

CORPORATE GOVERNANCE REPORT

The Board of Directors (the “**Board**”) and management (“**Management**”) of Sunpower Group Ltd. (the “**Company**” and together with its subsidiaries the “**Group**”) are committed to upholding a high standard of corporate governance in order to safeguard the interests of all stakeholders and to promote investors’ confidence. The Board has been putting in place various self-regulating and monitoring mechanisms, in accordance with the Code of Corporate Governance 2012 (the “**Code**”) issued by the Monetary Authority of Singapore.

While the Code of Corporate Governance 2018 (“**2018 Code**”) that was issued on 6 August 2018 applies to annual reports of the Company for the financial year ending 31 December 2019 and onwards, the Company has already committed to compliance with certain provisions of the 2018 Code, and will continue to keep pace with developments in corporate governance by improving its practices and operating frameworks.

This report describes the Company’s corporate governance processes and activities with specific references to the Code.

1. BOARD MATTERS

Board’s Conduct of Affairs

Principle 1: Effective Board to lead and control the Company

- (i) Apart from its statutory duties and responsibilities, the Board oversees the management and affairs of the Group. It focuses on strategies and policies, with particular attention paid to growth and financial performance. In addition, the Board has adopted a set of internal guidelines setting forth matters that require the Board’s approval. The Board is responsible for decisions over matters involving, among other things, conflicts of interest of a substantial shareholder or a Director, approving annual budgets, financial plans, financial statements, business strategies and material transactions such as major acquisitions, divestments, funding and investment proposals as well as corporate or financial restructuring, share issuance, declaration of dividends and other returns to shareholders and interested person transactions. The Group has put in place financial authorisation and approval limits for operating expenditure and procurement of goods and services. It delegates the formulation of business policies and day-to-day management to the executive Directors and its management team.

The principal functions of the Board are to:

- (a) provide entrepreneurial leadership, review and approve the Group’s key business strategies and financial objectives, including major investments/divestments and financing of projects;
- (b) oversee the processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance with regulatory authorities and the Group’s internal control policies and procedures to safeguard the shareholders’ interests and the Company’s assets;
- (c) review management performance;
- (d) identify key stakeholder groups and recognise that their perceptions could affect the Company’s reputation;
- (e) set the Company’s values and standards (including ethical standards), and ensure that obligations to shareholders and other stakeholders are understood and met; and
- (f) consider sustainability issues, e.g. environmental and social factors, as part of its strategic formulation.

CORPORATE GOVERNANCE REPORT

- (ii) All Directors act objectively to discharge their duties and responsibilities at all times as fiduciaries in the interests of the Company.
- (iii) The Board discharges its responsibilities either directly or indirectly through various Board committees. These committees ("**Board Committees**") include the Nominating Committee ("**NC**"), Remuneration Committee ("**RC**") and Audit Committee ("**AC**"). Each of the Board Committees function within its terms of reference. The NC is tasked with the responsibility of carrying out annual reviews of the effectiveness of the Board and each individual Director. If authority to make decisions on certain board matters is delegated by the Board to any Board Committee, such delegation would be disclosed.
- (iv) The Board has also established a risk management committee ("**RMC**") to assist the Board on the governance of risk. The membership and key functions of the RMC are set out in the later section of this report.
- (v) The Board meets once a year to review and deliberate on the key activities and business strategies of the Group. The Board meets at least four (4) times a year to approve the release of the first and third quarters, half-year and full-year financial results. Additional meetings of the Board will be held where circumstances require. The Company's Bye-Laws allow a Board meeting to be conducted by way of teleconference and video-conference.
- (vi) During the financial year, the attendance of each Director at meetings of the Board and Board Committees held in the financial year ended 31 December 2018 ("**FY2018**") is set out as follows:

	Board		AC		NC		RC	
	Number	Attended	Number	Attended	Number	Attended	Number	Attended
Guo Hong Xin	4	4	N/A	N/A	1	1	N/A	N/A
Ma Ming	4	4	N/A	N/A	N/A	N/A	N/A	N/A
Jiang Ning	4	3	4	3	1	1	1	1
Lau Ping Sum Pearce	4	4	4	4	1	1	1	1
Chin Sek Peng	4	4	4	4	1	1	1	1
Li Lei	4	4	N/A	N/A	1	1	1	1
Liu Haifeng David	4	3	N/A	N/A	1	1	1	1
Yang Zheng	4	4	4	4	1	1	N/A	N/A

- (vii) Each new and existing Director receives appropriate training to develop individual skills in order to discharge his duties as a director of a listed company. The Group also provides information about its history, mission and values to the Directors. Where necessary, the Directors will be updated regarding new legislation, regulations and changing commercial risks which are relevant to the Group. Appropriate briefing and orientation will be arranged for newly-appointed Directors to familiarise them with the Group's business operations, strategic direction, directors' duties and responsibilities and corporate governance practices. They will also be given opportunities to visit the Group's operational facilities and meet the Management so as to gain a better understanding of the Group's business. The Directors are encouraged to attend seminars and receive training to improve themselves in the discharge of their duties and responsibilities. The seminars and trainings will be funded by the Company.
- (viii) New updates relating to changes to the listing rules ("**Listing Rules**") issued by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") which are relevant to the Directors are circulated to the Board. The external auditors update the AC and the Board on the new and revised financial reporting standards that are applicable to the Company or the Group.

CORPORATE GOVERNANCE REPORT

- (ix) In addition, the Management regularly updates and familiarises the Directors on the business activities of the Company prior to Board meetings. A formal letter of appointment would be furnished to every newly-appointed Director upon their appointment explaining, among other matters, their roles, obligations, duties and responsibilities as a member of the Board.

