

## SUNPOWER GROUP LTD.

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### RESPONSES TO SUBSTANTIAL & RELEVANT QUESTIONS RECEIVED FROM SHAREHOLDERS, SUBMITTED FOR THE 2020 ANNUAL GENERAL MEETING ON 24 JUNE 2020

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Further to the Notice of Annual General Meeting and the Notice of Special General Meeting (collectively, the “**Notices**”) dated 1 June 2020, 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 1 June 2020 and 19 June 2020 (“**Shareholder Questions**”) for the purpose of our annual general meeting (“**AGM**”) that will be held on 24 June 2020.

#### Substantial and Relevant Questions

1. **For your GI business, this seems to be a lucrative business with double digit IRRs. I guess there will be other players coming into this space.**
  - a) **Who are your competitors?**
  - b) **Have you seen an increase in competition this year?**
  - c) **What are your sustainable competitive advantages against your competitors?**
2. **Who are your competitors in the GI business? Are there many companies in this space also bidding for the exclusive supplier concessions?**

#### **Company’s Response:**

Sunpower’s 8 operating GI plants generate steam and heating for customers on a large-scale centralised basis and are equipped with ultra-low emission environmental protection equipment. They hold exclusive long-term supply concessions of typically 30 years for such cleanly-produced steam and heating within their coverage areas.

The GI market is sizeable enough to accommodate different players. Different companies focus on projects or geographical areas that suit them or meet their requirements. Sunpower is aware of other local companies operating steam, heating and electricity plants elsewhere in China. However, it has not encountered them when negotiating for the concession rights for its current projects in prior years or this year. These companies include Guangdong Chant Group Inc. (ticker 002616), Guangzhou Devotion Thermal Technology Co., Ltd. (ticker 300335) and Zhejiang Fuchunjiang Environmental Thermoelectric Co., Ltd. (ticker 002479), listed on Shenzhen Stock Exchange. These companies have development strategies that are different from Sunpower.

Sunpower is very focused on building up the GI business as the primary value creator and growth driver that forms the bulk of its intrinsic value through a growing sizeable and valuable GI asset portfolio that generates long-term, recurring, high-quality income and cashflows. This intrinsic value is expressed as the Net Present Value (“NPV”) of cashflows over the concession period that will be substantially higher than its contributions in the latest period.<sup>1</sup>

The following is Sunpower’s business plan in the GI segment that lays out the Group’s sustainable competitive advantages.

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<sup>1</sup> Based on the Company’s long-term discounted cashflow forecasts

Sunpower is building a sizeable and valuable portfolio of GI project assets to take advantage of the enormous business opportunities available in China's anti-smog sector.

Key drivers that fuel the opportunities for the Group's GI segment are:

- The continuous closure of "high-emission" pollutive fossil fuel boilers and a structural shift to centralised "ultra-low emission" clean GI facilities,
- Stringent zoning policies that mandate the relocation of new factories into industrial parks, providing further growth impetus to GI, and
- Organic expansion of customers within the industrial park that GI projects are located.

GI projects deliver long-term, recurring and high-quality cashflow, due to:

- Strong market position as exclusive steam suppliers within coverage areas, with typically 30-year concessions,
- Captive customer base as steam is a non-discretionary input product and customers can only buy from Sunpower's GI projects, and
- Attractive double-digit internal rate of return (IRR), supported by strong tariff collection as GI projects are able to require prepayments by customers.

Sunpower is well-equipped to forge strongly ahead in GI, due to:

- Cutting-edge proprietary technologies, including the technology that helps Sunpower to reform and upgrade acquired plants to improve operational efficiency,
- Strong and proven execution capabilities, led by a professional management team that is sophisticated at identifying GI projects with potential to invest in and managing projects,
- Circular Economy zero-waste production model that lowers production costs by re-cycling, re-using and re-purposing of industrial waste products so that nothing is wasted,
- Early-mover advantage in building a sizeable GI portfolio that allows it to invest or acquire at attractive accretive valuations,
- A robust pipeline of attractive projects available for investment that is being actively evaluated,
- Robust balance sheet and supportive strategic institutional investors that believe in the investment merits of the GI business.

