SUNPOWER GROUP LTD.

RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON CIRCULAR TO SHAREHOLDERS DATED 10 FEBRUARY 2025

The Board of Directors (the "**Board**") of Sunpower Group Ltd. (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to respond to the substantial questions received from the Securities Investors Association (Singapore) ("**SIAS**") on the circular to shareholders dated 10 February 2025 ("**Circular**"), prior to the forthcoming Special General Meeting ("**SGM**") to be held at 10.00 a.m. (Singapore time) on 26 February 2025 at HQ-India Rooms, Assembly Building, Level 2, JW Marriott Hotel Singapore South Beach, 30 Beach Road, Singapore 189763.

Capitalised terms not otherwise defined herein shall have the meanings ascribed to them in the Circular.

QUESTIONS FROM SIAS

Question 1. The company is proposing a renounceable, non-underwritten rights issue of up to $99.6 million in 7% convertible bonds, convertible into up to 398,438,568 new ordinary shares at an initial conversion price of $0.25 per share.

The proposed entitlement ratio is 125 convertible bonds for every 1,000 existing shares.

The proceeds will be used to repay existing bonds which have an interest rate of 2.5% per annum, effectively increasing the company's interest expense by $4.5 million a year.

<u>Company's Response:</u>

When comparing the cost of the Existing Bonds and the convertible bonds under the proposed Rights Issue ("**Proposed Bonds**"), the total return to respective holders of the Existing Bonds and Proposed Bonds (as the case may be) should be considered, in addition to the coupon interest rate.

According to the terms and conditions of the Existing Bonds, the Existing Bondholders are entitled to a 10% redemption yield-to-maturity, being the total internal rate of return on the aggregate principal amount of approximately US$130 million, including the coupon rate of 2.5% per annum.

In comparison, the holders of the Proposed Bonds ("**Proposed Bondholders**") will receive the 7% annual coupon interest, which is lower than the Existing Bonds.

For more information on the principal terms of the Proposed Bonds, please refer to Section 2.1 of the Circular.

(i) Did the board evaluate alternative funding options, such as a renounceable rights issue of ordinary shares that would allow shareholders to participate in the equity

fund raising on a pro-rata basis? What is the optimal capital structure to support the business?

<u>Company's Response:</u>

In determining the structure of the Rights Issue, the Company considered various alternative fundraising methods including, amongst others, the rights issue of shares. Each method was evaluated based on its funding certainty, benefits and costs, with discussions held among the Company, the Undertaking Parties and the Financial Adviser.

Factors influencing the Company's decision include: (a) the funding certainty in the light of the impending Existing Bonds Maturity Date in April 2025; (b) the substantial refinancing amount of approximately US$154.85 million[1]; (c) the need to use the proceeds primarily to refinance the Existing Bonds; (d) the then prevailing macroeconomic environment and market conditions; and (e) the interests of minority shareholders.

As set out in Section 2.4 of the Circular, in order to fully repay the liabilities in connection with the Existing Bonds, the Company is (a) in the process of undertaking the Partial Redemption, and (b) will be undertaking the Rights Issue, to repay the remaining amount of the aforesaid liabilities in connection with the Existing Bonds.

As at the date hereof, the Company has effected payment of the first and second tranches of Partial Redemption amounting to a payment of US$54.00 million and US$13.75 million respectively, using current resources of the Group, namely bank borrowings. Accordingly, the outstanding principal amount of the Existing Bonds has been reduced from US$130 million to US$71.9 million. The Company is also not aware of any intention of the Existing Bondholders to convert their Existing Bonds into Shares of the Company as of the date hereof.

Given the above considerations, the Company is of the view that the Rights Issue of Proposed Bonds is the most viable option at this juncture. This approach will also provide Shareholders who are confident in the Company's prospects with an opportunity to further participate in the Company's equity through the conversion of the Proposed Bonds into Conversion Shares at a reasonable discount (while benefiting from the coupon payments from the Proposed Bonds in the meantime), and will allow the Group to be less reliant on external sources of funding. The financial position of the Group could also be further strengthened in the event that the Proposed Bonds are converted into equity, thus extinguishing the redemption obligation of the Proposed Bonds.

Please refer to Section 2.4 of the Circular on the rationale for the Rights Issue which has disclosed the Company's deliberation and considerations in arriving at the Rights Issue.

(ii) Did the company explore securing bank financing as an alternative to issuing 7% convertible bonds? What specific challenges did management face in obtaining bank loans?

<u>Company's Response:</u>

Please refer to the Company's response to question 1(i) above on the alternative funding options considered and evaluated by the Company.

