ZHENENG JINJIANG ENVIRONMENT

ZHENENG JINJIANG ENVIRONMENT HOLDING COMPANY LIMITED

浙能锦江环境控股有限公司

(Company Registration Number: 245144)

(Incorporated in the Cayman Islands on 8 September 2010)

ANNUAL GENERAL MEETING TO BE HELD ON 26 APRIL 2021
RESPONSES TO (1) QUESTIONS RECEIVED FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE); AND (2) SUBSTANTIAL AND RELEVANT QUESTIONS RECEIVED FROM SHAREHOLDERS

Zheneng Jinjiang Environment Holding Company Limited ("**Company**" and together with its subsidiaries, the "**Group**") would like to thank the Securities Investors Association (Singapore) ("**SIAS**") and its shareholders for submitting their questions in advance of the Company's Annual General Meeting ("**AGM**") which will be held on 26 April 2021 at 3.00 p.m. (Singapore time).

Responses to questions raised by SIAS

Please see Appendix 1 for the Company's responses to the questions received from SIAS.

Responses to substantial and relevant questions raised by the Company's shareholders

Please see Appendix 2 for the Company's responses to the substantial and relevant questions received from its shareholders.

It is important to note that these questions and responses should be read in conjunction with the Company's Annual Report for the financial year ended 31 December 2020 (the "**Annual Report**") and the Company's previous announcements released on SGXNET.

BY ORDER OF THE BOARD

Wei Dongliang
Executive Chairman

25 April 2021

For further information, please contact:

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APPENDIX 1

RESPONSES TO QUESTIONS RECEIVED FROM SIAS

Q1. As at 31 December 2020, the Company has 22 WTE facilities, one organic waste treatment facility and six resource recycling projects in operation with a total waste treatment capacity of 38,060 tons/day, and the total installed capacity of 718 MW (page 7 of the annual report).

Including overseas projects, the Group has another 11 WTE facilities and resource recycling projects under construction and 20 projects in the preparatory stage. Once completed, the total installed waste treatment capacity of the Group will increase to 63,206 tons/day.

(i) **What is the expected capital expenditure required for the Group's construction projects?**

Company's Response:

The Group's future capital expenditures will be mainly used for the Company's new construction projects as well as reconstruction and expansion projects that have clear benefits and high return on investment. In 2021, the Company targets to complete the Shijiazhuang Biomass Power Generation Project in Hebei Province, Baishan WTE Project in Jilin Province, Leting WTE Project in Hebei Province, Zhongwei WTE Project in Ningxia, reconstruction of Wuhu Jinjiang WTE Facility in Anhui Province and Lianyungang expansion project in Jiangsu Province in accordance with its objectives. Completion of the construction of the above projects is expected to increase the Company's waste treatment capacity by 5,500 tons/day and its installed capacity by 151MW.

As disclosed on page 183 of the Annual Report, the capital expenditures contracted for as at 31 December 2020 but not recognised in the financial statements is RMB1,475,812,000.

The Group typically adopts a 30:70 equity-to-debt ratio for its capital expenditure on new projects, which are spaced out in line with its strategic plan to reduce the burden on its balance sheet. The Group's internal funds are mainly derived from the Group's net operating cash flow and it adopts a flexible financing policy aimed at maintaining a diversified set of funding options which includes introducing strategic investors at project level to raise funds for capital expenditure on the relevant projects.

The Group will give full consideration to the stability of its working capital, to enhance its waste treatment capacity through investment in upgrading, while meeting the needs of production and operation. At the same time, the Group aims to continually seek the support of its controlling shareholder, Zhejiang Provincial Energy Group Co., Ltd ("**Zheneng Group**"), and rely on its strong credit standing to broaden the financing channels for the Group.

(ii) **Does the Group have the resources to fund all the projects without overstretching its balance sheet?** The net debt to equity ratio was at 132% as at 31 December 2020 (page 193). Under the terms of the major borrowing facilities, the Group is required to comply with financial covenants which requires that the net debt to equity ratio shall not at any time exceed 145%.

