浙能锦江环境
ZHENENG JINJIANG ENVIRONMENT

ZHENENG JINJIANG ENVIRONMENT HOLDING COMPANY LIMITED

浙能锦江环境控股有限公司

(Incorporated in the Cayman Islands)

Company Registration Number: 245144

ANNUAL GENERAL MEETING TO BE HELD ON 24 APRIL 2023
RESPONSES TO QUESTIONS RECEIVED FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

Zheneng Jinjiang Environment Holding Company Limited ("**Company**" and together with its subsidiaries, the "**Group**") would like to thank the Securities Investors Association (Singapore) ("**SIAS**") for submitting its questions in advance of the Company's Annual General Meeting ("**AGM**") which will be held on 24 April 2023 at 2.00 p.m. (Singapore time). The Company did not receive any questions from its shareholders as at the deadline stated in the notice of AGM dated 9 April 2023.

Responses to questions raised by SIAS
Please refer to the Appendix for the Company's responses to the questions received from SIAS.

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 2022 (the "**Annual Report**") and the Company's previous announcements released on SGXNET.

BY ORDER OF THE BOARD

Wei Dongliang
Executive Chairman

19 April 2023

For further information, please contact:

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APPENDIX
RESPONSES TO QUESTIONS RECEIVED FROM SIAS

Q1. As mentioned in the chairman's message, as at 31 December 2022, the group has invested in 25 waste-to-energy ("WTE") facilities, two kitchen waste treatment facilities and nine waste resource recycling projects in operation in 13 provinces, autonomous regions and centrally-administered municipalities in PRC with a total waste treatment capacity of 41,955 tonnes/day, and a total installed capacity of 805 MW.

There are an additional five WTE facilities under construction and 19 projects in the preparatory stage in China and overseas.

In 2022, the company treated a total of 12.629 million tonnes of domestic waste and generated approximately 3.76 billion kilowatt-hours of green electricity, sufficient to meet the electricity needs of 2.78 million households.

(i) **How long does it take to build a new WTE plant, from the initial planning stage to when it is operational?**

Company's Response:
Based on the Company's historical track record and assuming that there are no unforeseen or extenuating circumstances that materially delay planning and/or construction of a new WTE plant, the planning phase usually spans an average of 9 months and the construction phase spans an average of 14 months, which adds up to an average of 23 months from the initial planning stage to the commencement of operations of a new WTE plant.

(ii) **Have all the operational constraints and bottlenecks related to COVID been resolved or lifted, ensuring that the group is fully operational?**

Company's Response:
As at the date of this announcement, all the operational constraints and bottlenecks related to COVID-19 and which are applicable to the Group have been resolved or lifted. However, given the fluid and evolving global COVID-19 situation (including in the People's Republic of China ("**PRC**")), there can be no assurance that additional restrictions or measures, whether relating to COVID-19 or otherwise, will not be imposed in the future in the PRC or other countries in which the Group has a presence.

(iii) **Has management identified specific opportunities within the "14th Five- Year Plan on Modern Energy System Planning"?**

Company's Response:
The "14th Five-Year Plan on Modern Energy System Planning" ("**Plan**") identified the promotion of the establishment of a modern energy system as the main goal during the "14th Five-Year Plan" period. The Plan highlights the development of other renewable energy sources according to local conditions, the promotion of the diversified utilisation of biomass energy, the orderly development of urban waste incineration and power generation, agricultural and forestry biomass power generation and biogas power generation, and the use of biomass energy for clean heating according to local conditions.

