



SUNPOWER GROUP LTD.

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ("SGX-ST") ON THE UNAUDITED FINANCIAL STATEMENTS FOR THE FULL YEAR ENDED 31 DECEMBER 2017

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") wishes to provide the following information:

Question 1:

Paragraph 17 of Appendix 7.2 of the Listing Manual states that in the review of performance, additional information regarding factors leading to any material changes in contributions to turnover and earnings by the operating segments should also be disclosed in full year financial statements.

Our Response:

The Group was able to obtain more orders with its long term cooperation and relationship with its customers in FY2017, which contributed to the increase in revenue in its EEM segment. However, the rising price of raw materials resulted in the increase of its production costs during FY2017.

Additionally, Sunpower's Green Investment ("GI") segment started to generate recurring revenue in the fourth quarter of 2017, following the progressive commencement of operations of the Group's "BOT and TOT" projects (please refer to the list of projects summarised in the table on page 2 below) that provide centralised steam, heat and electricity.

As a result, the earnings for FY2017 remained stable year-on-year.

Question 2:

We note that paragraph 11 of the Company's FY2017 financial results announcement makes reference to paragraph 8 therein only and paragraph 8 of the same announcement merely states that "the increase in [revenue] was attributed to an increase of RMB 313.5 million from EEM segment and an increase of RMB152.1 million from the GI segment". Please elaborate the factors leading to the increase in revenue contributions from each of EEM and GI segments. In this regard, please disclose the relevant information as required by Appendix 7.2 of the Listing Manual.

Our Response:

Please refer to our response to Question 1.

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Question 3:

We note that: (a) the value of intangible assets has increased by RMB648.4 million from RMB635.369 million as at 31 December 2016 to RMB 1,283.726 million as at 31 December 2017; and (b) in paragraph 8 it is explained that increase in intangible asset is “mainly due to service concession arrangements relating to “BOT and TOT” projects on hand”. Please elaborate on the increase and provide a breakdown of the service concession arrangements.

Our Response:

The Group recognises the right to charge for usage in relation to concession infrastructure as an intangible asset upon initial recognition based on the guidance set out in the interpretation to accounting standard, INT FRS 112 / IFRIC 12 Service Concession Arrangements. Thus, the carrying value of the intangible assets will increase as construction of the infrastructure progresses during the year.

Below summarises the Group’s service concession arrangements at 31 December 2017.

Name of subsidiary as operator	Name of project	Location in PRC	Name of grantor	Type of service concession agreement	Service concession period
Quanjiao Sunpower Clean Energy Co., Ltd.) – 100% owned subsidiary	Quanjiao	Anhui Quanjiao Economic Development Zone	Administration Commission of Quanjiao Economic Development Zone 全椒经济开发区管理委员会	BOT	30 years from 2017
Hebei Changrun Environmental Ltd. – 100% owned subsidiary	Changrun	Hebei Gaoyang Economic Development Zone	Administration Commission of Hebei Gaoyang Economic Development Zone 河北高阳经济开发区管理委员会	BOT	30 years from 2017
Lianshui Sunpower Clean Energy Co., Ltd.- 95% owned subsidiary	Lianshui	Lianshui Economic Development zone	Administration Commission of Jiangsu Lianshui Economic Development Zone 江苏涟水经济开发区管理委员会	BOT	Not more than 30 years from 2017
Shantou Sunpower Keying Thermal Power Co., Ltd - 51% owned subsidiary	Shantou	Guangdong Shantou Chaonan zone	Environmental Protection Comprehensive Management Center of Chaonan District, Shantou City for Textile Printing & Dyeing 汕头市潮南区纺织印染环保综合处理中心管理办公室	BOO	38.5 years from 2017

Question 4:

We note that the amount of trade receivables increases by RMB 245.9 million to RMB 1264.15 million as at 31 December 2017. We also note the disclosure that “approximately 50.9% and 9.7% of the trade receivables at 31 December 2016 and 31 December 2017 respectively were collected as at 14 February 2018. Most of the trade receivables are due from customers that are state-owned enterprises, listed companies or multinational corporations. Overall, the Group’s customers are credit-worthy but payments remain slow due to tightening credit in China”. In this regard, please disclose the ageing profile of trade receivables as at 31 December 2017 and as at 14 February 2018.

