

## SUNPOWER GROUP LTD.

---

### RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE UNAUDITED FINANCIAL RESULTS FOR FULL YEAR ENDED 31 DECEMBER 2020

---

In response to the queries raised by the Singapore Exchange Securities Trading Limited (“SGX-ST”), the board of Directors (the “Board”) of Sunpower Group Ltd. (the “Company”) wish to provide the following information:

#### **Question 1:**

It is disclosed on page 19 of the unaudited financial statements that, the Group’s revenue increased by approximately RMB 454.2 million or 12.6% from RMB 3.6 billion in FY2019 to RMB 4.1 billion in FY2020. This was attributed to the increase in revenue of RMB 274.3 million or 11.2% from the Manufacturing and Services (“M&S”) segment, and RMB 179.8 million or 15.6% generated from the GI business.

Please explain the factors which led to an increase in revenue from the (i) Manufacturing and Services segment; and (ii) Green Investments business. Please provide further elaboration on the projects under the Group’s Green Investments business, including an update on the new Green Investments projects entered into for the financial year ended 31 December 2020.

#### **Our Response:**

The factors which led to an increase in revenue from the MS segment and GI segment are:

- (i) Revenue of M&S segment was up 11.2% YoY to RMB2,723.6 million in FY2020. This was driven by growing domestic market demand as with the increase in order book in 2020 bolstered by a series of supporting economic measures targeted at helping the economy to recover amidst the pandemic.
- (ii) The revenue increase of GI segment mainly results from Shantou Project (Phase 1) which started commercial production in FY 2020 and the acquisition of Suyuan plant during 2H2019, contributing to the full year performance results in FY 2020.

As at end 2020, the Group currently has a total of 11 GI projects, of which nine (9) are operational, while other GI projects such as part of the new facility of the Xintai Zhengda Project, phase 2 of Shantou Project, Tongshan Xuzhou Project and Shanxi Xinjiang Project are under construction.

#### **Question 2:**

It is disclosed on page 2 of the unaudited financial statements that the Company has recognised an impairment allowance on trade and non-trade receivables of RMB 62,280,000.

Please disclose:

- (i) the underlying transactions of the other receivables;

- (ii) the Company's plans to recover the trade and other receivables;
- (iii) whether they are major customer(s) and whether the Company continues to transact with these customer(s) and if so, what are the commercial reasons in doing so;
- (iv) how long are the debts outstanding and when were the sales reported;
- (v) what were the actions taken to recover the trade and other receivables;
- (vi) the percentage of revenue earned in this financial year that was deemed uncollectible (i.e. trade receivables amount written off or provided for);
- (vii) the general credit term extended to customers;
- (viii) the aging analysis of the trade and other receivables;
- (ix) the percentage of trade receivables attributed to the major customer (or five largest customers) of the Company;
- (x) the reasons for the impairment on trade and other receivables, including the reasons for delays or non-payment, where applicable;
- (xi) the Board's opinion on the reasonableness of the methodologies used to determine the value of the impairment of the trade and other receivables; and
- (xii) the Board's assessment of the recoverability of the remaining trade and other receivables.

**Our Response:**

- (i) The breakdown of other receivables are as follows:-

Other receivables, deposits and prepayments <b>2020</b>	Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
Advance payments for purchases	159,000	-	159,000
Deposits and prepayments	5,050	-	5,050
Amounts due from third parties	33,711	(2,884)	30,827
Input tax recoverable*	196,874	-	196,874
Advances to Staff and Others	5,165	-	5,165
<b>Total</b>	<b>399,800</b>	<b>(2,884)</b>	<b>396,916</b>

\* Mainly related to input tax for BOT projects

- (ii) The Group has put in place a system of risk management and internal controls to respond to financial and operational risks, For the recoverability of the trade receivables, the sales personnel responsible for the outstanding debts from the respective customers will continue to follow up with the relevant customers and report on results of recovery actions and recovery prospects.
- (iii) The impairment allowance recognized on trade and non-trade receivables this year does not relate to major customer(s) and whether the Company continues to transact with these customer(s) depends on the financial ability of customer(s) and any commercial requirements deemed appropriate by the Company.
- (iv) There are various period related, and we use a provision matrix based on aging profile.
- (v) To recover the trade and other receivables, the Company remind customers of their obligation in due course and seek for legal protection if necessary. There are items in other receivable including advance payment, input tax recoverable relating to purchases rather than collectability issues as shown in the table above.