Company's Response:

The Group's current net debt to equity ratio of 132% is in compliance with the terms of the major borrowing facilities which require the ratio to not exceed 145%. The Group's objective in managing capital is to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may undertake technological enhancement and optimisation to enhance the profitability of its inventory assets introduce strategic investors at project level or obtain new borrowings.

As disclosed on Page 193 of the Annual Report, save for the borrowing facilities which require the fulfilment of covenants relating to certain of the Group's financial ratios as disclosed in Note 31 to its consolidated financial statements, the Group is in compliance with all externally imposed capital requirements for the financial years ended 31 December 2020 and 2019.

(iii) Currently, the Group has five projects in India, Indonesia, and Brazil which are under construction or in preparation stage. **Can management help shareholders understand the track record and experience of the senior management team in these foreign markets? Does the Group have sufficient management bandwidth and capital to drive growth in the China market and in other countries?**

Company's Response:

The Group's overseas expansion plans are being carried out in a well-thought-out manner and at an appropriate pace. Riding on China's "Belt and Road Initiative", the Group is striving to internationalise its WTE business, and is prioritising its expansion in Asia and other developing countries, including Indonesia and India. Given the similarity of waste composition in these countries to that of China, the Group is able to apply its over 20 years of industry technical expertise to these markets.

The Group has developed relevant capabilities that have been proven to be adaptable for the processing and management of waste. Given the Group's first mover advantage in many of these overseas markets, management will continue to leverage its experience in the WTE industry, alongside the Group's enhanced financial strength and resources backed by the Group's largest controlling shareholder, Zheneng Group.

The Group has established an excellent management team with rich experience and relies on the overseas networks of its controlling shareholders, Zheneng Group and Hangzhou Jinjiang Group Co., Ltd. to lay a solid foundation for the development of its overseas pipeline.

Q2. In the report by the independent auditor, the auditor highlighted the material uncertainty related to going concern. In Note 2.2 (page 124 – Going concern), as at 31 December 2020, the current liabilities of the Group and the Company exceeded the current assets by approximately RMB1,135 million and approximately RMB898 million respectively. As disclosed in Note 31 to the financial statements, this was due to breaches of financial covenants for two guaranteed borrowings. As such, the banks are contractually entitled to request for immediate repayment of the outstanding borrowing amount from the Group of RMB959 million and from the Company of RMB913 million.

Subsequent to the year end, the Group repaid a borrowing in breach of loan covenant amounting of RMB45.4 million in accordance with the Group's ongoing financing plans.

(i) **Can management help shareholders understand the financial covenant that was breached?**

<u>**Company's Response:**</u>

The breach of financial covenants mainly relates to the Company's syndicated term loan facility of an aggregate amount of US$200,000,000 (the "**Facility**"). As disclosed in the Company's announcement dated 29 May 2020 titled "Update on Syndicated Term Loan Facility":

(a) under the terms of the US$200,000,000 syndicated term loan facility, the Company, as borrower, must ensure, *inter alia*, that the ratio of its consolidated EBITDA in respect of any 12-month period ending on 30 June or 31 December is not less than 3.0 times its consolidated interest expenses for such period ("**Relevant Financial Covenant**"). The aforesaid ratio for the 12-month periods commencing from the 12-month period ended 30 June 2019 had fallen below 3.0 times resulting in technical breaches by the Company of the Relevant Financial Covenant. The Company has been in regular communication with the respective offshore and onshore agents for the finance parties in relation to the Facility ("**Agents**") on an ongoing basis in relation to the Company's compliance with the relevant financial covenants under the Facility and the Agents had been notified of the aforesaid technical breaches of the Relevant Financial Covenant in a timely manner since August 2019;

The outstanding amount under the Facility as at 31 December 2020 was the equivalent of approximately RMB913 million, and was included in the outstanding loan balance of the Group and the Company.