**3. Some of your GI plants are acquired projects while some are built from scratch. What are the pros and cons of brownfield vs greenfield projects and what is your selection criteria for brownfield projects?**

**Company's Response:**

Sunpower's GI expansion strategy is to acquire brownfield projects and build greenfield projects in order to secure lucrative projects that can maximize long-term shareholders' value. The Group carefully balances their financial contributions against the capital commitments needed. Greenfield projects may take slightly longer to reach optimal utilisation\* and contribute positively but capital expenditure on such projects would be more spread out as the time to completion is comparatively longer. Brownfield projects may contribute positively immediately but the consideration would usually be fully paid within a year. This way, the Group carefully aligns its growth strategies with comprehensive risk management to maximise the upside.

Sunpower's top priority for any GI plant is the assurance of stable and growing steam demand. The fundamental selection criteria for both brownfield and greenfield projects are similar, namely:

- One, the majority of end-users within the coverage area must be in stable, reliable industries that serve the huge domestic market so that they can provide stable, growing demand for steam.
- Two, the size and diversification of the customer base. There must be a large base of customers with minimal concentration risk so that the pool of demand can stay constantly intact.

- Three, the long-term growth potential of the area has to be attractive.
- Four, whether there are many factories in the coverage area currently operating their own “dirty” boilers and whether the mandatory closure of such boilers is underway or is scheduled to be implemented soon. The need to switch to a centralised “clean” GI facility will provide greater assurance of future demand visibility.

As brownfield projects are already operating plants, they naturally have additional investment criteria that Sunpower will consider, such as the sustainability and growth potential of existing profits, cost structure, financial indebtedness, etc.

*Note: \* Structural demand for clean steam and heating, supplied on a centralized basis, is created and driven by the China government’s environmental protection laws that mandate the shutdown of small “dirty” boilers and switch to large “clean” GI facilities, as well as stringent zoning policies that mandate the continuous relocation of new factories into industrial parks where GI projects are located. In addition, organic expansion of customers will provide further growth impetus to GI. Due to these potent demand drivers, Sunpower’s GI plants have mainly been able to quickly reach optimal capacity utilization.*

**4. While your business seems relatively resilient during 1Q2020 and your order book has continued to grow, with the global economic slowdown and a potential second wave of infections, how will Sunpower prepare for and mitigate these risks?**

**Company’s Response:**

Companies with internally strong and resilient adaptable business models are well-positioned to overcome the temporary headwind of the pandemic. Sunpower has built counter-cyclical businesses that are well-adapted to provide reliable and stable financial and operating performance in the long term. Sunpower plans to continue to execute its business in 2020 in a way that amplifies its strengths in order to improve earnings in quantity and quality, namely by:

- Solidifying its market position as an environmentally-clean centralised provider of industrial steam, electricity and heating through continuous ramp-up of existing projects, as well as investments and acquisitions of new projects,
- Riding on opportunities arising from structurally-driven environmental protection and national development trends, such as the closure of small dirty boilers, relocation of factories into industrial parks and development of biomass heating, and
- Building on the sustainable, stable growth of the M&S business that has been systematically strengthened over many years, supported by an ecosystem of advanced proprietary technologies and deep domain expertise in energy-saving, energy-efficient environmental protection products and solutions.

Barring unforeseen circumstances, the Group expects the following business trends to benefit its 2020 results. Note that Sunpower’s financial results should be viewed on a 12-month basis to arrive at a balanced perspective.

- **New drivers, including:**
  - a) Full-year contributions from newly-acquired GI plants that are well positioned to capture new demand following mandatory closures of nearby small dirty boilers, namely Suyuan Plant following its acquisition in 3Q2019, and
  - b) Anticipated additional contributions from Shantou Phase 1 and Xintai Zhengda’s new plant.
- **Continued ramp-up of existing GI projects, driven by:**

- a) Continuous connection of new customers following mandatory closures of small dirty boilers and/or mandatory relocation into industrial parks, and
- b) Organic growth of existing customers and industrial parks served by the Group's GI plants.