In accordance with the Plan, the Company actively promotes the use of clean energy replacement for suitable WTE facilities and projects, and provides winter heating for urban residents and central heating for industrial enterprises in the project area to save energy and reduce carbon. At the same time, the Company plans the synergistic recycling of all kinds of waste in the cities where its projects are located, in order to build the urban ecological complex. With a primary focus on WTE facilities, the Company will expand and seek collaborations in the disposal of sludge, kitchen waste, food waste, industrial waste, construction waste and other municipal solid waste resources, and export clean power and heat sources to the surrounding areas, gradually transforming into the dual center of energy and environment for the city. Please refer to the section entitled "Operations and Financial Review" in the Annual Report for further details of the Company's efforts to seize specific opportunities in light of the directions under the Plan, including the preparation for the development of the Wuhua Urban Ecological Complex Project around the Kunming Wuhua WTE Facility and the blueprint of an urban ecological complex centered on the Wuhan Jinjiang WTE Facility.

(iv) As at 31 December 2022, the group had RMB11.25 billion in total borrowings and lease liabilities, of which RMB10.3 billion were variable-rate borrowings. The group currently does not have a specific policy to manage its interest rate risk and has not entered into any interest rate swaps to hedge against this exposure. **Can the board, particularly the audit and risk management committee, provide shareholders with a better understanding of the current approach? Would the group potentially benefit from adopting a more proactive risk management strategy?**

Company's Response:

Domestic financial institutions mainly refer to the loan prime rate ("LPR") for loan pricing. LPR is a basic loan reference rate calculated and published by a representative quoting bank based on the loan interest rate for the highest quality customers, authorized by the National Interbank Funding Center by the People's Bank of China. The current LPR includes two varieties: (i) 1-year, and; (ii) 5-year and above.

As the majority of quotation banks participating in LPR quotations are state-owned banks, the overall change in LPR is relatively small. Apart from banking institutions, domestic enterprises have a relatively small demand for interest rate swaps on RMB borrowings and few interest rate hedging arrangements.

The Company continues to closely monitor the fluctuation of the LPR and is committed to reducing financing costs through multiple channels. The Company has reduced its financing costs by obtaining a RMB900 million credit line extended to the Group by its largest controlling shareholder, Zhejiang Provincial Energy Group Co., Ltd. ("**Zheneng Group**") out of the overall credit lines and limits extended to Zheneng Group, to improve its bargaining power, actively obtaining incremental financing and refinancing of existing indebtedness at lower costs, and obtaining lower cost financing support from its largest controlling shareholder, Zheneng Group. The Company's domestic financing cost decreased by 1.78% from 6.38% in August 2019 to 4.60% at the end of 2022. During this period, the 1-year LPR decreased from 4.20% to 3.65% and the 5-year LPR decreased from 4.85% to 4.30%, both of which decreased by 0.55%. The decrease in the Company's financing cost exceeded the decrease in LPR by 1.23% during the same period, fully reflecting the effectiveness of the Company in reducing financing cost.

In addition, the financing structure is expected to improve with the approval and release of the Group's working capital advances from the Company's ongoing projects, refinancing of short-term loans into incremental long-term loans, and the issuance of asset-backed securities (ABS).

(v) Gross trade receivables due from third parties remain high, amounting to RMB2.04 billion. **To what extent does the group consider the creditworthiness of local governments before signing any major projects?**

<u>Company's Response:</u>
Before signing any major project, the Group will evaluate the locality, industrial structure, economic development, revenue and expenditure, credit-worthiness and debt structure of the counterparty, investment environment and other relevant local policies. In addition, 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 consists of regional state-owned grid companies, local government and certain manufacturing companies whose production relies on the supply of electricity and steam by the Group. The Company uses different credit policies and collection strategies for these companies, performs aging analysis of receivable balances at the end of each month, and evaluates customer credit on an ongoing basis. In this regard, management considers the Group's credit risk is manageable.

Q2. The group has started the construction of the Gurgaon Integrated Waste Management Project in India. In addition, the group is in the preparatory stage for the two other Integrated Waste Management Projects, namely Lucknow, India and Palembang, Indonesia. For the latter project, the agreed waste treatment fee has been increased from about US$22/tonne to about US$28/tonne, and it will be further increased yearly from its second year of operation after the project is put into operation.