Board Composition and Guidance

Principle 2: Strong and independent element on the Board

- (i) The Board comprises the following members:

Name of Director	Position held on the Board	Date of first appointment to the Board	Date of last re-election as Director	Nature of appointment
Guo Hong Xin	Chairman	12 May 2004	27 April 2016	Executive/Non-Independent
Ma Ming	Director	12 May 2004	26 April 2018	Executive/Non-Independent
Jiang Ning	Director	2 February 2005	26 April 2017	Non-executive/Independent
Lau Ping Sum Pearce	Director	2 February 2005	26 April 2018	Non-executive/Independent
Chin Sek Peng	Director	2 February 2005	26 April 2017	Non-executive/Independent
Li Lei	Director	3 March 2017	26 April 2017	Non-executive/Non-Independent
Liu Haifeng David	Director	10 November 2017	26 April 2018	Non-executive/Non-Independent
Yang Zheng	Director	10 November 2017	26 April 2018	Non-executive/Independent

- (ii) The independent Directors make up half of the Board and the independence of each Director is reviewed by the NC. The NC adopts the provisions of the Listing Rules and of the 2018 Code in its review of who can be considered as an independent Director. The NC is of the view that the non-executive Directors are independent except for Mr Li Lei and Mr Liu Haifeng David.
- (iii) Mr Jiang Ning, Mr Lau Ping Sum Pearce and Mr Chin Sek Peng were first appointed as Directors of the Company on 2 February 2005 and have held their office as Directors for more than nine (9) years. For the purposes of compliance with the Listing Rules and the Code, the Board conducted a rigorous review of their independence. The Board sought written feedback from all Directors for the review of the independence of each of the three (3) abovementioned Directors. The criteria applied by the Board for the review included whether each of the three (3) abovementioned Directors: (a) demonstrated the essential characteristics of independence expected by the Board; (b) expressed his views on matters discussed and debated issues objectively; (c) sought clarification and explanation when necessary; (d) scrutinised and challenged management on salient issues raised at meetings; and (e) acted objectively at all times, in the interests of the Company and its shareholders.

The Board has determined that Mr Jiang Ning, Mr Lau Ping Sum Pearce and Mr Chin Sek Peng be considered independent notwithstanding that they have served on the Board beyond nine (9) years. Further, Mr Jiang Ning, Mr Lau Ping Sum Pearce and Mr Chin Sek Peng have in-depth understanding of the Group's business and are well-qualified and experienced and have the ability to make impartial and well-balanced decisions and to act in the best interests of the Company and its shareholders.

CORPORATE GOVERNANCE REPORT

- (iv) The Board has examined its size and is of the view that it is an appropriate size for effective decision-making, taking into account the scope and nature of the operations of the Company. The NC is of the view that no individual or small group of individuals dominate the Board's decision-making process.
- (v) The NC is of the view that the current Board consists of the appropriate mix of expertise and experience to meet the Company's targets. Qualifications and experiences of the Board members are set out on pages 19 and 21 of the Annual Report. Particulars of interests of Directors who held office at the end of the financial year in shares in the Company and in related corporations (other than wholly-owned subsidiary companies) are set out in the Directors' Statement.
- (vi) The non-executive Directors contribute to the board processes by monitoring and reviewing Management's performance against goals and objectives. Their views and opinions provide alternate perspectives to the Group's business and they bring independent judgement to bear on business activities and transactions involving conflicts of interest and other complexities.
- (vii) The non-executive Directors meet and/or hold discussions as and when required without the presence of Management to facilitate a more effective check on Management.

Chairman and Chief Executive Officer

Principle 3: Clear division of responsibilities at the top of the Company

- (i) The roles of the executive chairman ("**Executive Chairman**") and chief executive officer of the Company ("**CEO**") are undertaken by Mr Guo Hong Xin, who is primarily responsible for overseeing the overall management and strategic development of the Group, as well as the effective working of the Board. The responsibilities of the Executive Chairman and CEO include:
 - leading the Board to ensure its effectiveness on all aspects of its role;
 - scheduling of meetings to enable the Board to perform its duties responsibly while not interfering with the flow of the Group's operations;
 - preparing meeting agenda in consultation with other Directors;
 - promoting culture of openness and debate at the Board;
 - ensuring that the Directors receive complete, adequate and timely information;
 - ensuring effective communication with shareholders;
 - encouraging constructive relations within the Board and between the Board and Management;
 - assisting in ensuring the Group's compliance with the Code and promoting high standards of corporate governance;
 - ensuring that Board meetings are held when necessary; and
 - reviewing key proposals by Management before they are presented to the Board.
- (ii) The Company Secretary may be called upon to assist the Executive Chairman and CEO in any of the above matters.

CORPORATE GOVERNANCE REPORT

- (iii) In view that the Executive Chairman is not an independent Director, the Company has appointed Mr Jiang Ning as the lead independent Director. Shareholders of the Company with concerns that could have a material impact on the Group, for which contact through the normal channels through the Executive Chairman, CEO, or chief financial officer (“**CFO**”) have failed to resolve or is inappropriate, shall be able to contact the lead independent Director.

Mr Guo Hong Xin fulfils the role of the Executive Chairman and CEO of the Group because of his unique position and skillset. He is the founder and the controlling shareholder of the Company, and he possesses technical and market knowledge as well as industry connections that are important to the Group’s business.

As the founder and the controlling shareholder, Mr Guo is committed to acting objectively in the best interests, and for the long-term sustainability of the Company. In his role as Executive Chairman and CEO, Mr Guo has always ensured that all management and employees, including himself, are held accountable for their performance, and in particular, with oversight from the lead independent Director. The Company also has in place a code of conduct and ethics. As the founder and Executive Chairman, Mr Guo is very involved in setting the appropriate top-down tone and corporate culture, and is committed to respecting the leadership of the lead independent Director, for instance, where it comes to recusing himself from discussions and decisions involving situations where he is conflicted.

Board Membership

Principle 4: Formal and transparent process for the appointment of new directors to the Board

- (i) The NC comprises Mr Jiang Ning, Mr Lau Ping Sum Pearce, Mr Guo Hong Xin, Mr Chin Sek Peng, Mr Li Lei, Mr Liu Haifeng David and Mr Yang Zheng, a majority of whom are independent Directors.

The chairman of the NC, Mr Jiang Ning, is an independent Director. The NC meets at least once a year and at other times as required.

- (ii) The key terms of reference of the NC are as follows:
 - (a) the NC shall consist of not less than three (3) Directors, a majority of whom shall be independent Directors;
 - (b) the chairman of the NC shall be appointed by the Board and shall be an independent Director; and
 - (c) the Board shall appoint a new member of the NC within three (3) months of the date of cessation of a member so that the number of members does not fall below three (3) if a member, for any reason, ceases to be a member.
- (iii) The NC performs the following functions in accordance with its terms of reference:
 - (a) reviewing and making recommendations to the Board on all candidates nominated for appointment to the Board, having regard to their background, potential contribution to the Group based on their experience and expertise, and ability to exercise independent business judgement;
 - (b) reviewing all candidates nominated for appointment as senior management staff;

