



## SUNPOWER GROUP LTD.

---

### RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER AND SIX MONTHS ENDED 30 JUNE 2021

---

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:**

Please explain the decrease in fair value changes on convertible bonds from RMB147,046,000 for the 6 months ended 30 June 2020 to RMB(45,035,000) for the 6 months ended 30 June 2021.

It is disclosed on page 45 of the financial statements that, increase in fair value loss on Convertible Bonds of RMB49.5 million from RMB61.9 million in 2Q2020 to RMB111.4 million in 2Q2021, due mainly to the one-year extension of maturity date of Convertible Bonds, with effect from 31 December 2020. Please explain how the extension of maturity date of Convertible Bonds has resulted in an increase in fair value loss on convertible bonds.

#### **Our Response:**

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

Increase in the share price as of 30 June 2021 resulted in an increase in the fair value of the derivative liability component of the convertible bonds. This consequently led to a fair value loss on convertible bonds held by the Company for the six months ended 30 June 2021.

In addition, given the one-year extension of maturity date of convertible bonds with effect from 31 December 2020, increase in the remaining tenure of the convertible bonds as of 30 June 2021 resulted in an increase in the fair value of the derivative liability component of the convertible bonds. This consequently led to a fair value loss on convertible bonds held by the Company for 2Q2021 as compared to 2Q2020 which the extension of the tenure had not taken place yet.

#### **Question 2:**

Please disclose:

- (i) the nature and breakdown of the Group’s other receivables, deposits and prepayments amount (current and non-current) as at 30 June 2021 and 31 December 2020 respectively;
- (ii) identify the nature of each of the material advances to suppliers and/or prepayments;

## SUNPOWER GROUP LTD.

Page 2

- (iii) the identities of these suppliers and whether they are related parties of the Group; and
- (iv) the Board's assessment of the recoverability of the non-current other receivables, deposits and prepayments.

### Our Response:

- (i) The nature and breakdown of other receivables are as follows:

	GROUP	
	30 June 2021	31 December 2020
	RMB'000	RMB'000
Advance payments for purchases	34,414	69,512
Prepayments for projects	46,444	89,488
Input tax recoverable	202,322	196,874
Deferred consideration of M&S disposal to be received from related parties	687,000	
Estimated total gross carrying amount at default	10,924	43,926
Lifetime ECL	(1,289)	(2,884)
Total	979,815	396,916
Current assets	933,371	307,428
Non-current assets	46,444	89,488
Total	979,815	396,916
Amounts due from related parties:		-
Prepayments for projects	4,625	-
Deferred consideration of M&S disposal to be received	687,000	-
Subtotal	691,625	
Amounts due from outside parties	288,190	396,916
Total	979,815	396,916

- (ii) The prepayments primarily made up of advances to suppliers for materials and advances to contractors for projects.
- (iii) There are no significant advances to related parties other than the table listed above.
- (iv) The nature of non-current other receivables is prepayments for projects under construction. For the recoverability of the prepayments, the Board has considered the following matters:

- the profile of the contractors; and
- the progress on the construction projects.

The Board noted from management that most of the contractors are creditworthy and well-known in the field and the projects are expected to be completed as scheduled. Consequently, no recoverability issues have been noted.

### Question 3:

**SUNPOWER GROUP LTD.**

Page 3

Please disclose the nature and breakdown of the Group's intangible assets amount as at 30 June 2021 and 31 December 2020 respectively, as well as the background leading to the recognition of these additional intangible assets.

**Our Response:**

The breakdown for the Group's intangible assets listed as below:

GROUP	Technical	Service	Trademark	Licenses	Total
	know-how	concession			
	RMB'000	arrangement	RMB'000	RMB'000	RMB'000
Cost:					
At December 31, 2020	5,003	2,464,598	2,924	706,706	3,179,231
Additions		612,810		71	612,881
Disposal of M&S	(5,003)		(2,924)	(83,462)	(91,389)
At June 30, 2021	-	3,077,408	-	623,315	3,700,723
Accumulated amortisation:					
At December 31, 2020	5,003	127,790	2,924	36,436	172,153
Amortization for the period		45,783		8,956	54,739
Disposal of M&S	(5,003)		(2,924)	(514)	(8,441)
At June 30, 2021	-	173,573	-	44,878	218,451
Carrying amount:					
At June 30, 2021	-	2,903,835	-	578,437	3,482,272
At December 31, 2020	-	2,336,808	-	670,270	3,007,078

The additions in intangible assets under the service concession arrangements primarily arose from capitalisation of cost for Shantou, Xintai, and Tongshan Projects as the construction of these progresses during the period.