Subsequent to the year end, the Group repaid a borrowing in breach of loan covenant amounting of RMB45.4 million in accordance with the Group's ongoing financing plans. The repaid borrowing relates to a fixed asset mortgage loan provided by a syndicate led by Standard Chartered Bank to Tianjin Sunrise WTE Facility that was outstanding as of 31 December 2020, which was also included in the Group's outstanding loan balance.

(b) under the terms of the Facility, a breach of the Relevant Financial Covenant constitutes an event of default, upon which the Agents **may** at their discretion, and shall if so directed by the Majority Lenders representing two-thirds of the total commitments under the Facility, by notice declare that all or part of the outstanding loans, and all other amounts accrued or outstanding under the Facility, be immediately due and payable. To date, the Company has not received any repayment request.

For the avoidance of doubt, the technical breaches of the Relevant Financial Covenant are not indicative of any cashflow impact to the Group. At present, the Company has secured a sufficient amount of credit available for drawdown and is expected to be in a position to make principal and interest payments on the Facility as and when such principal and interest payments are due, and the Company has been making principal and interest payments in accordance with the terms of the loan agreement.

(ii) **What pro-active steps did management take to address the breaches (that occurred in FY2019)?**

Company's Response:

Subsequent to year end, the Group has also secured additional credit facilities amounting to RMB1,240 million (including RMB200 million from Zheneng Group) with a tenure ranging from 1 to 18 years, which includes RMB300 million and RMB350 million in finance leases and project financing respectively. As of 25 April 2021, RMB880 million of the aforesaid additional credit facilities has been drawn down, of which RMB740 million has a tenure of more than two years.

As stated in the response to (i) above, the Group has also repaid a borrowing in breach of loan covenant amounting RMB45.4 million in accordance with the Group's ongoing financing plans.

The Group will continue to negotiate and obtain additional credit facilities from financial institutions and seek financial support from its largest controlling shareholder, Zheneng Group, a state-owned provincial energy enterprise. In addition to aforementioned financial support of RMB200 million from Zheneng Group, Zheneng Provincial Energy Group Finance Co., Ltd., which is a subsidiary of Zheneng Group, has obtained approval to provide the Company with a RMB900 million working capital credit line on terms to be agreed in the definitive documents.

(iii) **What is the remaining outstanding amount of the borrowing that is in breach of the loan covenant?**

<u>Company's Response:</u>

Please refer to the response to (i) above for the outstanding amount of the relevant borrowings as at 31 December 2020.

Q3. On 12 October 2020, the Company announced that Zhejiang Zheneng Electric Power Investment (Hong Kong) Limited (the "Offeror") will be making a mandatory unconditional cash offer subject to all the Pre-Conditions being fulfilled (or waived) by the long stop date (which is 6 months from the conditional sale and purchase agreement).

The Company had announced on 13 April 2021 that the sale and purchase agreement (SPA) has been terminated effective from 12 April 2021 due to the non-fulfilment of the Pre-Conditions.

Following the termination of the SPA, the Pre-Conditional Offer lapsed as at 12 April 2021 and the formal offer will not be made.

(i) **Can the board confirm that, with the termination of the SPA, both parties have stopped all efforts to meet the Pre-Conditions and that the board will now focus on driving the Group to achieve its strategic objectives?**

<u>Company's Responses:</u>

As stated in the announcement dated 13 April 2021 made by China International Capital Corporation (Singapore) Pte. Limited ("**CICC**") for and on behalf of Zhejiang Zheneng Electric Power Investment (Hong Kong) Limited (the "**Offeror**") (the "**Lapse**

of Offer Announcement"), the conditional sale and purchase agreement ("**SPA**") entered by the Offeror with, among others, Jin Jiang Green Energy Limited and Win Charm Limited for the purchase of an aggregate of 372,560,575 ordinary shares in the capital of the Company ("**Acquisition**") has been terminated effective from 12 April 2021 due to the non-fulfillment of the conditions precedent in the SPA (the "**Pre-Conditions**"). Following from the termination of the SPA, the pre-conditional mandatory cash offer by the Offeror in relation to the Company ("**Pre-Conditional Offer**") has lapsed as at 12 April 2021 and the formal offer will not be made.