CORPORATE GOVERNANCE REPORT

- (c) reviewing and recommending to the Board, the Board structure, size and composition, taking into account the balance between executive and non-executive, independent and non-independent Directors and having regard at all times to the Listing Rules, principles of corporate governance and the Code;
 - (d) identifying and making recommendations to the Board as to the Directors who are to retire by rotation and to be put forward for re-election at each annual general meeting (the “AGM”) of the Company, having regard to the Directors’ contribution and performance, including independent Directors;
 - (e) assessing the independence of the Directors (taking into account the circumstances set out in the Listing Rules, the Code and other salient factors); and
 - (f) proposing a set of objective performance criteria to the Board for approval and implementation, and to evaluate the effectiveness of the Board, its Board Committees and Directors as a whole and the contribution of each Director to the effectiveness of the Board, its Board Committees and Directors.
- (iv) Pursuant to the Company’s Bye-Laws and the Listing Rules, all Directors are required to submit themselves for re-nomination and re-election at least once every three (3) years.
 - (v) As a Director’s ability to commit time to the Group’s affairs is essential for his contribution and performance, the Board has determined that the maximum number of listed company board representations which any Director of the Company may hold is six (6) and all Directors have complied.
 - (vi) In the event that the Board decides to appoint new Directors, the NC will conduct an assessment to review the candidate’s qualifications, attributes and past experience, followed by interviewing short-listed candidates. The proposed candidates’ independence, expertise, background and skill sets will be considered before the NC makes its recommendations to the Board.
 - (vii) Save for their directorships in the Company, none of the independent Directors have any relationships with the Company and/or its related corporations, the Company’s substantial shareholders, or the Company’s officers.

The listed company directorships and principal commitments* of the Directors are set out in the table below:

Name of Directors	Listed Company Directorships	Principal Commitments*
<u>Executive Directors</u>		
Mr Guo Hong Xin	Sunpower Group Ltd.	Executive Chairman and NC member, CEO
	Genscript Biotech Corporation	Independent Director, AC member and NC Chairman
Mr Ma Ming	Sunpower Group Ltd.	Executive Director

CORPORATE GOVERNANCE REPORT

Name of Directors	Listed Company Directorships	Principal Commitments*
<u>Independent Directors</u>		
Mr Jiang Ning	Sunpower Group Ltd.	Lead Independent Director, NC Chairman, AC member and RC member
	Suzhou Dongshan Precision Manufacturing Co., Ltd.	Independent Director
	Jiangsu Phoenix Property Investment Company Limited	Independent Director
	–	Professor of Nanjing University
Mr Lau Ping Sum Pearce	Sunpower Group Ltd.	Independent Director, RC Chairman, AC member, NC member
	Huan Hsin Holdings Ltd.	Independent Director, RC Chairman
	Cortina Holdings Limited	Independent Director, RC Chairman
	–	Member of the Singapore Institute of Directors, Member of the Programme Advisory Committee for BA Translation and Interpretation
	–	Examiner for Certification Examination for Professional Interpreters, School of Arts and Social Sciences, Singapore University of Social Sciences
Mr Chin Sek Peng	Sunpower Group Ltd.	Independent Director, AC Chairman, NC member, RC member
	Cortina Holdings Limited	Lead Independent Director, AC Chairman
	TEE Land Limited	Independent Director, AC Chairman
	Sitra Holdings (International) Limited	Lead Independent Director, AC Chairman
	–	Director of PKF-CAP Advisory Partners Pte. Ltd., Managing Partner responsible for running, managing and growing the professional services of PKF Singapore entities including PKF-CAP LLP, a firm of chartered accountants in Singapore

CORPORATE GOVERNANCE REPORT

Name of Directors	Listed Company Directorships	Principal Commitments*
Mr Yang Zheng	Sunpower Group Ltd.	Independent Director, AC member and NC member
	Jiangsu Kanion Pharmaceutical Co., Ltd.	Independent Director
	Luenmei Quantum Co., Ltd.	Independent Director
	Kingswood Enterprise Co., Ltd.	Independent Director
	Changzhou Architectural Research Institute Group Co., Ltd.	Independent Director
	–	Professor of Nanjing Audit University
<i>Non-executive, non-independent Directors</i>		
Mr Liu Haifeng David	Sunpower Group Ltd.	Non-executive and non-Independent Director, NC member, RC member
	–	Executive Chairman of DCP Capital
	Qingdao Haier Co., Ltd	Non-executive Director
	China International Capital Corporation Limited (CICC)	Non-executive Director
	Far East Horizon Limited	Non-executive Director
Mr Li Lei	Sunpower Group Ltd.	Non-executive and non-Independent Director, NC member, RC member
	–	Managing Director of CDH Investments Management (Hong Kong) Limited

* The term “principal commitments” includes all commitments which involve significant time commitment such as full-time occupation, consultancy work, committee work, non-listed company board representations and directorships and involvement in non-profit organisations. Where a director sits on the boards of non-active related corporations, those appointments should not normally be considered principal commitments.

Board Performance

Principle 5: Formal assessment of the effectiveness of the Board and contributions of each Director

- (i) The Board has established a formal assessment process which will be carried out annually for evaluation of the performance of the Board as a whole and the contribution by individual Directors to the effectiveness of the Board. The following are some of such performance criteria:
 - attendance at Board meetings;
 - level of participation at Board meetings and overall commitment;
 - ability to strategise and propose sound business direction; and
 - contribution of specialised knowledge.
- (ii) The appraisal process requires the Directors to complete appraisal forms which will be collated by an independent coordinator who will compile the results of the appraisal for review by the NC. The NC will thereafter report to the Board. Such an appraisal process was carried out in respect of FY2018.

CORPORATE GOVERNANCE REPORT

Access to information

Principle 6: Board members to have complete, adequate and timely information

- (i) The Board is provided with management reports, and papers containing relevant background or explanatory information required to support the decision making process on an on-going basis and in a timely manner.
- (ii) Board papers are circulated to the Directors before the scheduled meetings so as to allow for a better understanding of the issues and to achieve a more effective discussion time for questions that the Directors may have.
- (iii) The Directors have separate and independent access to senior management and the Company Secretaries. The Company Secretaries administer, attend and prepare minutes of meetings of the Board and of the Board Committees, which are thereafter circulated. The Company Secretaries ensure that the Company complies with the corporate secretarial aspects of the Bye-Laws and the applicable sections of the Listing Rules and the applicable sections of the Companies Act (Chapter 50, Singapore Statutes) and the Securities and Futures Act (Chapter 289, Singapore Statutes).
- (iv) The appointment and removal of the Company Secretaries are subject to the approval of the Board.
- (v) In carrying out their duties, the Directors, whether individually or as a group, have direct access to the independent professional advisors to obtain advice, at the Company's expense.