**Question 4:**

Please explain the increase in trade payables and contract liabilities of RMB79.5M from 31 December 2020 to 30 June 2021, after taking into consideration the disposal of trade payables and customer advances held under M&S segment of RMB1,559.9M.

**Our Response:**

Increase in trade payables and contract liabilities of RMB79.5M was primarily due to notes payables and trade payables to third parties of RMB 97.0M, offset by decrease in customer advances of RMB 17.5M.

**Question 5:**

Please explain the increase in other payables of RMB341.7M from 31 December 2020 to 30 June 2021, after taking into consideration the disposal of other payables of RMB165.8 million held by M&S segment. Please also disclose a breakdown of other payables as at 30 June 2021 and 31 December 2020 respectively, the ageing and nature of these other payables and whether the counterparties are related parties.

**SUNPOWER GROUP LTD.**

Page 4

**Our Response:**

The increase in other payables mainly related to payables for EPC services provided by M&S entities. Since M&S Business has been deconsolidated on 30 April 2021, the payables to M&S entities will no longer be eliminated on consolidated level in the Group.

The breakdown and ageing profile of other payables as at 30 Jun 2021 and 31 December 2020 are summarised in the table below.

	GROUP				Total
	<1 year	1 - 2 years	2 - 3 years	>3 years	
<b>30 Jun 2021(RMB'000)</b>					
Related parties	230,843	32,908	19,865	57,399	341,016
Outside parties	15,916	4,167	9,023	49,765	78,870
Accruals and other liabilities	12,935	1			12,936
Consideration payable for acquisition subsidiaries			6,999		6,999
Accruals for payroll	15,466				15,466
Value-added taxes and other tax liabilities	6,814				6,814
Government grants received yet to be applied pending satisfaction of conditions	105,906	4,801			110,707
<b>Total</b>	<b>387,880</b>	<b>41,876</b>	<b>35,887</b>	<b>107,164</b>	<b>572,808</b>

	GROUP				Total
	<1 year	1 - 2 years	2 - 3 years	>3 years	
<b>31 Dec 2020(RMB'000)</b>					
Related parties	-	-	342	1,574	1,916
Outside parties	21,368	12,480	3,164	77,027	114,039
Accruals and other liabilities	37,504	527	-	-	38,031
Consideration payable for acquisition subsidiaries	-	13,884	-	-	13,884
Accruals for payroll	111,936	-	-	-	111,936
Value-added taxes and other tax liabilities	61,408	-	-	-	61,408
Government grants received yet to be applied pending satisfaction of conditions	53,596	2,064	-	-	55,660
<b>Total</b>	<b>285,812</b>	<b>28,955</b>	<b>3,506</b>	<b>78,601</b>	<b>396,874</b>

**Question 6:**

Please explain why interest income amounted to only RMB2,330,000 during the financial period ended 30 June 2021 when the Company has significant cash and bank balance amounting to RMB864,560,000.

**Our Response:**

## **SUNPOWER GROUP LTD.**

Page 5

The increase in cash and bank balance mainly arose from proceeds from the disposal of M&S Business net of special dividends paid to shareholders and bondholders. The interest income showed a relatively value after taking into consideration of the following factors:

- (i) proceeds received on 21 May 2021 and dividend paid on 18 June 2021. Based on the timing of the proceeds, this had only contributed to approximately one-month interest income; and
- (ii) rather low offshore deposit interest rate.

### **Question 7:**

Excluding the intangible assets amount of RMB3.5B, it is noted that the Group 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 Group, 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.
- (iv) There are no indicators noted that would suggest that the Group is not a going concern based on a history of no default in repayment of bank borrowings and no breach of banking covenants and the fact that convertible bond holders continue to support the growth plans of the Company and its subsidiaries.
- (v) While the intangible asset is significant being RMB3.5B, its amortization does not give rise to cash flow implications as can be seen from the statement of cash flows for 1H2021. Indeed, net cash from operating activities for 1H2021 is RMB0.2B.

Based on the above considerations, as well as discussion with management, the Board is satisfied that (a) the Group is able to operate as a going concern and (b) the use of the going concern basis in preparing the financial statements is appropriate.

By order of the Board

**Ma Ming**  
Executive Director

10 September 2021