The Company is not privy to the discussions including any on-going discussions among the relevant parties, and any information regarding the efforts that were made or being made to meet the Pre-conditions. Notwithstanding the lapse of the Pre-Conditional Offer, the Board has been and will continue to focus on driving the Group to achieve its strategic objectives.

(ii) **What were the Pre-Conditions that were yet to be fulfilled?**

<u>Company's Response:</u>

The completion of the Acquisition was subject to, and conditional upon, the fulfilment or waiver (in accordance with the SPA), as the case may be, of the Pre-Conditions as set out in Appendix 1 of the Pre-Conditional Offer announcement by CICC for and on behalf of the Offeror on 12 October 2020 in relation to the Pre-Conditional Offer.

As stated in the Lapse of Offer Announcement, as at 12 April 2021, certain Pre-Conditions remained unsatisfied as the Offeror had not received the requisite regulatory approval.

(iii) **In view of the lapse of offer, what is management's strategy to strengthen the financial position of the Group?**

<u>Company's Response:</u>

Notwithstanding the lapse of the Pre-Conditional Offer, the current management and operation of the Company still follow the previous model without any major changes and the Group will continue to actively seek financial support from Zheneng Group, its single largest shareholder, to improve the Group's financing channels, reduce financing costs in relation to the Group's future fund-raising plans and strengthen the working capital position of the Group.

As of 31 December 2020, the Company's cash position remained stable, with a cash balance of RMB 361.3 million.

(iv) Separately, on 27 August 2020, the board had also announced that it had received requisition requests from Harvest Environmental Investments Fund SP and Whitel Management Company Limited. **Can the board provide shareholders with an update on the requisition requests?**

<u>Company's Response 公司回复:</u>

The Board received the requisitions in relation to the proposed nomination of directors ("**Requisitions**") from Harvest Global Dynamic Fund SPC – Harvest Environmental Investments Fund SP ("**Harvest**") and Whitel Management Company Limited ("**Whitel**"). The Board had considered the Requisitions and given that the Pre-Conditional Offer announced by CICC for and on behalf of the Offeror was ongoing and there may be potential changes to the shareholding of the Company, it would be more appropriate for any change of composition of the Board to be considered after the close or withdrawal of the offer.

Now that the Pre-Conditional Offer has lapsed as at 12 April 2021, the Company will review the composition of the Board, taking into consideration the following factors:

(a) the appropriate level of independence of the Board, taking into account that:

(i) provision 2.2 of the Code of Corporate Governance 2018 requires independent directors to make up a majority of the board of directors where the chairman is not independent. As the Executive Chairman, Mr. Wei Dongliang, is not independent, independent directors are required to make up a majority of the Board;

(ii) as at the date hereof, the Board comprises six (6) directors and has four (4) independent directors. Should both of Harvest's and Whitel's respective nominee directors be appointed to the Board as non-executive and non-independent directors, the Company may have to consider appointing additional independent director(s) to the Board;

(b) the appropriate size and appropriate level of diversity of thought and background in the Board's composition (including an appropriate balance and mix of skills, knowledge, experience, and other aspects of diversity such as gender and age) to enable the Board to make decisions in the best interests of the Company; and

(c) any change in the current Board composition may affect certain current financing arrangement which requires Zheneng Group to have control of the Company. In particular, pursuant to the facility agreement entered by the Company with

Standard Chartered Bank (Hong Kong) Limited in relation to a US dollar syndicated term loan facility of up to US$270,000,000 on 14 July 2020, the lender is entitled to demand mandatory repayment of the loan in the event of a change of control, which includes, *inter* alia, Zheneng Group ceasing to control the Company.

The Company will update its shareholders when there are material developments on the above.

APPENDIX 2

RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS RECEIVED FROM SHAREHOLDERS

Q1. **In light of the recent sharp price reduction, what are the steps taken by the board of the directors or management to protect shareholders interest?**

Company's Response:

Share price is a function of the capital market and we are unable to dictate market sentiments as there will always be volatilities. The management holds a longer-term view in terms of growing out business and enhancing shareholder value, and will focus on strengthening the Group's fundamentals and growth strategies, and remain focused on improving returns. The Group will continue to protect shareholders' interest by managing its business well and improving its communications with the investment community.