2. REMUNERATION MATTERS

Procedures for developing remuneration policies

Principle 7: Formal and transparent procedure for fixing remuneration packages of Directors and key management executives

- (i) The RC comprises Mr Lau Ping Sum Pearce, Mr Jiang Ning, Mr Chin Sek Peng, Mr Li Lei and Mr Liu Haifeng David, a majority of whom are independent Directors. The chairman of the RC is Mr Lau Ping Sum Pearce, an independent Director. The RC meets at least once a year and at other times as required.
- (ii) The key terms of reference of the RC are as follows:
 - (a) the RC shall consist of not less than three (3) Directors, a majority of whom shall be independent Directors. At least one (1) member should be knowledgeable in executive compensation, and if there is a need, expert advice may be obtained internally or externally;
 - (b) the chairman of the RC shall be appointed by the Board and shall be an independent Director; and
 - (c) the Board shall appoint a new member of the RC within three (3) months of the date of cessation of a member so that the number of members does not fall below three (3) if a member, for any reason, ceases to be a member.

CORPORATE GOVERNANCE REPORT

- (iii) The duties and responsibilities of the RC include ensuring that there is a formal, transparent and objective procedure for fixing the remuneration packages of the Directors and key executives. Such level of remuneration should serve to attract, retain and motivate the Directors and key executives needed to manage the Company successfully. A proportion of such remuneration, should be linked to performance of the Company as well as the individual incumbent.
- (iv) The RC performs the following functions in accordance with its terms of reference:
 - (a) reviewing and recommending to the Board a framework of remuneration for the Board and the key executives of the Group covering all aspects of remuneration such as Director's fees, salaries, allowances, bonuses, stock options granted and benefits-in-kind;
 - (b) proposing to the Board appropriate and meaningful measures for assessing the Directors' and key executive's performance;
 - (c) reviewing and recommending the specific remuneration package to the Board for each executive Director and the key executives;
 - (d) considering the eligibility of directors, executives and employees for benefits under long-term incentive schemes; and
 - (e) considering and recommending to the Board the disclosure of details of the Company's remuneration policy.
- (v) Each member of the RC shall abstain from voting on any resolution concerning his own remuneration.
- (vi) The RC shall review the Company's obligations arising in the event of termination of the executive Directors and key management personnel's contracts of service, to ensure that such contracts of service contain fair and reasonable termination clauses.
- (vii) The RC may from time to time, and where necessary or required, seek professional advice internally and/or externally pertaining to remuneration of all Directors.

Principle 8: Remuneration of Directors should be adequate, not excessive and linked to performance

- (i) All independent Directors have no service agreements with the Company. They are each paid a Director's fee which is determined by the Board based on the effort and time spent as well as responsibilities as member of the AC, NC and/or RC. The fees are subject to approval by the shareholders at each AGM. Except as disclosed, the independent Directors do not receive any remuneration from the Company.
- (ii) According to the respective service agreements of the executive Directors:
 - each service agreement is valid for an initial period of three (3) years, which commenced from 1 January 2008 and shall be automatically renewed annually thereafter;
 - the remuneration of the executive Directors include a fixed salary and a variable performance related bonus which is designed to align their interests with those of the shareholders; and
 - the service agreement may be terminated by either the Company or the executive Director giving not less than six (6) months' notice in writing.

CORPORATE GOVERNANCE REPORT

Directors' Fees

The proposed fees for non-executive Directors to compensate their time and effort comprise a basic retainer fee and additional fees for appointment to Board Committees and involvement in ad hoc projects.

No Director decides his own fees. Directors' fees are recommended by the RC and are submitted for endorsement by the Board. Directors' fees are subject to the approval of shareholders at the AGM.

Currently, Directors' fees for each financial year are paid in arrears, in the following financial year, after obtaining shareholders' approval at the AGM.

Principle 9: Clear disclosure of remuneration policy, level and mix of remuneration, and procedure for setting remuneration

- (i) The Company has a staff remuneration policy which comprises a fixed component and a variable component. The fixed and variable components are in the form of a base salary and variable bonus that is linked to the performance of the Company and individual.
- (ii) Our remuneration framework is made up of three (3) key components:
 - Base/fixed salary
 - Variable or performance related income/bonuses
 - Other benefits

Base/fixed salary

Fixed pay comprises a base salary.

Variable or performance-related income/bonuses

Variable bonus payouts are based on actual achievement against corporate, business unit and individual performance objectives.

Other benefits

Social insurance fund comprising housing fund, old-age retirement pension, unemployment compensation, medical fund and car allowance.

- (iii) A breakdown, showing the level and mix of each individual Director's and key executive's remuneration in FY2018 is reflected in the section on "Disclosure on Directors' and Key Executives' Remuneration".
- (iv) The Company does not have any employees who are immediate family members of a Director or the CEO, and whose remuneration exceeded S\$50,000 during FY2018.
- (v) The Sunpower Employee Share Option Scheme 2015 was approved and adopted by the shareholders of the Company at a special general meeting held on 29 April 2015.

CORPORATE GOVERNANCE REPORT

On 19 May 2015, the Company granted a total of 59,220,000 share options at an exercise price of S\$0.116. These share options are exercisable at any time two (2) years after the date of grant and expire no later than the tenth anniversary of the date of grant. Of the total of 59,220,000 share options granted on 19 May 2015, 5,922,000 share options were granted to Mr Guo Hong Xin, executive Chairman and controlling shareholder of the Company; 8,968,000 share options were granted to Mr Ma Ming, executive Director and controlling shareholder of the Company; and the remaining 44,330,000 share options were granted to the employees of the Group. As of 28 December 2018, an aggregate of 27,790,200 ordinary shares were issued and allotted pursuant to the exercise of options under the Sunpower Employee Share Option Scheme 2015, at an exercise price of S\$0.116 each.

Disclosure on Directors' and Key Executives' Remuneration

The Board has not disclosed the remuneration of the Company's individual Directors and key executives of the Group in full, in view of the competitive nature of the industry in which the Group operates and to maintain confidentiality on remuneration matters of the Group.

The variable or performance-related income/bonus is to recognise the efforts and contributions and performance of the executive Directors and key executives, whether as a whole and/or on an individual basis, in particular where such efforts and contributions and/or performance may not be directly or immediately reflected in or attributable to the financial performance of the Company and the Group.