(i) How does the group manage its overseas projects, and what safeguards have been implemented to address potential challenges, such as differences in local conditions, language, and culture?

<u>Company's Response:</u>
For overseas projects, the Company focuses on the following aspects to address potential challenges:

i. Conducting a comprehensive assessment of project risks, mainly in the categories of political risk, economic risk, social risk and cultural risk, and engage financial advisors to plan and arrange financing options and manage foreign exchange risks at the early stage of the project.

ii. Developing contingency plans to address potential risks, including risks arising from changes in local regulations and cultural differences in management.

iii. Providing cultural training to employees of overseas projects to help them better understand local customs and norms.

iv. Building local partnerships to help mitigate the challenges associated with unfamiliar cultures and languages by employing trusted organisations, including locally-based financial and legal advisers to provide local expertise and resources to enhance trust and collaboration.

v. Production of multi-lingual materials to help the Group better understand and assess the actual situation of the project and make correct judgment on the follow-up decision of the project.

vi. Localization of management personnel to help the Company to better understand the local market and culture, while also facilitating integration with the local community and creates favorable conditions for the Company's branding.

(ii) Have any of the foreign projects experienced delays due to travel restrictions and lockdowns in the past 2-3 years??

Company's Response:

In the past 2-3 years, the Company's overseas projects in India and Indonesia have experienced delays caused by travel restrictions and lockdowns. Despite these difficulties, the Group has actively created favourable conditions to achieve progress on the projects, and provided comprehensive resource allocation and support. For example, weekly teleconference meetings were conducted with the management teams of its overseas subsidiaries to ascertain progress, determine next steps and resolve difficulties. The Company maintained close contact with overseas subsidiaries to ensure steady progress of the projects whilst complying with applicable local laws and regulations.

(iii) Has the board assessed the foreign currency risks associated with these overseas projects?

Company's Response:

The Board assesses and manages foreign exchange risks through the following aspects:

i. Determining foreign exchange risks. The Company identifies currency risks, political risks and liquidity risks based on the specific country in question.

ii. Assessing the potential impact of foreign exchange risks. After identifying foreign exchange risks, the Company assesses the potential impact of these risks on the business and financial condition of the relevant projects, including potential losses and opportunity costs.

iii. Determining the risk tolerance level. After assessing whether the Company can withstand foreign exchange risks, the Company will further consider the financial position, liquidity, strategic objectives and other factors to determine its risk tolerance level.

iv. Developing a foreign exchange risk management strategy. On the basis of the above, the Company will use derivative instruments to hedge exchange rate risks or carefully select financing currencies according to the project's revenue currency, so as to reduce the Company's risks in the foreign exchange market.

v. Monitoring and adjustment. Foreign exchange risk management is an ongoing process in which the Company will monitors the market dynamics and adjusts its foreign exchange risk management strategy according to market changes, mainly through periodic assessment and reassessment of foreign exchange risks.

(iv) What experience has management gained from the termination of the planned Barueri WTE Project in Brazil, which failed to meet the assessment requirements?

<u>Company's Response:</u>
The Barueri project in Brazil did not meet the assessment requirements, mainly due to the market conditions and political environment and the significant devaluation of the local currency, Brazilian Real at that time. From its experience regarding the Barueri project, the Company's management has obtained a better appreciation of the importance of comprehensive evaluation of a project, any counterparty(ies) (including its financial capability to jointly promote the implementation of the project and the formulation of waste resources) and any potential risks, taking into account the market conditions, political environment, technical feasibility, risk management and other factors. From the experience garnered, the Company will further refine its project management system to better adapt to the changes and adjustments of a project and require the formulation of a more detailed project plan, allocation of resources and a detailed cost breakdown, which would help the management more clearly understand the economic feasibility, technical feasibility and risk management of a project. It is also necessary to plan in advance for the substantial changes in the boundary conditions of a project caused by the changes in exchange rates, and formulate corresponding countermeasures, such as hedging with derivative instruments.