In 2021, the Group targets to continue to develop its WTE business, steadily upgrade its technology and progressively increase its waste treatment capacity and power generation capacity. At the same time, the Company is investing in a number of new projects and expansion projects in China, and steadily promoting its overseas business to achieve sustainable and long-term business growth.

Q2. **Construction revenue in FY2020 experienced a 71 percent decrease. For FY2021, according to the annual report, 7 projects are expected to complete construction and commence operation. What is the estimated construction revenue to be recognized in 2021? What steps has the management taken to ensure the project rollout is on schedule?**

Company's Response:

In FY2020, revenue from construction services provided under build-operate-transfer concession agreements decreased by RMB924 million y-o-y to RMB429 million. The decrease is mainly due to a substantial portion of the construction of the New Kunming Wuhua WTE Facility (which was put into operation in the first half of FY2020) having been carried out in FY2019. Therefore, the investment in the New Kunming Wuhua WTE Facility and Linzhou Jiasheng WTE Facility decreased in FY2020 as compared to FY2019.

The construction revenue that needs to be recognized in 2021 will be determined based on the construction progress and actual investment of the BOT project that year.

In 2021, the Company targets to complete the Shijiazhuang Biomass Power Generation Project in Hebei Province, Baishan WTE Project in Jilin Province, Leting WTE Project in Hebei Province, Zhongwei WTE Project in Ningxia, reconstruction of Wuhu Jinjiang WTE Facility in Anhui

Province and Lianyungang expansion project in Jiangsu Province in accordance with its objectives. Completion of the construction of the above projects is expected to increase the Company's waste treatment capacity by 5,500 tons/day and its installed capacity by 151MW.

Q3. What is the current status on the discussion with local government in relation to the compensation for the closure of old Kunming Wuhua facility? According to the FY2020 annual report, Company has engaged a 3rd party valuer to assess the value of old Kunming Wuhua and no impairment is expected. When will the Company receive the compensation?

Company's Response:

As disclosed in the Company's announcement dated 14 July 2020, the Old Kunming Wuhua WTE Facility in Kunming City, Yunnan Province had ceased operations on 30 June 2020, and the waste previously treated by the Old Kunming Wuhua WTE Facility is now being treated by the New Kunming Wuhua WTE Facility.

As disclosed in the Company's announcement dated 1 March 2021 of its unaudited results for the financial year ended 31 December 2020, the Company is still following up on the progress of the compensation work for its closure. The local government has engaged a third-party asset appraisal company to conduct an overall appraisal of the assets of the Old Kunming Wuhua WTE Facility. The Group has separately engaged another third-party asset appraisal company to provide a valuation report on the assets. Based on the valuation report, the Company does not expect any impairment arising from the closure of the Old Kunming Wuhua WTE Facility.

The Company is presently still in discussions with the government and will update its shareholders when there are material developments on this matter.

Q4. We observed that the Company has recognised more loss allowance on its other receivables, from RMB16 million in FY2019 to RMB46 million in FY2020. What are the reasons for such increase and how do the management ensure the quality of Company's receivables?

Company's Response:

The Company recognised more loss allowance on its other receivables, from RMB15.75 million in FY2019 to RMB 46.47 million in FY2020. This is mainly due to the cancellation or adjustment of contracts for some projects in India due to design modifications, and the provision of an impairment of RMB33.15 million on prepayments expected to be uncollectible.

The Group's prepayments presented within the receivables are basically the payments paid in accordance with the contract during the progress of the project. The credit risk in receivables is relatively low if there is no major construction change. The Group will continue to adhere to the principle of strict control for major construction changes and manage the credit risk to a minimum level.

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. Customers of the Group mainly consist of regional state-owned grid companies, local government and certain manufacturing companies whose production relies on the supply of steam by the Group. In this regard, management considers that the Group’s credit risk is at a low level.