The level and mix of each Director's and key executive's remuneration in FY2018 is as follows:

Remuneration Band & Name of Director	Base/ fixed salary	Variable or performance- related income/ bonuses	Director's fees	Other benefits*	Total %
<i>Executive Directors</i>					
Between S\$2,350,000 to S\$2,450,000					
Mr Guo Hong Xin	17.7%	81.5%	–	0.8%	100
Between S\$2,300,000 to S\$2,400,000					
Mr Ma Ming	16.3%	82.9%	–	0.8%	100
<i>Independent Directors</i>					
Below S\$250,000					
Mr Jiang Ning	–	–	100%	–	100
Mr Lau Ping Sum Pearce	–	–	100%	–	100
Mr Chin Sek Peng	–	–	100%	–	100
Mr Yang Zheng	–	–	100%	–	100
<i>Non-executive, non-independent Directors</i>					
Mr Liu Haifeng David**	–	–	–	–	–
Mr Li Lei**	–	–	–	–	–

CORPORATE GOVERNANCE REPORT

Remuneration Band & Name of Director	Base/ fixed salary	Variable or performance- related income/ bonuses	Director's fees	Other benefits*	Total %
<i>Key Executives</i>					
Below S\$250,000					
Ms Ge Cui Ping	67.0%	23.7%	–	9.3%	100
Mr Chen Kai	66.9%	26.1%	–	7.0%	100
Mr Gu Quan Jun	67.8%	28.7%	–	3.5%	100
Mr Yuan Zi Wei	75.6%	18.1%	–	6.3%	100
Mr Zhu Bing Cheng	48.3%	44.0%	–	7.7%	100

* Other benefits include social insurance fund and car allowance.

** Mr Liu Haifeng David and Mr Li Lei do not receive remuneration from the Group.

Other than Ms Ge Cui Ping, Mr Chen Kai, Mr Gu Quan Jun, Mr Yuan Zi Wei, and Mr Zhu Bing Cheng, the Group does not have other key executive in FY2018. The total remuneration paid to the above key executives (who are not Directors or the CEO) of the Company for FY2018 is RMB3.67 million.

Save as disclosed above, the Company does not have any employees who are substantial shareholders of the Company, or are immediate family members of a director, the CEO or a substantial shareholder of the Company, and whose remuneration exceeded S\$100,000 during FY2018.

3. ACCOUNTABILITY AND AUDIT

Accountability

Principle 10: Board's accountability to shareholders

The Board provides the shareholders with a detailed and balanced explanation and analysis of the Company's and Group's performance, position and prospects on a quarterly basis. Financial reports and other price sensitive information are disseminated to shareholders through announcements via SGXNet, press releases and the Company's website. The Management presents the quarterly financial statements to the AC for review and the AC's recommendations to the Board for approval. The financial results announcement is reviewed by the AC and the Board before being released. If required, the Group's external auditors' views will be sought. The Board ensures that all relevant regulatory compliance requirements and updates will be highlighted from time to time to ensure adequate compliance with the regulatory requirements. The Board will also review and approve any press releases concerning the Company's financial results. The Company's Annual Report is available on request and accessible on the Company's website.

The Board reviews operational and regulatory compliance reports from the Management to ensure compliance with all of the Group's operational practices and procedures and relevant regulatory requirements.

CORPORATE GOVERNANCE REPORT

In line with the Listing Rules, the Board provides an assurance statement to the shareholders in respect of the interim financial statements. The Management maintains regular contact and communication with the Board through various means, including the preparation and circulation to all Board members of quarterly and full year financial statements of the Group. This allows the Board to monitor the Group's performance and position as well as the Management's achievements of the goals and objectives determined and set by the Board.

Risk Management and Internal Controls

Principle 11: Sound system of internal controls

- (i) The Group has put in place a system of risk management and internal controls to respond to financial, operational, compliance and information technology risks that are significant to the achievement of the Group's business objectives.
- (ii) The Board reviews the adequacy and effectiveness of the Group's risk management and internal controls, including operational controls and is responsible for the overall internal control framework annually. The Board acknowledges that no cost effective internal control system will preclude all errors and irregularities. A system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.
- (iii) The Board has obtained a written confirmation from the CEO (or equivalent) and the CFO (or equivalent) that:
 - (a) the financial records of the Group have been properly maintained and the financial statements are prepared in accordance with Singapore Financial Reporting Standards (International) to give a true and fair view of the Group's operations and financial position as at reporting date and its performance for the financial year then ended; and
 - (b) the risk management and internal control systems that are in place in the Group are adequate and effective to address the key risks in the Group.
- (iv) Based on the confirmation from the CEO and CFO as described above, review of the findings from the auditors on the Group's internal control and the management's responses to the auditors' recommendation for improvements to the Group's internal controls, review of minutes of the Risk Management Committee including any significant matters reported to the AC by the risk management team and discussions with the auditors and management, the Board with the concurrence of the AC is of the opinion that internal controls are adequate and effective to address key financial, operational, and compliance risks as at 31 December 2018. Additionally, the Board is satisfied that the risk management systems that it has put in place together with the abovementioned internal controls are adequate and effective to address the key risks of the Group including information technology risk.
- (v) To strengthen its risk management processes and framework, the Risk Management Committee ("RMC") was formed in 2011. The members of RMC mainly include Mr Guo Hong Xin and Mr Ma Ming, executive Directors, Mr Jiang Ning, Independent Director, and Ms Ge Cuiping, the CFO. The RMC shall meet no less than two (2) times a year and at other times as required.

CORPORATE GOVERNANCE REPORT

- (vi) The RMC shall perform the following key functions in accordance with its terms of reference:
- (a) evaluate and provide advice on the business risks (strategic, financial, operational and compliance with laws and regulations);
 - (b) study and identify internal controls and risk management strategies to manage the identified risks;
 - (c) design and implement new controls and strategies to address identified business risks;
 - (d) study and analyse material investments, financing and other operational management activities, and advise the Board; and
 - (e) any other functions as authorised by the Board.

The RMC is supported by the Operational Risk Management Group and Project Investment Risk Management Group that comprise mainly the heads of each business segment and other related management. Ms Zhang Hui Hui, who is a certified internal auditor, is the risk management secretary of the RMC. Based on the internal controls and risk management framework established, the team is responsible for supporting the RMC which includes the regular monitoring of risks and updating of the risk register as appropriate. It also carries out checking of operational and business areas as directed by Management ensuring that the Company has a comprehensive and sound risk management system that is operating as prescribed. Findings noted by them will be reported to the Management with any significant matters reported to the AC.

Audit Committee

Principle 12: Establishment of Audit Committee with written terms of reference

- (i) The AC comprises four (4) independent non-executive Directors, namely, Mr Chin Sek Peng, Mr Lau Ping Sum Pearce, Mr Jiang Ning and Mr Yang Zheng.