Our Response:

The table below details the ageing of trade receivables as at 31 December 2017.

	GROUP	
	2017	2016
	RMB'000	RMB'000
Within 180 days	1,029,803	717,794
180 days to 360 days	58,411	152,083
1 to 2 years	111,432	86,351
2 to 3 years	47,601	45,755
Over 3 years	16,909	16,298
	<u>1,264,156</u>	<u>1,018,281</u>
Impaired receivables - collectively assessed (ii)	31,912	49,448
Less: Allowance for doubtful trade receivables	<u>(31,912)</u>	<u>(49,448)</u>
Total trade receivables, net	<u>1,264,156</u>	<u>1,018,281</u>

As at 14 February 2018, approximately 50.9% and 9.7% of the trade receivables at 31 December 2016 and 31 December 2017 respectively were collected. Apart from these collections, there is no significant change in ageing at 14 February 2018 compared to 31 December 2017.

Question 5:

It was disclosed in paragraph 8(a) that the profits before income tax increased due to, amongst others, (a) an increase in the fair value gain on Convertible Bonds of RMB 69.3m between 3 March 2017 and 31 December 2017; and (b) increase in other operating income of RMB42m mainly due to an increase in government grants and interest income. Please elaborate (i) the factors leading to the increase in the fair value gain on Convertible Bonds; and (ii) salient details of the government grants including information such as whether it is tied to any particular project; one-off and whether the receipt of the government grants are subject to any conditions precedents.

Our Response:

- (i) The convertible bonds (“CB”) issued by the Group contained both a liability component and an embedded derivative component. As at 31 December 2017, the liability is measured at amortised cost while the derivative is measured at fair value using

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valuation technique. Changes in fair value from the measurement of the derivative from one reporting date to the next are recognised in profit or loss.

The fair value of the derivative component was determined using the Binomial model, where the variables and assumptions are updated from one reporting date to the next. The valuation was carried out by an independent professional service firm (“valuer”). The variables and assumptions used in computing the fair value are based on Company’s judgement and best estimates, which are reviewed by the valuer when carrying out the valuation of the CB. The key factors, which led to the increase in fair value gain are as follows:

- Changes in the probability-weighted exercise price
 - Changes in the weighted average share price
 - Changes in volatility
 - Changes in risk free rate
- (ii) The increase of government grants was mainly attributable to the heat supply business that the Group’s newly acquired Xinyuan project engages in. As a part of the People’s Livelihood Project of China, the government will compensate companies that supply heat to the residents during winter in order to compensate for their lower heat charges. The government grants would be regarded as recurring grants as these grants awarded are related to the operations of the Group’s Xinyuan Project. There are certain conditions precedents relating to these grants before the grants are awarded to the Group.

Question 6:

In relation to paragraph 8(b) on the increase in trade receivables, please provide the Board’s assessment as to the collectability of the trade receivables and the bases of the Board’s assessment.

Our Response:

Please refer to our responses to Question 4.

Management has made judgement relating to collection prospects and estimates the recoverable amounts. These estimates are evaluated and revised when there are new developments or information received in the course of monitoring and collecting outstanding debts. Based on discussion with management and the external auditors and taking into consideration the doubtful trade debts provided in the past which were subsequently collected in FY2017 and the requirements of the accounting standard, the Board of Directors is of the view that the allowance made for doubtful trade debts is adequate at reporting date.

Question 7:

In relation to the increase in the property, plant and equipment, please provide details of the property, plant and equipment.

Our Response:

The increase in property, plant and equipment was mainly due to the acquisition of assets relating to the Xinyuan project.

Question 8:

We refer to paragraph 10. Please elaborate on the 20-30 years of concession and the relationship between the concession and the recurring income.

Our Response:

The Group entered into service concession arrangements with the local government authorities, pursuant to the construction and operation of centralised steam and electricity facilities during the concession period of up to 20-30 years, starting from the commencement date of commercial operation. The Group recognises recurring income when the utilities are used by the end users in accordance with the guidance set out INT FRS 112 / IFRIC 12.

By order of the Board

Ma Ming
Executive Director

16 March 2018