# SUNPOWER GROUP LTD.

Page 3

(vi) The percentage of revenue earned in this financial year that was deemed uncollectible (i.e. trade receivables amount written off or provided for) is 0.01%;

(vii) The average credit period for trade receivables is 180 days.

(viii) Ageing profile of the trade receivables as at 31 December 2020:-

Trade receivables and contract assets	GROUP						Total
	< 6 months	7 - 12 months	1 - 2 years	2 - 3 years	3 - 4 years	>4 years	
<b>2020(RMB'000)</b>							
Estimated total gross carrying amount at default	1,168,063	105,418	141,422	97,231	26,428	25,674	1,564,236
Lifetime ECL	(1,404)	(408)	(17,423)	(59,751)	(9,135)	(23,772)	(111,893)
<b>Net</b>	<b>1,166,659</b>	<b>105,010</b>	<b>123,999</b>	<b>37,480</b>	<b>17,293</b>	<b>1,902</b>	<b>1,452,343</b>

The ageing profile of other receivables as at 31 December 2020:-

Other receivables, deposits and prepayments	GROUP						Total
	< 6 months	7 - 12 months	1 - 2 years	2 - 3 years	3 - 4 years	>4 years	
<b>2020(RMB'000)</b>							
Advance payments for purchases	159,000						159,000
Input tax recoverable	196,874						196,874
Estimated total gross carrying amount at default	24,688	5,458	5,755	2,965	1,744	3,316	43,926
Lifetime ECL	-	-	(23)	(177)	(417)	(2,266)	(2,884)
<b>Net</b>	<b>341,110</b>	<b>1,974</b>	<b>48,683</b>	<b>3,321</b>	<b>836</b>	<b>993</b>	<b>396,916</b>

(ix) the percentage of trade receivables attributed to the major customer (or five largest customers) of the Company accounted for approximately 29.3%.

(x) Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted.

(xi) The Board is satisfied with the judgement and estimate made by management on the adequacy of the allowances for doubtful trade receivables.

(xii) The Board has considered the following matters:

- ageing of trade and other receivables;
- the profile of the key customers; and
- the allowance made for doubtful trade and other receivables based on the expected credit loss model and the amount of doubtful debt allowance made in the past for aged debts, which were reversed during the year as a result of collections. In this regard, the Board noted the reversal of loss allowance of about RMB27.3 million being credited to profit or loss in FY2020.

The Board also discussed with:

- management on its assessment of collectability of trade receivables and the adequacy of loss allowance made including subsequent collections from customers; and
- the auditor on the work it performed on the evaluation of collectability of trade receivables including receivables that arose from revenue recognised over time using the input and output methods.

The Board noted from management that most of the trade and other receivables are mainly due from customers that are state-owned enterprises, listed companies or multinational corporations and therefore, while collection is comparatively slow, these customers are creditworthy and financially capable to make the payment as evident from the history of payments including doubtful debts provided in prior years but subsequently recovered in the current financial year.

**Question 3:**

Please explain the basis for the recognition of (i) impairment allowance on investment in unquoted equity of RMB 9,485,000; and (ii) reversal of impairment allowance on trade and non-trade receivables of RMB 27,347,000 for the financial year ended 31 December 2020.

**Our Response:**

- (i) The impairment was made in view of uncertainty of recovery of the carrying values. Due to a breach of financial covenants by the counterparty, a full impairment loss was recognised in accordance with the accounting standards.
- (ii) The reversal of the loss allowances on trade and non-trade receivables made in the previous financial period is due to subsequent collections from these third party receivables during the current period.