The Chairman of the AC, Mr Chin Sek Peng is, by profession, a public accountant and a fellow practising member of the Institute of Singapore Chartered Accountants and a fellow member of the Institute of Chartered Accountants in England and Wales and has worked in the accounting profession for more than 35 years. He is currently the managing partner of PKF-CAP LLP and its related entities in Singapore. The other members of the AC have many years of experience in business and financial management. The Board is of the view that the members of the AC have sufficient financial management expertise and experience to discharge the function of the AC.

- (ii) The key terms of reference of the AC include the following:
- (a) the AC shall consist of not less than three (3) Directors appointed by the Board, all of whom shall be non-executive Directors with the majority being independent Directors. At least two (2) members of the AC shall have accounting or related financial management expertise or experience and its membership, details of its activities, number of meetings and attendance at such meetings, shall be disclosed annually; and
 - (b) the Board shall appoint a new member within three (3) months of cessation so that the number of members does not fall below three (3).

CORPORATE GOVERNANCE REPORT

- (iii) The AC performs, *inter alia*, the following key functions:
 - (a) reviewing with internal and external auditors their audit plans, their evaluation of the system of internal controls and the reports on their findings including recommendations for improvement;
 - (b) reviewing and reporting to the Board at least annually the adequacy and effectiveness of the Company's internal controls, including financial, operational, compliance and information technology controls which are carried out internally and/or with the assistance of professional service firms;
 - (c) reviewing the Group's financial results and the announcements and annual financial statements of the Company and its subsidiaries before submission to the Board for approval;
 - (d) reviewing the scope and results of the external audit and the independence and objectivity of the external auditors;
 - (e) reviewing significant findings of internal investigations, if any;
 - (f) recommending to the Board the appointment or re-appointment of the external auditors and approving the remuneration and terms of engagement of the external auditors;
 - (g) reviewing interested person transactions; and
 - (h) any other functions as required by law or the Code.
- (iv) The AC is authorised to investigate any matters in its terms of reference, and has full access to and co-operation of Management. The AC has full discretion to invite any Director or executive officer to attend its meetings, as well as access to reasonable resources to enable it to discharge its function properly.
- (v) The AC will meet with the external auditors and internal auditors without the presence of Management annually. The AC also met with the external auditors to discuss matters relating to internal accounting controls as well as the results of their audit of the Group.
- (vi) The AC reviews, *inter alia*, the independence and objectivity of the external auditors annually, taking into consideration the nature and extent of any non-audit services provided to the Company by the external auditors. The AC seeks to maintain objectivity by reviewing all non-audit services provided by the external auditors to the Group, and is satisfied that the nature and extent of such services would not affect the independence of the external auditors.
- (vii) The Group has complied with Rules 712, Rule 715 and Rule 716 of the Listing Rules in relation to its auditors.
- (viii) The AC read technical newsletters as appropriate and was updated by the auditors during the AC meeting to keep abreast of changes in accounting standards and issues.
- (ix) No former partner or director of the Company's existing auditing firm or audit corporation is a member of the AC.

CORPORATE GOVERNANCE REPORT

Whistle-blowing Policy

The Board undertakes to investigate complaints of suspected fraud in an objective manner and has put in place a whistle-blowing policy and procedures which provide employees with well-defined and accessible channels within the Group, including a direct channel to the AC, for reporting suspected fraud, corruption, dishonest practices or other similar matters.

The policy aims to encourage the reporting of such matters in good faith, with the confidence that employees making such reports will be treated fairly and, to the extent possible, be protected from reprisal.

The AC Commentary to Key Audit Matters

The AC noted the key audit matters ("KAMs") set out in the independent auditor's report. These KAMs relate to matters that in the auditor's professional judgement represent the most significance in the audit of the financial statements of the Group for FY2018. These matters are considered most significant by the auditor largely because the amount is material and there is a high level of judgements and estimates involved particularly in the area of recognising revenue, cost and intangible assets during construction phase for green investment projects based on percentage completion, collectability of trade receivables and determining the fair values of the identifiable net assets of the newly acquired subsidiaries for the purpose of purchase price allocation. They are therefore subject to greater emphasis and scrutiny in the audit and are selected by the auditor for communication with the AC including those charged with governance.

The AC has discussed and reviewed the KAMs with the auditor and management and provided its comments in the table below.

	KAMs involving significant judgements and estimates by management	Matters considered by AC	Conclusion by AC
1	Revenue, cost and intangible assets arising from Build-Operate-Transfer ("BOT") and Build, Owned and Operate ("BOO") projects (Refer to Notes 3.2(a), 18 and 31 to the financial statements)	<p>The Group has Build-Operate-Transfer ("BOT") and Build, Owned and Operate ("BOO") green investment projects and the AC noted that the Group recognised revenue from these BOT/ BOO projects while in the construction phase.</p> <p>There is significant judgement and estimate involved in the recognition of revenue for such projects which is guided by the accounting standards, <i>SFRS(I) INT12 Service Concession Arrangements</i> and <i>SFRS(I) 15 Revenue from Contracts with Customers</i>. These standards set out the guidance for recognition of revenue during the 2 phases of the BOT/BOO life cycle namely (i) construction phase and (ii) operating phase (service concession period).</p>	The AC is satisfied that management has with due care exercised the appropriate judgement and estimate in recognising the intangible asset, revenue and cost for BOT/BOO projects during the construction phase based on the guidance set out in <i>SFRS(I) INT 12 Service Concession Arrangements</i> .

CORPORATE GOVERNANCE REPORT

	KAMs involving significant judgements and estimates by management	Matters considered by AC	Conclusion by AC
		<p>The revenue recognition during the construction phase does not give rise to increase in cash inflows but instead result in an intangible asset which would be recovered over the service concession period when steam, heat and electricity is sold to the customers. As construction of these BOT/BOO projects progresses, the higher will be the intangible asset and revenue recognised in FY2018.</p> <p>The AC discussed with management and the auditor on the judgement and estimate made in relation to:</p> <ul style="list-style-type: none"> (i) the projection of total revenue which can be billed to end users during the operating period; (ii) estimation of construction cost and projection of cost during the operating period; (iii) evaluation of profit margins for each of the construction and operating phases of the projects which are also benchmarked against other listed companies in Asia operating in similar projects to ensure that the margins recognised and the allocation of revenue between the construction and operating phases of the project are reasonable; (iv) allocation of revenue between the Engineering, Procurement, and Construction Integrated Solutions ("EPC") and service elements of the project; and (v) recoverable amount of the intangible assets which represents cost recoverable from future operations. 	