[1] This does not take into account the reduction of the outstanding principal amount of the Existing Bonds following the completion of the first and second tranches of Partial Redemption as announced by the Company on 2 January 2025 and 11 February 2025 respectively.

(iii) How was the 7% coupon rate for the convertible bonds determined? What benchmarks or comparable transactions were used to assess whether the pricing was competitive? What role did independent directors play in evaluating the pricing and the terms of the bonds?

Company's Response:

In the Company's assessment of the 7% coupon rate for the Proposed Bonds, the Company had benchmarked against the terms of certain convertible bonds issued by issuers listed on the SGX-ST between 2022 to 2024. Other references included the 5-year government bond yields from Singapore, the United States of America and the PRC, as well as the weighted average interest rate of the Group's existing bank loans.

The Independent Directors were consulted on the pricing and terms of the Proposed Bonds throughout the process, and participated in board-level deliberations in accordance with their duty to act *bona fide* in the best interests of the Company. Furthermore, Xandar Capital was appointed as the independent financial adviser to advise the Independent Directors for the purposes of making the recommendation to Independent Shareholders in relation to the Whitewash Resolution. As set out in the Circular and the IFA Letter, Xandar Capital opined that, on balance, the terms and conditions of the Rights Issue and the Proposed Bonds, being subject of the Whitewash Resolution, are fair and reasonable.

Shareholders are advised to read and consider the IFA Letter in its entirety as reproduced in Appendix C of the Circular.

Question 2. In the circular to shareholders, it was stated that the proposed convertible bonds include an "excess cash dividend" mechanism, under which bondholders receive additional interest payments equal to the excess cash dividend paid to shareholders.

(i) Is this common market practice for convertible bonds to include an excess cash dividend mechanism?

Company's Response:

To the best of the Company's knowledge, the excess cash dividend mechanism is not typically seen in the market. However, the excess cash dividend mechanism is a term of the Existing Bonds as a result of negotiations with the Existing Bondholders in respect of their subscription of the Existing Bonds in 2017 and 2018. Hence, when the Company declared and paid a special dividend of S$0.2412 per Share to its Shareholders in 2021, the excess cash dividend was also paid to Existing Bondholders.[2]

As set out in the Company's response to question 1(i) above, the key factors influencing the Company's decision include, *inter alia*, the terms and form of the Existing Bonds, which set a baseline expectation (if not better terms) for any potential new investors.

The Company also wishes to highlight that it has negotiated with the Undertaking Parties such that the Proposed Bonds will be in the form of the Rights Issue, such that Entitled Shareholders will be offered on a *pro rata* chance to enjoy the same terms. Therefore, Shareholders should note that the benefit of the excess cash dividend mechanism is also offered to Entitled Shareholders who accept their provisional allotments of the Proposed

[2] Less the coupon interest for 2021.

Bonds and (if applicable) apply for excess Proposed Bonds. If the Proposed Bondholders are of the view that they can obtain a higher return by holding Shares instead of the Proposed Bonds, they can elect to exercise their conversion right to convert their Proposed Bonds into Conversion Shares in accordance with the Terms and Conditions.

(ii) By allocating additional payments to bondholders, does this mechanism dilute future dividend upside for shareholders? How has the board assessed its impact on long-term shareholder value?

<u>Company's Response:</u>

The excess cash dividend mechanism is typically intended to protect bondholders (as creditors of the issuer) from any excessive dividends that the issuer may declare to shareholders which may affect the issuer's ability to make coupon payments and/or principal repayments to the bondholders. Thus, such excess cash dividend mechanism was included as a term of the Existing Bonds and is currently proposed as a term of the Proposed Bonds.

Under the Rights Issue, the Proposed Bonds will be offered to all Entitled Shareholders on a *pro rata* basis. This means that Entitled Shareholders who accept their provisional allotments of the Proposed Bonds and (if applicable) apply for excess Proposed Bonds would, immediately after the completion of the Rights Issue, also be bondholders of the Company. Please refer to the Company's response to question 2(i) above in arriving at the excess cash dividend mechanism.

(iii) Does the excess cash dividend mechanism significantly increase the cost of the convertible bonds?

<u>Company's Response:</u>

Please refer to the Company's response to question 2(i) above on arriving at the excess cash dividend mechanism. The Company wishes to highlight to Shareholders that the excess cash dividend mechanism (and any other terms of the Proposed Bonds) should not be viewed in isolation.