Q3. Ordinary resolutions 4 and 5 in the notice of annual general meeting scheduled to be held on 24 April 2023 seek shareholders' approval on the directors' fees of $420,000 and $312,630 for the financial year ended 31 December 2021 and 2022 respectively.

As disclosed in the explanatory notes, at the AGM of the company held on 25 April 2022, the resolution to approve directors' fees for the financial year ended 31 December 2021 was not passed.

Ordinary Resolution 4, if passed, will facilitate the payment of directors' fees for FY2021 to the independent directors who held office during that period. The independent directors who held office during FY2021 were Prof Ni Mingjiang, Mr Ang Swee Tian, Mr Tan Huay Lim and Mr Hee Theng Fong.

(i) To assist shareholders in making informed decisions regarding the proposed resolutions, can the company provide a breakdown of fees payable to each director for 2021 and 2022?

<u>Company's Responses:</u>
As disclosed on page 115 of the Annual Report, due to the confidentiality and commercial sensitivity attached to remuneration matters, given the highly competitive environment the Group operates in, the Company does not fully disclose the remuneration of each individual Director. The Independent Directors receive Directors' fees, which are appropriate to their level of contribution and determined after taking into account factors such as time and effort spent, frequencies of meetings, roles and responsibilities of the Directors, and the need to pay competitive fees to attract and retain the Directors. The proposed directors' fees are the same as the previous years, which were approved and paid. The Board will disclose the names, amounts and breakdown of remuneration paid to each individual director in the annual report of the Company for the financial year ending 31 December 2024 in accordance with the requirements of Rule 1207(10D) of the Listing Manual of the Singapore Exchange Securities Trading Limited (the "**Listing Manual**").

(ii) Considering that the motion was not carried at the previous AGM, does a legal basis exist for voting on the same resolution to approve the directors' fees of $420,000 for the financial year ended 31 December 2021??

Company's Responses:

Article 115 of the Articles of Association of the Company provides that, *inter alia*, the ordinary fees of the Directors shall from time to time be determined by ordinary resolution and shall (unless such resolution otherwise provides) be divisible among the Directors as they may agree, or failing agreement, equally, except that any Director who shall hold office for part only of the period in respect of which such fees is payable shall be entitled only to rank in such division for a proportion of fees related to the period during which he has held office.

There are no provisions of the Memorandum and Articles of Association of the Company, the statutory law of the Cayman Islands, the Listing Manual or the Guide on Best Practices for Shareholder Meetings of Listed Companies that prohibit the Company from tabling a fresh resolution at a general meeting for its shareholders to vote on notwithstanding that a resolution to approve substantially the same matters was tabled at a previous general meeting and was not passed by its shareholders.

(iii) What are the reasons for the lower proposed directors' fees for FY2022?

Company's Responses:

The lower proposed directors' fees for the financial year ended 31 December ("**FY**") 2022 (as compared to FY2021) is due to differences in the Board composition in FY2022 as compared to FY2021. Specifically, save for Mr Ang Swee Tian and Professor Ni Mingjiang who each held office as Directors for the whole of FY2022, the proposed Directors' fees for FY2022 are pro-rated for (i) Mr Hee Theng Fong and Mr Tan Huay Lim until their cessation as Independent Directors at the conclusion of the AGM held on 25 April 2022 and (ii) Dr Kan Yaw Kiong (Ernest) from his date of appointment as an Independent Director on 22 July 2022. On the other hand, the proposed Directors' fees for FY2021 for Mr Ang Swee Tian, Professor Ni Mingjiang, Mr Hee Theng Fong and Mr Tan Huay Lim are in respect of the full year because they each held office as Independent Directors for the entirety of FY2021. Please refer to Explanatory Notes (ii) and (iii) in the Notice of AGM dated 7 April 2023 for further details.