**Question 4:**

It is disclosed on page 20 of the unaudited financial statements that, the increase in fair value loss on Convertible Bonds of RMB 246.1 million from RMB 91.3 million in FY2019 to RMB 337.4 million in FY2020 is due mainly to the increase in share price during the financial year from 1 January 2020 to 31 December 2020.

Please explain how the increase in share price during the financial year has led to an increase in fair value loss on Convertible Bonds.

**Our Response:**

Fair value change on convertible bonds is due to the change in fair value of derivatives; fair value of derivative liability is computed using the binomial option pricing model which relies on a number of inputs including share price, exercise price, expected volatility, risk-free rate and remaining tenure of the convertible bonds.

Increase in the share price as of December 31, 2020 resulted in an increase in the fair value of the derivative liability component of the convertible bonds. This consequently led to a fair value loss on convertible bonds held by the Company in FY2020.

**Question 5:**

Please disclose the Group's trade receivables turnover days for the year ended 31 December 2019 and 31 December 2020 respectively, as well as the relevant computations. Please provide an explanation for the change in trade receivables turnover days.

**Our Response:**

The Group's trade receivables turnover days for the year ended 31 December 2019 and 31 December 2020 are set out as below.

<b>RMB'000</b>	<b>FY2020</b>	<b>FY2019</b>
Revenue	4,058,803	3,604,632
Trade receivables and contract assets carrying amount		
Ending bal.	1,564,236	1,441,373
Opening bal.	1,441,373	1,237,708
Average amount	1,502,805	1,339,541
Turnover days	133	134

There is no significant change in trade receivables turnover days.

**Question 6:**

Please disclose a breakdown of the Group's other receivables, deposits and prepayments (current and non-current) as at 31 Dec 2020 and 31 Dec 2019 respectively, and the nature of the transactions. Please also explain any significant variance, on a line item basis, for the other receivables, deposits and prepayments (current and non-current).

**Our Response:**

- (i) The breakdown of the Group's other receivables, deposits and prepayments (current and non-current) as at 31 Dec 2020 and 31 Dec 2019 are as follows:-

	<b>GROUP</b>			
	<b>2020</b>	<b>2019</b>	<b>Change</b>	
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>%</b>
Advance payments for purchases	159,000	192,514	(33,514)	(17.4)
Deposits and prepayments	39,337	49,801	(10,464)	(21.0)
Advances to Staff	3,942	3,455	487	14.1
Input tax recoverable	196,874	141,457	55,417	39.2
Others	647	2,300	(1,653)	(71.9)
<b>Total</b>	<b>399,800</b>	<b>389,527</b>	<b>10,273</b>	<b>2.6</b>
Less:				
Loss allowance	(2,884)	(2,957)	73	(2.5)
<b>Net</b>	<b>396,916</b>	<b>386,570</b>	<b>10,346</b>	<b>2.7</b>

Presentation on statement  
of financial position:

Current assets	307,428	340,931	(33,503)	(9.8)
Non-current assets	89,488	45,639	43,849	96.1
<b>Total</b>	<b>396,916</b>	<b>386,570</b>	<b>10,346</b>	<b>2.7</b>

- (ii) The increase in other receivables, deposits and prepayments is mainly due to the additional input tax recoverable from the purchase of materials and services for BOT projects under construction which is offset by the decrease in advance payments for purchases primarily due to settlement of procurement as at end of year.

**Question 7:**

It is disclosed on page 22 of the unaudited financial statements that, the increase in intangible assets of RMB 480.3 million is due to service concession arrangements relating to Shantou, Xintai and Tongshan projects on hand as at 31 December 2020. Please provide a breakdown for the Group's intangible assets of RMB 3B and the background leading to the recognition of these additional intangible assets.

