# INDEPENDENT AUDITOR'S REPORT

To the members of Zheneng Jinjiang Environment Holding Company Limited

## Opinion

We have audited the financial statements of Zheneng Jinjiang Environment Holding Company Limited (the "**Company**") and its subsidiaries (the "**Group**"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies as set out on pages 107 to 191.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company present fairly, in all material respects, the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019, and the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and the changes in equity of the Company for the year then ended in accordance with International Financial Reporting Standards (**IFRSs**).

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("**ISAs**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Boards for Accountants' ("**IESBA**") Code of Ethics for Professional Accountants ("**IESBA Code**") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Material Uncertainty related to Going Concern

We draw attention to Note 1 to the accompanying financial statements which indicates that:

(a) as of 31 December 2019, the Group's and the Company's current liabilities exceeded their current assets by approximately RMB3,414.7 million and RMB2,679.0 million respectively;

(b) the Group and the Company have not met a financial covenant relating to the guaranteed borrowings amounting to RMB1,265.5 million and RMB1,180.3 million respectively. As of the date of the report, the lenders have not called for the repayment of the borrowings; and

(c) the Group and the Company have a US$200 million (equivalent to RMB1.4 billion) 6.0% senior unsecured notes that are due and payable on 27 July 2020. The Group and the Company are currently in discussion with the lenders to finalise additional syndicated loan facilities to repay the 6.0% senior unsecured notes that are maturing.

Notwithstanding this, the financial statements have been prepared on a going concern basis, the validity of which is premised on:

(i) the Group's and the Company's ability to secure additional overseas syndicated loan facilities prior to the maturity of the 6.0% senior unsecured notes;

(ii) the Group's and the Company's ability in issuing asset-backed securities to qualified investors in the People's Republic of China to provide further liquidity to the Group's operations;

(iii) the guaranteed borrowings of the Group and the Company amounting to RMB1,265.5 million and RMB1,180.3 million respectively not being recalled by its lenders ahead of the stipulated repayment dates within the loan agreement; and

(iv) the Group's ability to generate positive cash flows from its operations.

These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's and the Company's ability to continue as going concerns. If the additional syndicated loan facilities is not timely executed, or the existing lenders recalled the loan mentioned in (iii) above, these could have an impact on the Group's and the Company's ability to remain going concerns and to meet its debt obligations as and when they fall due. Hence, the classification of assets and liabilities, and the Group's and the Company's ability to realise assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the financial statements could be affected. Our opinion is not modified in respect of this matter.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the "Material Uncertainty related to Going Concern" section, we have determined the matters discussed below to be the key audit matters to be communicated in our report.

| Key Audit Matters | Our Audit Procedures Performed and Responses Thereon |
|---|---|
| **Service concession arrangements and revenue recognition with respect to arrangement under the scope of IFRIC 12** | |
| The Group enters into build-operate-own ("BOO") and build-operate-transfer ("BOT") arrangements in respect of its waste-to-energy ("WTE") plants with the local government.<br><br>We have identified the following as significant risks:<br><br>a. Determination of whether the BOO and BOT arrangements fall under the scope of IFRS Interpretations Committee ("IFRIC") 12 Service Concession Arrangements or IAS 16 Property, Plant and Equipment for new service concession contracts; and<br><br>b. Recognition of revenue for arrangements under the scope of IFRIC 12. | We performed the substantive procedures as follows:<br><br>a. In determining whether the BOO and BOT arrangements fall under the scope of IFRIC 12 or IAS 16 for new service concession contracts,<br><br>● we challenged management's assessment of the service concession arrangements for appropriateness of accounting under IFRIC 12 or IAS 16; and<br><br>● we read the respective service concession agreements for each power plant and sought confirmation from management that there are no side agreements which alter, supersede, omit or add to the written agreements as any such side agreements may significantly alter the accounting treatment of the arrangements with consequential impact on the statements of financial position and the statement of profit or loss and other comprehensive income. Management confirmed that there are no side agreements, written or otherwise. |

