prioritizes the quality of the collateral, its non-performing ratio as well as the recovery ratio. This stringent vetting process makes the Group different from banks. While other banks may provide access to various financing tools (including collateral or non-collateral backed loans), the Group’s portfolio is mostly composed of asset-backed loans.

With the Group’s prudent credit policy, the Group’s credit loss has historically been low. This meticulous approach has helped to generate a sustainable return over the years. Despite the economic slowdown in China, the Group has typically been able to recover the interest and principal of non-performing loans.

13. How is the Group’s recovery rate given that the Group’s NPL is high?

The Group adopts a prudent stance both in classifying and providing for potential credit losses which are more stringent than international norms. This is demonstrated by a historical 95% recovery rate through the active management by its credit team of both customer and collateral. The response to Q23 further elaborates on the success of writing back, what had been conservatively provided for in prior periods.



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14. Given the strong risk management committee, would investment options going forward be very restrictive given the environment and recessionary risk environment?

Sustainable long term risk adjusted returns can only be achieved through diversification across duration, asset classes and geography's. Risk management is not risk avoidance, and there are ample opportunities in the current environment to express and drive return within the appropriate risk considerations.

15. What are the company cut loss policy and worst-case impact across all businesses?

Different asset classes have different cut loss policies. The exact cut loss policy will depend on the asset class and sector.

Wealth Management

16. What is the typical fee structure and revenue stream for the Group under its wealth management arm?

The Group's wealth management arm earns advisory fees that are priced based on the on the type of products being managed. The typical rates for the various products are as follows:

- Public market products: 0.5% to 1% of the assets under management
- Private market assets: Varies by assets (for e.g. private credit – 1-1.5% on invested funds and 15% carry, private equity- up to 2% of committed capital and 20% on carry upon the achievement of a certain hurdle rate)

The Group is currently more focused on the management of private market assets.

Share buyback and dividend policy

17. What is the Group's plan to enhance the stock price?

The Group's primary focus is to enhance shareholder value and takes a medium- to long-term view on its share price.

The Group has undertaken a few measures to strengthen shareholder value including:

1. Share buyback program
2. Increasing ROE through
 - a. Increasing fee based income from fund management activities (e.g. the GEM Asia growth fund and the new maritime fund)
 - b. Deploying funds into high quality funds alongside direct investment in quality deals
 - c. Providing wealth management services to a family office



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18. What is the Group's dividend policy?

The Group has a dividend policy of paying out at least 40% of its profits as dividends. The Group will continue to seek to maintain an attractive dividend yield as compared to what has been delivered prior to the spinoff, striking a balance between dividend pay-out and capital growth.

19. What is the Group's share buyback strategy?

The Group views the share buyback program as not just a price support mechanism but also an earnings accretion mechanism. As such, the Group is judicious in its points of entry for share buybacks. The Group will ensure that its share buybacks are in compliance with regulatory requirements. For example, they have to be conducted via open market purchases instead of buying only from selected shareholders.

20. The Group has announced a share buyback program of up to SGD200 million. Has the Group allocated SGD200 million of funds for share buyback or is it still subjected to the company's future plans?

The Group has allocated up to SGD200 million of capital for share buyback and has almost one year to do so. The Group will continue to execute share buyback strategies to enhance shareholder value.

The amount of capital allocated for share buyback had taken into consideration the near-term investment needs of the Group.

21. With more investment in PE, equity etc., how does it affect the Group's liquidity to pay dividends?

Dividends will be paid out via cash flows generated from interest income, dividend distributions, and exits from investee companies.

Financial Results

22. In 1H2022 results reported, what does the other gains of SGD22.6 million relate to?

These gains relate to the currency translation gains for the cash held in Singapore, that is denominated in USD.

23. In 1H2022 results reported, there was a reversal of allowance of SGD12 million. How much credit provisions are on the balance sheet as of June 2022?

As of 30 June 2022, the Group has made provisions of SGD123.3 million.

24. Does the Group expect interest income to decline in 2H2022 when it further pares down its debt investment business by the end of 2022?

Yes, the Group expects interest income to decline in 2H2022 as it shifts focus from interest income to non-interest income. In the long term, the Group believes that the decrease in interest income will be sufficiently offset with the increase in dividend and fee income and returns from private and public market investments, as the Group further diversifies its income sources.



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25. What does the trade receivables of SGD699 million consists of?

It consists of mainly a prepayment of approximately SGD677 million for potential short-term investments. The investment has since been completed and the bulk of the receivables has now been returned as cash on hand to the Group in China.

By Order of the Board

Toe Teow Heng
Executive Director and Chief Executive Officer
2 September 2022