- **Potential earnings-accretive M&A of brownfield GI plants**

- **Resilient and solid M&S business with proven track record**

- a) Order book has surged to RMB2.8 billion as at April 2020,
- b) Continuous improvement of profitability due to the enhancement of core competitive strengths,
- c) Diversified base of high-end customers across the globe. ~70% are repeat customers,
- d) Cutting-edge proprietary technologies and strong commercialization capabilities,
- e) Ability to acquire quality orders, benefiting from its industry leadership, extensive experience and seasoned management team, and
- f) Market reputation and brand awareness.

**5. When will the Shantou Phase 1 be expected to commence commercial production?**

**Company's Response:**

Around 128 printing & dyeing companies that meet the local government's high standards are in the process of relocating into the industrial park in phases. At this stage, some customers have finished trial production and started commercial production, some are amidst or in preparation for trial production. When customers have satisfactorily completed their trial production, Shantou Project will commence commercial production, in line with the higher level of demand.

**6. Shantou plant is located in a new Industrial Park, are there delays in relocation of customers into the park?**

**Company's Response:**

All activities across China and the world were temporarily affected by the pandemic in 1Q 2020. However, all enterprises across China have been in the process of catching up since the pandemic came under control in late February and early March. Sunpower has also regained stable operation and is currently on track to catch up in the rest of 2020.

As at the date of this announcement, the end-customers of Shantou Plant are similarly accelerating their relocation into the industrial park.

**7. Has the Xintai Zhengda new plant started trial production and how long does trial production usually take?**

**Company's Response:**

A major part of Xintai Zhengda's new facility is nearing completion and is expected to start trial production in 1H 2020. The trial production period varies between GI projects as the status of the industrial parks that they serve varies. More mature and established industrial parks will have a large base of ready customers that can provide high demand for Sunpower's GI projects immediately after commissioning. The Group will share more updates on Xintai Zhengda Project at the appropriate time.

**8. When will the Changrun project commence sludge incineration and the percentage savings expected from this?**

**Company's Response:**

Changrun Project completed the technical modification needed for sludge incineration earlier this year, thus achieving the ability to optimize its cost structure by using sludge as a feedstock. Meanwhile, as the treatment of sludge protects the environment by reducing emissions, it is highly encouraged by the local government and this is expected to bring in additional income.

**9. What is the Investment Rate of Return for the Suyuan plant acquired last year?**

**Company's Response:**

Sunpower is building a sizeable portfolio of GI plants, which includes Suyuan Plant. With double-digit Internal Rate of Return (IRR), all GI projects in operation are in line with or even beating the Company's targets.

**10. Will there be a delay in the government's closure of "high-emission" pollutive boilers due to the economic situation?**

**Company's Response:**

Anti-pollution still remains top on the government's agenda. Please refer to the 1Q 2020 investor presentation deck on slide 32 for some examples of specific provincial government plans that continue to emphasize pollution prevention and treatment.

**11. Are all the GI plants in normal operation in Q2 2020?**

**Company's Response:**

All of Sunpower's GI plants started to resume operation after the pandemic came under control in the end of February and early March. All of them regained normal operation in 2Q 2020.

**12. During your May results briefing, I understand that for your M&S Segment, there was no contract cancellation, just a delay from a small overseas contract. As of now (mid June), do you see any cancellation or delay of other contracts?**

**Company's Response:**

The delay in the small overseas contract, mentioned in the 1Q 2020 results briefing on 15 May 2020, has been rectified, and there has been no cancellation or material delays of other contracts since then.

Sunpower's M&S segment focuses on the high-end market and services a large base of reputable customers in diverse industries. To-date, Sunpower has delivered customised products and solutions to ~1,500 customers in 30 countries. Its reputable customers include some of the largest companies in China such as Wanhua Chemical, Hengli Petrochemical, CNOOC, CNPC and SINOPEC, as well as multinational companies such as BASF, BP, Shell and ExxonMobil. 70% of Sunpower's M&S customer base are repeat customers.

The Group also recently increased its order book to RMB2.8 billion as at April 2020 despite the operational constraints of the pandemic. This is the highest level of orders ever secured and is attributable to the Group's market leadership, strong reputation, financial strength, experienced management and proven ability to execute and deliver.

**BY ORDER OF THE BOARD**

Ma Ming  
Executive Director

23 June 2020