



## SUNPOWER GROUP LTD.

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### RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE UNAUDITED FINANCIAL RESULTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2019

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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 results for the period ended 30 September 2019, please provide further elaboration on how the fluctuation in share price during the quarter has led to an increase in fair value gain on convertible bonds from RMB 12.5m in 3Q2018 to RMB 82m in 3Q2019.

#### **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.

Decrease in the share price in both 3Q2018 and 3Q2019 resulted in a decrease in the fair value of derivative. This consequently led to a fair value gain on convertible bonds held by the Company.

#### **Question 2:**

It is stated on page 28 of the announced financial results that, “Increase in goodwill of RMB 151.9 million resulted from newly-acquired GI projects.” Please provide further elaboration on how the newly-acquired GI projects has led to an increase in goodwill.

#### **Our Response:**

Increase in goodwill of RMB 151.9 million resulted from newly-acquired Changshu Suyuan project. Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer’s previously held equity interest (if any) in the entity over net of the acquisition-date amounts of the identifiable assets acquired net of liabilities assumed.

The goodwill reported in the announced financial results for the third quarter and nine months ended 30 September 2019 is based on provisional accounting of the business combination. During the measurement period, there might be adjustments to the provisional amounts recognised at the acquisition date to reflect new information obtained about facts

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and circumstances that existed as of the acquisition date. The measurement period shall not exceed one year from the acquisition date.

### **Question 3:**

Please provide further elaboration on the factors which led to an increase in inventories from RMB 500M as at 31 December 2018 to RMB 693M as at 30 September 2019.

### **Our Response:**

Inventories increased from RMB 500M as at 31 December 2018 to RMB 693M as at 30 September 2019 mainly because the orders of Manufacturing & Services ("M&S") segment are in different production stages, and different completion degree of work.

### **Question 4:**

Excluding the intangible assets amount of RMB 2.3B, it is noted that the Company 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.

The Board also discussed with management on the going concern basis and noted that net tangible assets will be positive if service concession arrangements under intangible assets are included, and is satisfied with the going concern ability.

### **Question 5:**

Please disclose the ageing of the Group's trade receivables and contract assets of RMB 1.3B, as well as the top 5 customers of the Group. 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.

### **Our Response:**

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

30-Sep-19	GROUP						Total RMB'000
	< 6 months	7 – 12 months	1 – 2 years	2 – 3 years	3 – 4 years	>4 years	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Carrying amount at default	975,261	154,382	143,431	29,632	22,790	34,952	<b>1,360,448</b>
Loss allowances	(2,870)	(42)	(4,498)	(4,502)	(6,860)	(29,039)	<b>(47,811)</b>
Carrying amount, net of loss allowances	972,391	154,340	138,933	25,130	15,930	5,913	<b>1,312,637</b>
Percentage over total trade receivables and contract assets	74%	12%	11%	2%	1%	0%	<b>100%</b>

The top 5 customers of the Group as follow:

30 September 2019	RMB'000
Customer Name	Amount
A	86,529
B	85,150
C	73,692
D	51,563
E	49,809
Total	346,744

Trade receivables and contract assets net of loss allowance at 30 September 2019 stood at RMB1,312.6 million and accounted for approximately 18% 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 September 2019, and noted that 86% of trade receivables and contract assets are less than one year while 11% are more than 1 year and less than 2 years, and 3% are more than 2 years;
- (ii) the profiles of the key customers, and noted from management that most of the trade receivables are due from customers that are state-owned enterprises, listed companies or multinational corporations and therefore while collection is 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;
- (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 RMB17.8 million credited to profit or loss in 9M2019.

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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.

By order of the Board

Ma Ming

Executive Director

27 November 2019