SUNPOWER GROUP LTD.

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE UNAUDITED FINANCIAL RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2019

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:

With reference to the unaudited financial statements for the period ended 30 June 2019, please provide further elaboration on the factors which led to a drop in revenue from other segments.

Our Response:

The Group's revenue increased by approximately RMB 60.9 million or 10.2% from RMB 598.1 million in 2Q2018 to RMB 659.0 million in 2Q2019. The increase in revenue was mainly due to the increase in the Green Investment ("GI") business revenue of RMB 158.8 million. This was offset by a YoY decrease in the revenue of the Manufacturing and Services ("M&S") segment of RMB 97.9 million due mainly to timing differences in deliveries based upon customers' requirements.

In addition, Sunpower had updated that its manufacturing capacity remained nearly full with a total M&S order book of approximately RMB 2.5 billion as at July 2019.

Question 2:

Please provide further elaboration on how the fluctuation in share price during the quarter has led to a decrease in fair value loss on convertible bonds from a loss of RMB 64.7m in 2Q2018 to a loss of RMB 25.8m in 2Q2019.

Our Response:

Fair value change on convertible bonds is due to the change in fair value of derivatives; computation of 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.

An increase in the share price in 2Q2018 resulted in an increase in the fair value of derivative. This consequently led to a fair value loss on the convertible bonds held by the Company.

Even though the share price decreased in 2Q2019, the effect of the increase in volatility in 2Q2019 outweighed the effect of the decrease in share price, resulting in an increase in the fair value of derivative. This consequently led to a fair value loss on the convertible bonds held by the Company.

In view of the issuance of convertible bonds on 15 October 2018 ("CB2"), the Performance Targets of convertible bonds issued on 3 March 2017 ("CB1") have been deferred from FY 2017/2018/2019 to FY 2020/2021. In addition, the fair value change on convertible bonds in 2Q2018 only consists of fair value change relating to CB1, while the fair value change on convertible bonds in 2Q2019 consists of fair value changes relating to both CB1 and CB2 including the warrants taking into account the abovementioned deferment.

<u>Question 3:</u>

Please disclose the ageing of the Group's trade receivables and contract assets of RMB1,273,353,000. Please provide the Board's assessment on the recoverability of the Group's trade receivables and contract assets, as well as the basis for such an assessment.

<u>Our Response:</u>

The ageing profile, from invoice date, of the Group's trade receivables and contract assets are as follows:

	GROUP						
30-June-19	< 6 months	7 – 12 months	1 – 2 years	2 – 3 years	3 – 4 years	>4 years	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Carrying amount at default	1,008,229	112,162	102,914	36,462	23,157	41,399	**1,324,323**
Loss allowances	-	(6)	(7,162)	(4,178)	(14,867)	(24,757)	**(50,970)**
Carrying amount, net of loss allowances	1,008,229	112,156	95,752	32,284	8,290	16,642	**1,273,353**
Percentage over total trade receivables and contract assets	79%	9%	7%	3%	1%	1%	**100%**

Trade receivables and contract assets net of loss allowance at 30 June 2019 stood at RMB1,273.4 million and accounted for approximately 19% of total assets. These balances are quantitatively material and recoverability of trade receivables and contract assets is considered a matter of significance as it requires the application of judgement by management.

The Board has considered the following:

(i) the ageing of trade receivables and contract assets as at 30 June 2019, and noted that 88% of trade receivables and contract assets are less than one year while 7% are more than 1 year and less than 2 years, and 5% are more than 2 years;

(ii) the profiles of the key customers. The Board noted from the management that these key customers are mainly state-owned enterprises, listed companies or multinational corporations which have proven to be creditworthy and financially capable to pay as evident from their payment history;

(iii) the loss allowances for trade receivables and contract assets are based on the expected credit loss model estimated by reference to past default experience of debtors, including historical and forward-looking information; and

(iv) the reversal of the loss allowances made in the previous financial period as a result of subsequent receipts during the current period. In this regard, the Board noted a reversal of loss allowance amounting to RMB14 million credited to profit or loss in 1H2019.

The Board also discussed with management on its assessment of recoverability of trade receivables and contract assets and is satisfied with the adequacy of loss allowance made.