| Key Audit Matters | Our Audit Procedures Performed and Responses Thereon |
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| In addition, the Group allocates the consideration for the services provided under all the concession arrangements within the scope of IFRIC 12 by reference to their relative fair values. The determination of the fair values of the receivables under such agreements includes complex calculations and significant estimations such as discounts rates, future cash flows and estimated gross margins for recognition of fair value of the construction services delivered on a cost-plus basis and other factors used in the determination of the amortised cost of financial asset and corresponding financial income.<br><br>The amounts relating to the concession arrangements under the scope of IFRIC 12 are material and significant judgement are required, particularly in relation to the identification and application of the appropriate accounting treatment.<br><br>The accounting policies for revenue recognition are set out in Note 3 to the financial statements and the disclosure in relation to BOT arrangements for the Group within the scope of IFRIC 12 have been disclosed in Notes 4, 20 and 26 to the financial statements | b. For the recognition of revenue for arrangements under the scope of IFRIC 12,<br><br>● we tested management's computation of amortised cost of service concession receivables and intangible assets and allocation of consideration between service concession receivables and intangible assets and the related revenue recognition. We have also challenged key management estimates including discount rates and gross profit margin used by comparing against relevant market interest rates and the margin used by comparable companies in the industry respectively in the determination of the fair value of the construction services delivered;<br><br>● we tested the costs of construction incurred on sampling basis and assessed the accuracy of the construction revenue recorded based on the gross profit margin in relation to such service concession arrangements; and<br><br>● we have also considered the adequacy of disclosure on the key assumptions relating to accounting for revenue and cost for the service concession contracts in the financial statements. |
| **Impairment review of property, plant and equipment**<br><br>As at 31 December 2019, the Group's property, plant and equipment of RMB8,234 million represents 49.6% of total assets on the consolidated statement of financial position of the Group.<br><br>The Group is required to review the carrying amount of property, plant and equipment to determine whether there is any indicator of impairment. Where there are indicators of impairment, management will assess the recoverable amount based on the higher of value in use and fair value less costs to sell. This assessment requires the exercise of significant judgement about future market conditions, including future cash flows to be generated from the continuing use of the WTE plants over the service concession period and the corresponding discount rates.<br><br>Further, the Group announced in 2017 that three of its WTE plants will be progressively closed or relocated. As at 31 December 2019, two out of three of the plants had been closed. As at the end of the financial year, the Group had reached an agreement with the local government for the compensation amounts for the closure of these WTE plants. As the compensation amount is higher than the carrying amount of the WTE plant, there is no impairment loss recorded. | We evaluated and challenged the key assumptions used by management in assessing the recoverable amount. These procedures included:<br><br>● comparing the historical performance of the WTE plants with original forecasts and assessed whether the Group has achieved them;<br><br>● assessing the cash flow forecasts used in respect of the WTE plants, with comparison to recent performance, trend analysis and market expectations;<br><br>● challenging the appropriateness of the discount rate by assessing the cost of capital for the Group and comparable organisations in the industry; and<br><br>● evaluating management's assessment of the sensitivity of the Group's impairment analysis to reasonably possible changes in the key assumptions.<br><br>For the WTE plant that is closed for which compensation has been agreed on between the Group and the local government, we have verified the compensation amount to the compensation agreement. |

| Key Audit Matters | Our Audit Procedures Performed and Responses Thereon |
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| The remaining WTE plant was originally scheduled to be relocated and closed within the coming financial year. However, the local government has instructed the Group to continue the operation of this WTE plant due to the overall deployment plan of the local government on waste treatment in the province. Accordingly, management is of the view this WTE plant will remain operational in the foreseeable future. Accordingly, management has assessed and determined there is no indicator of impairment over the carrying amount of this WTE plant amounting to approximately RMB211 million.<br><br>In addition to the above, management informed us that another WTE plant was closed late in 2019. Management recorded an impairment loss of approximately RMB36.7 mil based on the impairment assessment.<br><br>The key assumptions to the impairment test are disclosed in Note 4 to the financial statements. | For the remaining WTE plant, we have verified to the official notice from the local government to continue the operation of the WTE plant and have also challenged the reasonableness of the management's impairment assessment.<br><br>For the WTE plant which was closed in late 2019, we have challenged management's basis on the net realisable value of the property and equipment of the WTE plant in arriving at the impairment loss.<br><br>We have also evaluated the adequacy and appropriateness of the disclosures made in the financial statements. |

**Information Other than the Financial Statements and Auditor's Report thereon**

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management and Directors for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors are responsible for overseeing the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

# INDEPENDENT AUDITOR'S REPORT

To the members of Zheneng Jinjiang Environment Holding Company Limited

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this Independent Auditor's Report is Cheung Pui Yuen.

Deloitte & Touche LLP
Public Accountants and
Chartered Accountants
Singapore

Date: 9 June 2020