



## SUNPOWER GROUP LTD.

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### RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS RECEIVED FROM SHAREHOLDERS, SUBMITTED FOR THE ANNUAL GENERAL MEETING ON 28 APRIL 2022

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Further to the Notice of Annual General Meeting dated 5 April 2022, the Board of Directors (the “**Board**”) of Sunpower Group Ltd. (“**Sunpower**” or the “**Company**”, and together with its subsidiaries, the “**Group**”) wishes to provide the following information in response to substantial and relevant questions received from shareholders between 5 April 2022 and 22 April 2022 for the purpose of our annual general meeting (“**AGM**”) that will be held on 28 April 2022.

#### **Substantial and Relevant Questions**

- 1. Can we have more information on the price formation mechanism that links the cost of steam? Which price index used? How often can the steam price be adjusted based on this, every month, every quarter or longer?**

#### **Company’s Response:**

The company’s steam pricing mechanism is linked to the fuel price. Depending on the project, there are usually two ways that the industrial steam price will be adjusted. One is to adjust the industrial steam price primarily based on the change in the fuel price, and the other is to adjust the industrial steam price based on the price guidance issued by the local government. The adjustment in this price guidance mainly takes into account the fuel price and the situation of the local area surrounding the project. Given the recent volatile fuel price and stringent pandemic prevention policy in China, there is a certain degree of lag in the adjustment of the price guidance. In such a case, the Company is actively communicating and negotiating with the local government to push for the adjustment to be made as soon as possible.

In addition, to pursue a balanced and sustainable development of the steam business of the Company in the local area, the Company will comprehensively consider the surrounding market conditions as well as industrial customers’ expansion plans over the long term when adjusting the prices with them.

- 2. Is your steam supply business impacted by the latest Covid-19 lockdown in China?**

#### **Company’s Response:**

According to the news, the pandemic has unexpectedly broken out in some places since earlier this year in China. The operation of some enterprises has been affected amidst the resurgence of the pandemic.<sup>1</sup> The government has strengthened the implementation of

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<sup>1</sup> <https://www.wsj.com/articles/manufacturers-grind-to-a-halt-in-china-as-lockdowns-expand-11649343420>

the dynamic clearance strategy in order to swiftly and accurately contain the pandemic before it gains momentum.<sup>2</sup>

As such, the normal operation of some customers and some projects of the Company have been temporarily affected to some extent. The Company expects that the normal production and operation of the company will recover as the pandemic is gradually brought under control.

**3. Was the boilers from the Sanli acquisition repurposed or disposed? Is the investment rate of return (IRR) at least double digit?**

**Company's Response:**

The Sanli acquisition refers to the Company's announcement on 12 January 2021 that Changrun Project has signed a "Thermal Business Transfer Agreement" with Hebei Sanli Group Co., Ltd. and Hebei Sanli Wool Spinning Co., Ltd. (together referred to as "Sanli") for Sanli to use the steam produced by Changrun Project for a period of 25 years and for Changrun to take over Sanli's four (4) sets of boilers to possess, use, profit from or dispose of as it sees fit. The boilers have been disposed.

As previously disclosed, Changrun Project has a double-digit IRR that meets the investment hurdles of the Company. The Group's reliable business model has a proven ability to provide a high NPV of long-term and recurring cashflows, backed by an attractive double-digit project IRR.

**4. The distribution pipeline for Jimo Trade Park for heating is not attractive as it will only be used in winter months, is the Xinyuan plant underutilised? What's the IRR for this project?**

**Company's Response:**

Xinyuan Plant is the Company's 85%-owned centralised steam and electricity plant located in Jimo, Qingdao City, Shandong Province.

According to the announcement dated 26 January 2021, the expansion of the supply coverage area into Jimo International Trade Park (即墨国际商贸城) (the "Jimo Trade Park") is expected to enlarge the number of users and lead to rising demand for steam, thus benefitting Xinyuan Plant's capacity utilisation ramp-up. The resulting higher recurring income and cash flows are expected to improve the investment returns of the plant without additional capacity increase. The investment in the pipeline to the Jimo Trade Park receives financial incentives from the local government.

The investment in this pipeline is therefore in line with the Group's strategy to (1) further expand the projects' coverage areas and customer base but with less intense capital expenditure and (2) continuously cultivate the earnings quality and asset returns of existing projects. The Company always carefully performs detailed studies and analysis of the existing and future potential before it commits to new investments.

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<sup>2</sup> <http://www.chinadaily.com.cn/a/202204/07/WS624e1dd2a310fd2b29e55678.html>

The GI business model has a proven ability to provide a high NPV of recurring cashflows over the long term. As disclosed, the average IRR of the GI plants in operation is at a double-digit level.

**5. When will the Tongshan plant commence production (with revenue)? Is the feedstock 100% biomass?**

**Company's Response:**

Tongshan Project is Sunpower's 100%-owned plant that uses biomass as its feedstock to produce steam and electricity. Tongshan Project is located in Tongshan District of Xuzhou City, Jiangsu Province. It has completed its construction as scheduled and has commenced production in 2022.

The investment is aligned with China's national development policies. It reduces pollution and realises energy conservation through the combustion of local agricultural waste and provides pollution-free civil heating for its coverage area secured by a 30-year concession right.

In addition, as disclosed previously, the Tongshan District is a national base for large-scale cultivation of grain commodities such as wheat, rice, taro, soybeans, peanuts and cotton<sup>3</sup>. These resources, together with local agricultural straw and agricultural product processing waste, will provide biomass materials that can be used as fuel for Tongshan Project.

**6. Can we have more information on the new revenue streams of Shantou Project? Is the compressed air for the entire industrial park or just a few customers? Can the sludge incineration service lower the feedstock cost also?**

**Company's Response:**

Shantou Project is Sunpower's 51%-owned steam and electricity cogeneration plant in the Shantou Textile Circular Economy Industrial Park in Chaonan District of Shantou City, Guangdong Province (the "Park").

In addition to the steam and electricity which are the plant's primary sources of revenue, the plant also supplies compressed air as a supplemental product to the majority of the customers in the Park that need them to operate their production equipment. The contribution from the supply of compressed air supplements the revenue generated by the Shantou Project.

In addition, Shantou Project integrates sludge incineration technology into its operations, which allows it to earn additional income from treating the sludge which is the waste output of the sewage plant, and lowers its production cost as the sludge can be used as a substitute for the primary feedstock used to generate steam and electricity. Sludge incineration is an integral component of the circular economy model that Shantou Project adopts to help the Park achieve ultra-low emissions.

By order of the Board

**Ma Ming**  
Executive Director and Chief Executive Officer  
26 April 2022

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<sup>3</sup> <https://links.sgx.com/1.0.0/corporate-announcements/WCY27TYKIL9C1C0S/de0e0f86a2ee8b1d07ebdad5e2069eb54d479b1ca8c26020c8ea8234146faa97>