CORPORATE GOVERNANCE REPORT

	KAMs involving significant judgements and estimates by management	Matters considered by AC	Conclusion by AC
2	Collectability of trade receivables and contract assets <i>(Refer to Notes 3.2(b) and 8 to the financial statements)</i>	<p>Trade receivables and contract assets net of loss allowance at 31 December 2018 stood at RMB1,192 million and accounted for about 18% of total assets. This is a significant account item and collectability is considered a key risk in view of the history of slow collection and tightening credit in China. The AC has considered the following matters:</p> <ul style="list-style-type: none"> (i) ageing of trade receivables and contract assets and noted that 89% of trade receivables and contract assets are less than one year while 6% are more than 1 year and less than 2 years, and 5% are more than 2 years as at 31 December 2018; (ii) the profile of the key customers; and, (iii) the allowance made for doubtful trade receivables and contract assets based on the expected credit loss model and the amount of doubtful debt allowance made in the past for aged debts, which were reversed during the year as a result of collections. In this regard, the AC noted the reversal of loss allowance of about RMB10 million being credited to profit or loss in FY2018. <p>The AC also discussed with:</p> <ul style="list-style-type: none"> (i) management on its assessment of collectability of trade receivables and the adequacy of loss allowance made; and (ii) the auditor on the work it performed on the evaluation of collectability of trade receivables including receivables that arose from revenue recognised over time using the input and output methods. 	<p>The AC is satisfied with the judgement and estimate made by management on the adequacy of the allowance for doubtful trade receivables and contract assets at reporting date of approximately RMB46 million.</p>

CORPORATE GOVERNANCE REPORT

	KAMs involving significant judgements and estimates by management	Matters considered by AC	Conclusion by AC
		<p>The AC noted from management that most of the trade receivables and contract assets 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.</p>	
3	<p>Business combinations (Refer to Notes 3.2(f) and 38 to the financial statements)</p>	<p>During the year, the Group acquired 100% equity interest in Zhangjiagang Yongxing Thermal Power Co., Ltd. ("Yongxing") and Jiangsu Hengtong Electricity Sales Co., Ltd ("Hengtong") for a total consideration of RMB773 million.</p> <p>The Group has completed the purchase price allocation ("PPA") arising from the acquisition and recognised intangible assets and goodwill of RMB395 million and RMB310 million respectively.</p> <p>This acquisition is quantitatively material and the PPA exercise, which involves the identification of the acquired assets and liabilities and determining their respective fair values, requires the use of significant management judgement and estimate.</p> <p>The AC reviewed the relevant documents supporting the acquisition including the accounting treatment for the acquisition and also discussed with the management and auditor on their assessment of the independence and competency of the valuer who performed the valuation of Yongxing and Hengtong.</p>	<p>The AC is satisfied with the management's judgement and estimate on the identification of the acquired assets and liabilities and their respective fair values and the management and auditor's assessment of the independence and competency of the valuer in determining the fair values of the identifiable net assets for the purpose of purchase price allocation.</p>

CORPORATE GOVERNANCE REPORT

Internal Audit

Principle 13: Setting up independent internal audit function

- (i) The Company engaged an external professional service firm, Nexia TS Risk Advisory Pte Ltd ("**Nexia TS**"), to perform internal audit review and test of controls of critical processes, based on the internal audit plan which is approved by the AC before the commencement of work each year.
- (ii) Nexia TS has unfettered access to all the Group's documents, records, properties and personnel, and have unrestricted access to the AC.
- (iii) The AC reviewed the scope of internal audit work and the key audit procedures, including any findings from each review and the Management's responses thereto; and ensured the adequacy of the internal audit function annually. Team members of Nexia TS comprised members of the Institute of Internal Auditors Singapore ("**IIA**"), a professional association for internal auditors which has its headquarters in the United States. The internal audit work carried out by Nexia TS is guided by the International Standards for the Professional Practice of Internal Auditing (IIA Standards) which is laid down in the International Professional Practices Framework issued by the IIA.

The internal audit is planned independently in consultation with the AC. The AC oversees the activities and work done by the internal auditors and ensures that the internal audit plans are aligned with the Group's risk management programme. This is intended to assure that effective and efficient controls are in place to manage the risks in the Group.

The AC is satisfied that the internal audit function is adequately resourced.

4. SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Shareholder Rights, Communication with Shareholders and Conduct of Shareholder Meetings

Principle 14: Regular, effective and fair communication with shareholders

- (i) The Board is mindful of the obligation to keep shareholders informed of all major developments that affect the Group in accordance with the Listing Rules.
- (ii) Information is communicated to shareholders on a timely basis through:
 - annual reports that are prepared and issued to all shareholders within the mandatory period;
 - public announcements via SGXNet system and the press;
 - notices of annual general meetings; and
 - the Company's portal at <http://www.sunpower.com.cn> and investor relations website at <http://sunpower.listedcompany.com/> which shareholders can access information on the Group.

CORPORATE GOVERNANCE REPORT

Principle 15: Shareholders' participation at AGM

- (i) The Board will support and encourage active shareholders' participation at AGMs as it believes that general meetings serve as an opportune forum for shareholders to meet the Board and key management, and to interact with them.
- (ii) General meetings have been and are still the principal forum for dialogue with the shareholders. They offer opportunities for the Board to interact with shareholders, understand their views, gather feedback as well as address concerns. Enquiries by shareholders are dealt with as promptly as practicably possible.
- (iii) The Company is committed to upholding high standards of corporate transparency and disclosure, whilst safeguarding its commercial interests.
- (iv) The Group does not practise selective disclosure. The Company makes every effort to ensure that shareholders have easy access to clear, meaningful and timely information on the Company in order to make informed investment decisions. All material information and presentation slides (if any) would be released via SGXNet on a timely basis.
- (v) The Group does not have a fixed dividend policy at present. However, the Board would consider recommending a dividend as appropriate each year after considering the Group's profit, cash position and projected capital requirements for its operation and business growth.

