



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: Sunpower Group Ltd.

Security: Sunpower Group Ltd.

Meeting details:

Date: 25 April 2019

Time: 10.00 a.m.

Venue: Level 1, Libra & Gemini, Marina Mandarin Singapore, 6 Raffles Boulevard, Marina Square, Singapore 039594

Company Description

Sunpower Group Ltd. (Sunpower) is a China-based company engaged in the designing, research and development (R&D) and manufacture of energy saving, energy efficient and environmental protection products and solutions. The Company operates in four operating divisions: Heat pipes and heat pipe exchangers; Pipes supports; Heat exchangers and pressure vessels, and Energy saving and environmental protection systems. Sunpower has developed Residual Heat Recovering Systems with high heat transfer capacities and rates. The Company has developed several types of pipe supports with varying characteristics, such as BL series of ultra-low temperature cold insulating Pipe Supports. It is developing corrosion-resistant and highly efficient heat exchangers, and higher value heat exchangers and pressure vessels made from non-ferrous metals. Sunpower's energy saving and environmental protection systems include flare-gas recovery system, sulfur recovery system and Zero Liquid Discharge system.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5GD)

1. The company acquired two important and strategic investors, namely DCP Capital Partners L.P. (“DCP”) and CDH China Management Company Limited (“CDH”), in 2017 and deepened the relationship with the private equity investors through the issuance a second tranche of US\$70 million into the company. This follows the first tranche of US\$110 million invested via convertible bonds in 2017.

With the funds, the group has expanded its “Green Investments” (GI) at a rapid pace. As at end-2018, the group has 7 GI plants in operation and another 5 projects under construction and/or in the design phase, as well as a robust pipeline of projects under evaluation (page 4). A summary of the group’s investments is shown in the table below:

GI INVESTMENTS TO-DATE		
Status	Total Investments (RMB mm)⁽²⁾	SP Equity (RMB mm)
In Operation	2,183.0	922.9
Under Construction	1,590.0	418.1
Amount Invested and Committed	3,781.0	1,341.0
To be Constructed ⁽³⁾	653.0	220.4
Pipeline ⁽⁴⁾	2,356.1	942.4
Total	6,782.1	2,503.8

Notes: based on current estimates or forecast
⁽²⁾ Assuming ~40% equity/60% debt.
⁽³⁾ Projects have been signed and are currently in the design phase.
⁽⁴⁾ Including a couple of projects in the late stage of evaluation.

- (i) **Investment criteria:** Can management help shareholders understand the selection/investment criteria of any new GI projects?
- (ii) **Investment amount:** What is the typical investment amount for each GI project? How easy is it for the group to secure financing for the construction?
- (iii) **Gestation period:** What is the typical time taken from negotiation to design and construction to completion?
- (iv) **Headroom:** How many more projects can the group fund with the current balance sheet?
- (v) **Manufacturing and Services (M&S):** The group continues to win M&S contracts from its customers. **Is the group devoting sufficient resources**

(including human talent and financial resources) to grow the business together with the GI division?

2. The “Collectability of trade receivables and contract assets” is a key audit matter (KAM) highlighted by the Independent Auditor’s in their Report on the Audit of the Financial Statements (page 56). Key audit matters are those matters that, in the professional judgement of the Independent Auditor’s, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, at 31 December 2018, aged trade receivables and contract assets in excess of one year and in excess of two years amounted to RMB126.84 million and RMB55.29 million respectively.

In Note 8 (page 110 – Trade receivables and contract assets), management shows the total gross carrying amount before impairment/expected credit loss, as follows:

December 31, 2018	GROUP						Total RMB'000
	< 6 months RMB'000	7 – 12 months RMB'000	1 -2 years RMB'000	2 -3 years RMB'000	3 – 4 years RMB'000	>4 years RMB'000	
Expected credit loss rate	0%	0 % – 5%	0% – 12.50%	1.50% – 50%	12.50% – 75%	50% – 100%	
Estimated total gross carrying amount at default	978,616	89,084	73,146	43,190	28,532	25,140	1,237,708
Lifetime ECL	–	(3,000)	(1,594)	(9,284)	(12,271)	(20,019)	<u>(46,168)</u>
							<u>1,191,540</u>

(Source: Company annual report)

As seen in the table above, for trade receivables past due 1-2 years, the average expected credit loss rate is only 2.2%, while it is 21.5% for trade receivables past due 2-3 years. The group has over RMB25 million (gross) that has not been collected for more than 4 years.

The audit committee has considered the matter as noted in the Corporate governance report (page 42).

- (i) Would management provide a breakdown of the trade receivables past due by customer profile (state-owned enterprises, listed companies or multinational corporations)?**
- (ii) As the group scales up its operations, how does management ensure that it improves on collection so that the group minimises its working capital outlay?**
- (iii) What are the efforts by management to collect on long outstanding debt (over due by over 2 or 3 years)?**

(iv) How does the audit committee monitor the compliance with the group's credit risk framework?

3. On 1 November 2018, the company made a voluntary announcement following significant volatility in the company's share price which saw it decline by more than 50% in a month (from \$0.58 on 1 October 2018 to as low as \$0.27 on 1 November 2018).

The board has disclosed that it was "unaware of any changes in policy, regulation or business performance that could have caused the volatility of the Company's share price".

On 3 November 2018, the company was informed by Mr Guo Hongxin and Mr Ma Ming that, inter alia, they had discovered that their 14 million ordinary shares each in the capital of the company, which had been deposited in the "Designated Account" were no longer there.

The company has stated the following:

"... each Borrower [being Mr Guo and Mr Ma] has provided the Lender [America 2030], on or about 17 October 2018, 14 million ordinary shares in the capital of the Company (representing approximately 1.89% of the total issued shares of the Company) as collateral to a depository broker designated by the lender"

A director/Chief Executive Officer ("CEO") is required to give notice of his interests in the securities of the Listed Issuer under section 133, 137N or 137Y of the Securities and Futures Act (Cap. 289) (the "SFA").

- (i) Can the company clarify if the two shareholders informed the company about the transfer of shares to the depository broker?** As a practice, directors in other listed companies have submitted a Form 1 to the exchange when shares are transferred from their personal name (direct interest) to a nominee account (deemed interest).
- (ii) Is the transfer of shares by the directors to a depository broker subject to the disclosure requirements under the SFA?**

In the same announcement dated 8 November 2018, the company has stated that Mr Guo is interested in an aggregate of 147,716,554 ordinary shares in the capital of the company (direct and indirect interest) while Mr Ma is interested in an aggregate of 128,541,737 ordinary shares in the capital of the company (direct and indirect interest).

- (iii) Can the company confirm if the interests of Mr Guo and Mr Ma (mentioned above) includes the 14,000,000 shares that they have each transferred to the depository broker?**
- (iv) Would the company provide an update to shareholders on the status of the 28,000,000 shares?**



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A copy of the questions for the Annual Report for the financial year ended 31 December 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Sunpower%20Group%20Ltd&cid=6455,4288>

The company's response could be found here:

2016: https://sias.org.sg/media/qareport/1493774551_2017.04.25--SGL--Announcement--Presentation--for--discussion--at--AGM.PDF