**Our Response:**

The breakdown for the Group's intangible assets listed as below:

	Technical know-how RMB'000	Service concession arrangement RMB'000	Trademark RMB'000	Licenses RMB'000	Total RMB'000
GROUP					
Cost:					
At January 1, 2020	4,907	1,917,097	2,924	706,261	2,631,189
Additions	96	547,501	-	445	548,042
At December 31, 2020	5,003	2,464,598	2,924	706,706	3,179,231
Accumulated amortisation:					
At December 31, 2019	4,907	78,001	2,924	18,529	104,361
Amortisation for the year	96	49,789	-	17,907	67,792
At December 31, 2020	5,003	127,790	2,924	36,436	172,153
Carrying amount:					
At December 31, 2020	-	2,336,808	-	670,270	3,007,078
At December 31, 2019	-	1,839,096	-	687,732	2,526,828

The increase in intangible assets arises mainly from capitalization of cost under the service concession arrangements for Shantou, Xintai, and Tongshan Projects during the year.

**Question 8:**

Please explain the increase in convertible bonds from RMB 921,307,000 as at 31 Dec 2019 to RMB 1,326,284,000 as at 31 Dec 2020.

**Our Response:**

Increase in the share price during the financial year from 1 January 2020 to 31 December 2020 resulted in an increase in the fair value of the derivative liability component of the convertible bonds. Please also refer to the Company's response to Question 4 above in related to fair value loss of the derivative liability component.

**Question 9:**

It is disclosed on page 22 of the unaudited financial statements that, there is an increase in trade payables of RMB 166.2 million as a result of an aggregate increase in customer advances and note payables to third parties of RMB 213.5 million, offset by the decrease in payable to third parties of RMB 47.3 million. Please provide further elaboration on the factors which led to an increase in trade payables.

**Our Response:**

The breakdown of trade payables for FY2020 is outlined in the table below.

	GROUP			
	2020	2019	Change	
	RMB'000	RMB'000	RMB'000	%
Customer advances	785,902	586,385	199,517	34.0
Outside parties	910,591	957,898	(47,307)	(4.9)
Notes payable	56,000	42,000	14,000	33.3
<b>Total</b>	<b>1,752,493</b>	<b>1,586,283</b>	<b>166,210</b>	<b>10.5</b>

The increase in customer advances mostly arise in line with the growth of M&S segment order book.

**Question 10:**

Excluding the intangible assets amount of RMB 3B, it is noted that the Group would be in a net liability position. In this regard, please provide the Board's opinion and the bases for its view on the ability of the Group to operate as a going concern.

**Our Response:**

The Board has considered the following:

(i) Management is satisfied that with the profitability of the Company, net cash inflows from operations, the availability of credit facilities and future positive cash flows to be generated from newly invested projects, the Group will be able to meet its obligations as and when they fall due.

(ii) The capital structure of the Group consists of equity and bank borrowings. The Group is dependent on credit facilities committed by banks and related parties, undrawn principal amounts from convertible bonds and the availability of future cash flows from the Group's operations.

(iii) Management reviewed the projected timing and amounts of cash inflows and outflows from the service concession arrangements and is of the view that the

funding arrangements made are adequate for its needs and the Group will be able to discharge its obligations as and when they fall due.

- (iv) There are no indicators noted that would suggest that the Group is not a going concern based on a history of no default in repayment of bank borrowings and no breach of banking covenants and the fact that convertible bond holders continue to support the growth plans of the Company and its subsidiaries.
- (v) While the intangible asset is significant being RMB 3B, its amortisation does not give rise to cash flow implications as can be seen from the statement of cash flows for FY2020. Indeed, net cash from operating activities for FY2020 and FY2019 are positive figures being RMB 0.5B and RMB 0.4B respectively.

Based on the above considerations, as well as discussion with management and the auditor, the Board is satisfied that (a) the Group is able to operate as a going concern and (b) the use of the going concern basis in preparing the financial statements is appropriate.

By order of the Board

**Ma Ming**  
Executive Director

24 March 2021