Question 3. Shareholders are also asked to approve the whitewash resolution for the waiver of a mandatory general offer from the BLP Concert Party Group. The BLP Concert Party Group consists of Lin Yucheng, Joyfield Group Limited, Pan Shuhong and BLP Capital, collectively holding 23.32% of the company's issued share capital.

Under certain scenarios, their aggregate interest could increase to as much as 40.68%.

(i) Has the board engaged with the Guo and Ma entities to explore whether they would raise their undertaking by subscribing for excess convertible bonds?

<u>Company's Response:</u>

The terms of the Irrevocable Undertakings provided by the Undertaking Guo Entities and the Undertaking Ma Entities are set out in Section 2.7 of the Circular.

The Undertaking Guo Entities have undertaken to accept, subscribe and pay for (or procure subscription and payment for) the 10,276,247 and 7,178,571 Proposed Bonds provisionally allotted to Allgreat Pacific Limited and Sunpower Business Group Pte. Ltd. respectively, amounting to a maximum aggregate value of S$17,454,818[3].

The Undertaking Ma Entities have undertaken to accept, subscribe and pay for (or procure subscription and payment for) the 7,000,000 Convertible Bonds provisionally allotted to Claremont Consultancy Limited, amounting to a maximum aggregate value of S$7,000,000. For the avoidance of doubt, the Undertaking Ma Entities shall not be precluded from subscribing additional convertible bonds provisionally allotted to them under the Rights Issue in excess of the Ma Entities Undertaken Convertible Bonds.

For more information on the above, Shareholders are advised to refer to the Section 2.7 of the Circular.

(ii) What roles do Lin Yucheng and Pan Shuhong currently play in the group's operations? Has the board engaged with the BLP Concert Party Group to assess whether they intend to seek board representation or executive influence? How might this impact the group's strategic direction?

<u>Company's Response:</u>

Lin Yucheng and Pan Shuhong, who are Substantial Shareholders of the Company and Undertaking Parties in relation to the Rights Issue, currently do not have any roles in the Group's operations.

As set out in Section 2.1 of the Circular, the Proposed Bondholders shall be entitled to nominate a maximum of two (2) persons to the Board. Proposed Bondholder(s) acting in concert who hold more than 25% of the principal amount of the Proposed Bonds (at issuance) shall be entitled to nominate two (2) persons to the Board, subject to the Terms and Conditions and the Bye-laws of the Company.

As subscriptions of the Proposed Bonds cannot be determined as of the date hereof, it will not be possible to definitively ascertain whether any Proposed Bondholders would be eligible to nominate any person to the Board. However, in the event that no Shareholder (other than the Undertaking Parties) accepts their provisional allotments of the Proposed Bonds and/or applies for excess Proposed Bonds, such excess Proposed Bonds will be taken up by the Undertaking Lin and Pan Entities pursuant to their Irrevocable Undertaking. Accordingly, the BLP Concert Party Group will hold 40.68% of the principal amount of the Proposed Bonds (at issuance) and shall be entitled to appoint two (2) persons to the Board.

To the best of the Company's knowledge as at the date hereof, in the event that the BLP Concert Party Group holds more than 25% of the principal amount of the Proposed Bonds (at issuance), the BLP Concert Party Group intends to exercise its right, subject to the Terms and Conditions and the Bye-laws of the Company. However, the Company emphasises that it is not possible to definitively ascertain whether any Proposed Bondholders would be eligible to nominate any person to the Board as subscriptions of the Proposed Bonds cannot be determined as of the date hereof.

(iii) How rigorous was the board's due diligence in assessing the implications of the whitewash resolution?

<u>Company's Response:</u>

[3] This excludes the *pro rata* entitlements to subscribe for the Proposed Bonds in respect of the 14,000,000 Collateral Shares that Sunpower Business Group Pte. Ltd. has a beneficial interest in.

The Board had assessed the implications of the Whitewash Resolution in totality, including but not limited to the terms and conditions of the Rights Issue and the Proposed Bonds.

As part of the Board's assessment, Xandar Capital was appointed as the independent financial adviser to advise the Independent Directors for the purposes of making the recommendation to Independent Shareholders in relation to the Whitewash Resolution. As set out in the Circular and in the IFA Letter, Xandar Capital opined that, on balance, the terms and conditions of the Rights Issue and the Proposed Bonds, being subject of the Whitewash Resolution, are fair and reasonable.

Shareholders are advised to read and consider the IFA Letter in its entirety as reproduced in Appendix C of the Circular and consider carefully the recommendations of the Independent Directors for the Whitewash Resolution set out in Section 10 of the Circular.

By order of the Board

Ma Ming
Chief Executive Officer and Executive Director

25 February 2025