Question 4:

Please provide further elaboration on the nature of intangible assets amounting to RMB2,152,152,000 as at 30 June 2019. Please clarify if the Company has conducted impairment testing on these intangible assets. Please provide the Board's assessment on the recoverability of the Group's intangible assets, as well as the basis for such an assessment.

Our Response:

The majority of intangible assets relates to "concession service arrangements". For the GI business, the Group has entered into service concession agreements with the local government authorities, pursuant to the construction and operation of centralised steam and electricity facilities during the concession periods, which range from 30 to 38.5 years, starting from the commencement date of commercial operation.

Intangible assets arising from costs incurred during the construction phase which are projected to be recoverable during the operating period are recognised in accordance with SFRS(I) INT 12 *Service Concession Agreements*. Subsequent to initial recognition, such concession service arrangements are measured at cost less accumulated amortisation and impairment loss, if any.

Management reviews the carrying amounts of the concession service arrangements in accordance with SFRS(I) 36 *Impairment of Assets*. At the end of the reporting period, management has assessed that there is no indication that the intangible assets may be impaired.

The Board discussed with management on its assessment in relation to:
(i) the projection of total revenue which can be billed to end users during the operating phase;
(ii) estimation of construction cost and projection of cost during the operating phase;
(iii) the profitability of the service concession projects, and recoverable amount of intangible assets which represent cost recoverable from future operations.

Based on the Board's discussion with management, the Board is satisfied with the appropriateness of the carrying amounts of concession service arrangements.

Question 5:

We refer to the Company's announcement issued on 9 February 2017 entitled "Proposed subscription by CDH of US$110 million convertible bonds – receipt of approval in-principle". The Exchange provided an approval-in-principle for listing of and quotation for the Conversion Shares on the Mainboard of the SGX-ST, which may be issued upon conversion of the Bonds, subject to a written undertaking from the Company that it will comply with Rule 704(30) and Rule 1207(20) of the Listing Manual in relation to the use of the proceeds from the Proposed Placement and <u>where proceeds are to be used for working capital purposes, the Company will disclose a breakdown with specific details on the use of proceeds for working capital in the Company's announcements on use of proceeds and in the annual report.</u>

We refer to the Company's announcement issued on 16 August 2018 entitled "Proposed subscription of US$70 mil CB and US$30 mil warrants – receipt of approval-in-principle". The Exchange provided an approval-in-principle for the dealing in, listing of and quotation for (a) the Conversion Shares, (b) such other Conversion Shares which may be issued pursuant to any adjustments as set out in the terms and conditions of the Convertible Bonds, (c) the Warrant Shares and (d) such other Warrant Shares which may be issued pursuant to any adjustments as set out in the terms and conditions of the Warrants on the Official List of the SGX-ST, subject to a written undertaking from the Company that it will comply with Rule 704(30) and Rule 1207(20) of the Listing Manual in relation to the use of the proceeds from the Proposed Convertible Bonds Issue and the Proposed Warrants Issue and <u>where proceeds are to be used for working capital purposes, the Company will disclose a breakdown with specific details on the use of proceeds for working capital in the Company's announcements on use of proceeds and in the annual report.</u>

Please provide the breakdown with specific details on the use of proceeds for working capital as disclosed on page 27 of the unaudited financial statements for the period ended 30 June 2019.

<u>Our Response:</u>

In reference to the use of proceeds for "Administrative and general expenses for business expansion of Green Investment related business" of approximately RMB 64.6 million or US$9.9 million on page 27 of the unaudited financial statements for the period ended 30 June 2019, the breakdown is as follows:

Cumulative usage of funds (2017-2019)	Amount (RMB'm)
Remuneration for the development and management teams of GI	42.7
Pre-development expenses of GI projects	20.3
Purchase of fixed assets for development teams of GI business	1.5
Stamp duties for applicable GI transactions	0.1
Total	**64.6**

Pre-development expenses mainly refer to costs expended for pre-investment due diligence activities, including project inspection, valuation and audit fees, communication costs and travel expenses etc.

By order of the Board

Ma Ming

Executive Director

23 August 2019