

SUNPOWER GROUP LTD.

UPDATE ON THE COMPANY'S SHANTOU PROJECT

SUNPOWER PLANS TO INVEST IN THE PHASE 2 OF THE SHANTOU PROJECT

1. INTRODUCTION

- 1.1 The Board of Directors (the “**Board**”) of Sunpower Group Limited (the “**Company**”) and its subsidiaries (“the **Group**”) refers to the Company’s announcements dated 19 September 2017, 12 May 2017, 18 January 2017 and 7 December 2016 respectively (the “**Announcements**”) in relation to the steam and electricity cogeneration plant that is part of a PPP (Public Private Partnership) project in Chaonan District, Shantou City, Guangdong Province, China (the “**Shantou Project**”).
- 1.2 The Shantou Project is being constructed in two phases. The designed capacity for the Phase 1 and Phase 2 are 3x150 tons/hour(t/h)+2x20 MW and 2x260 t/h + 2x30MW of steam and electricity, respectively.
- 1.3 Unless otherwise defined, capitalised terms used in this announcement shall bear the same meaning as ascribed to them in the Announcements.

2. UPDATE ON THE SHANTOU PROJECT

- 2.1 The Company is on track to start trial production of Phase 1 of the Shantou Project in 2H 2019. Around 128 printing and dyeing companies that meet certain standards are accelerating their relocation into the newly-built Shantou Textile Circular Economy Industrial Park (the “Industrial Park” or “汕头市纺织循环经济产业园”), Chaonan District from the polluted Lianjiang River (练江). It has been reported recently that the Industrial Park is close to completion and the first batch of the printing and dyeing companies, using their self-built factories in the Industrial Park, will be ready for operation in 2H 2019¹.
- 2.2 By way of background, the Shantou government has suspended issuing sewage discharge permit to the printing and dyeing companies with effect from January 1, 2019 to mitigate pollution, according to the related document issued by Policy Research Office of Shantou City (汕头市委政策研究室). As such, 183 printing and dyeing companies along the polluted Lianjiang River were mandatorily shut down at the end of 2018². Of these, the aforementioned 128 companies that meet certain standards set by the local government were retained and will be relocated into the Industrial Park.
- 2.3 Based on its comprehensive, in-depth research and analysis, Sunpower reasonably expects the Phase 1 to be fully operational in 2020 and plans to execute the Phase 2 of the Shantou Project in order to meet the expected growing demand for steam from the companies in the Industrial Park. Upon commissioning of Phase 2, the total designed capacity of the Shantou Project will reach 970 t/h + 100 MW of steam and electricity.

Item	Phase 1	Phase 1 + Phase 2
Designed steam capacity (t/h)	3x150 (450)	3x150+2x260 (970)

¹ <http://huanbao.bjx.com.cn/news/20190519/981251.shtml>

² <http://finance.sina.com.cn/roll/2019-01-02/doc-ihqfskcn3240392.shtml>

Annualized steam supply capacity (GJ)	5.7 million ⁽¹⁾	19 million ⁽²⁾
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Notes:

- (1) With 2 boilers operational and 1 boiler as backup capacity to ensure constant steam supply to customers.
- (2) With 4 boilers operational and 1 boiler as backup capacity to ensure constant steam supply to customers.

In addition to steam, the Shantou Project will also sell electricity, a by-product of steam, to the local grid as well as compressed air to the companies in the Industrial Park.

- 2.4 The Company has a 51% equity stake in the Shantou Project. The total investment for Phase 2 is expected to be approximately RMB 650 million and commissioning is targeted in 2021.

3. RATIONALE FOR THE INVESTMENT

- 3.1 The Shantou Plant complements Sunpower's strategy to build a sizeable and valuable portfolio of Green Investments ("GI") assets to capitalise on the enormous business opportunities in China's anti-pollution sector. These opportunities are largely driven by (a) the mandatory closure of small "dirty" coal boilers and a structural shift to centralised "clean" GI plants and (b) growth from the mandatory relocation of factories in industrial parks that GI plants are located.
- 3.2 The Industrial Park managed by the Chaonan Textile, Printing and Dyeing Comprehensive Environmental Treatment Center (潮南纺织印染环保综合处理中心) has **large potential**.

The dyed textile and garment industry is one of Shantou City's pillar industries and has helped make China a major producer of garments such as jeans and women's inner wear. With the textile and garment industry contributing close to 30% of the local GDP³ in 2017, the Shantou City has established a full and mature value chain for the printing and dyeing industry. Chaonan and the other districts in Shantou are important women's inner wear manufacturing bases in China.

- 3.3 The Shantou Project is the **exclusive steam supplier** in the Industrial Park with a 38.5-year concession secured from the local government. The accelerated relocation of the local printing and dyeing companies is expected to bring in strong demand that will booster its ramp-up.
- 3.4 Once the Shantou Project is officially operational, it is expected to deliver **long-term, recurring and high-quality income and cashflows** to the Company. Sunpower's GI projects typically have attractive double-digit internal rate of return (IRR).

4. OTHER INFORMATION

- 4.1 Sunpower's Shantou Plant is one of key parts of the comprehensive water pollution control and alleviation measures being put in place to clean up the polluted Lianjiang River and ensure the long-term sustainable development of the textile and garment industries in the area.
- 4.2 The Shantou Project adopts the circular economy model and was designed and built by Sunpower's EPC team from the Manufacturing and Services ("M&S") business segment, integrating the Company's proprietary environmental protection solutions and energy-saving long distance steam distribution pipelines. As an integral part of the Industrial Park, it will help to consume the treated sewage from the local printing and dyeing companies and also reduces the energy consumption by replacing about 270 small "dirty" boilers that were originally used by them.

5. FURTHER ANNOUNCEMENTS

- 5.1 The Company will make further announcement(s) in relation to the Shantou Project as and when appropriate.

³ Source: 2018 Industrial Statistics Yearbook of Shantou

BY ORDER OF THE BOARD

Ma Ming
Executive Director
15 July 2019