Principle 16: Conduct of Shareholders' Meetings

- (i) At AGMs, shareholders are given the opportunity to air their views and ask Directors or management questions regarding the Company. Shareholders are encouraged to attend the AGMs to ensure a high level of accountability and to stay informed of the Group's strategies and goals. The AGM is the principal forum for dialogue with shareholders. The Board supports the Code's principle to encourage shareholder participation. The Bye-Laws allow a shareholder of the Company to appoint one (1) or two (2) proxies to attend the AGM and vote in place of the shareholder. Voting in absentia and by electronic mail may only be possible following careful study to ensure that integrity of the information and authentication of the identity of shareholders via the internet is not compromised.
- (ii) The members of the AC, NC and RC will be present at the AGM to address queries relating to the work of these committees. The Company's auditors are also invited to attend the AGM.
- (iii) All resolutions tabled at the general meetings are voted by poll for which the procedures are clearly explained by the scrutineers. The voting results of each resolutions tabled are announced at the meeting and in an announcement released after the meeting to the SGX-ST via SGXNet.
- (iv) The resolutions at general meetings are on each substantially separate issue. All the resolutions at the general meetings are in single item resolutions.
- (v) The Company Secretary prepares minutes of general meetings that include comments or queries from shareholders relating to the agenda of the meetings, and responses from the Board and Management, and are made available to shareholders upon their request.
- (vi) The Company has not implemented electronic voting at general meetings in view of the cost involved, but will consider implementing it in future if electronic voting is more cost efficient to do so.

CORPORATE GOVERNANCE REPORT

- (vii) The attendance of each Director at general meetings held in FY2018 is set out as follows:

	AGM (26 April 2018)	Special General Meeting (6 September 2018)	Special General Meeting (28 December 2018)
	Attended	Attended	Attended
Guo Hong Xin	√	X	X
Ma Ming	√	√	√
Jiang Ning	√	X	X
Lau Ping Sum Pearce	√	√	√
Chin Sek Peng	√	√	√
Li Lei	X	X	X
Liu Haifeng David	X	X	X
Yang Zheng	√	X	√

- (viii) The Company treats shareholders fairly and equitably in order to enable them to exercise shareholders' rights and have the opportunity to communicate their views on matters affecting the Company. The Company releases resolutions passed at Shareholders' meetings through SGXNet together with the breakdown of all valid votes cast at the meeting as soon as practicable. If the material information discussed at a Shareholders' Meeting is not disclosed in the announcements of the results of the Shareholders' Meeting or cannot be found in the other or previous announcements or public documents released by the Company, the Company shall disclose or publish the minutes of general meetings of shareholders on its corporate website.
- (ix) The Company has arrangements in place to identify and engage with its material stakeholder groups and to manage its relationships with such groups and discloses its strategy and key areas of focus in relation to the management of stakeholder relationships during the reporting period in its sustainability report that is released separately from its Annual Report.
- (x) The Company has its own corporate website and updates it on a timely basis to communicate and engage with stakeholders. In addition, the Company has established diverse communication channels to proactively communicate and engage with its stakeholders as introduced in the Company's Sustainability Report. For further details, please refer to the Company's Sustainability Report.

5. DEALINGS IN SECURITIES

(Rule 1207 (19) of the Listing Manual)

Directors and officers of the Group are advised not to deal in the Company's shares on short-term considerations or when they are in possession of unpublished price-sensitive information. They are not allowed to deal in the Company's shares during the period commencing two (2) weeks before the announcement of the Company's financial statements for each of the first three (3) quarters of the financial year and one (1) month before the announcement of the Company's full year financial statements, and ending on the date of the announcement of the relevant results.

The Company has complied with the SGX-ST's rules on best practices on dealings in the Company's securities in FY2018.

CORPORATE GOVERNANCE REPORT

6. INTERESTED PERSON TRANSACTIONS

(Rule 907 of the Listing Manual)

The Group has established procedures to ensure that all transactions with interested persons are reported on a timely manner to the AC and that the transactions are carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders.

There are no transactions with interested persons for FY2018 that are above \$100,000 to be disclosed.

7. MATERIAL CONTRACTS

(Rule 1207(8) of the Listing Manual)

Save for the service agreements between the executive Directors and the Company, there are no material contracts of the Company or its subsidiaries involving the interest of any Director or controlling shareholders subsisting at the end of FY2018.

8. USE OF PROCEEDS FROM CONVERTIBLE BONDS

On 3 March 2017, the Company completed the issuance of first tranche of convertible bonds of an aggregate principal amount of US\$110 million ("**Tranche 1 Convertible Bonds**" or "**CB1**"), which are convertible into fully paid ordinary shares in the capital of the Company to Glory Sky Vision Limited ("**Glory Sky**", ultimately indirectly and beneficially owned by CDH Fund V, L.P.).

Subsequently on 10 January 2018, Glory Sky transferred US\$60 million in principal amount of the CB1 to DCP. As a result of which, DCP and CDH (each an "**Investor**" and collectively, the "**Investors**") holds US\$60 million and US\$50 million convertible bonds issued under CB1 of the Company, respectively.

On 6 September 2018, the Company obtained shareholders' approval for the issuance of a second tranche of convertible bonds of an aggregate principal amount of US\$70 million ("**Tranche 2 Convertible Bonds**" or "**CB2**") and warrants exercisable at an aggregate amount of US\$30 million (the "**Warrants**" or the "**Warrant Shares**") to DCP and CDH to fund the green investment ("**GI**") related business of the Company.

Following the issuance of CB2 to the Investors, DCP and CDH will each hold up to US\$120 million and US\$60 million of CB1 and CB2 (collectively, the "**Convertible Bonds**") of the Company, respectively, convertible into fully paid ordinary shares in the capital of Company. The total aggregate principal amount of Convertible Bonds issued by the Company will be up to US\$180 million. The Convertible Bonds will mature in March 2022.

The net proceeds raised from CB1 is approximately US\$106.2 million after deducting transaction expenses of US\$3.8 million, while expected net proceeds from the issuance of CB2 will be approximately US\$67.5 million, after deducting transaction expenses of approximately US\$2.5 million. On 15 October 2018, the Company has completed the issuance of CB2 of an aggregate principal amount of US\$20 million and 16,464,490 warrants to the Investors.

The net proceeds have been and will be utilised for the expansion and further investment into GI business, including by way of BOT/BOO/TOT models of centralised steam and electricity projects and other environmental protection related projects.

CORPORATE GOVERNANCE REPORT

As at 31 January 2019, the Company has utilised an aggregate of US\$112.4 million of the net proceeds from Convertible Bonds as per schedule below.

Project	Use of Convertible Bonds Proceeds	Amount
Shantou	Project construction and equipment procurement	US\$20.5 million (approximately RMB132.6 million)
Liutuan	Registered capital	US\$0.8 million (approximately RMB5.2 million)
Jining JVC	Installation of steam distribution pipeline	US\$1.6 million (approximately RMB10.3 million)
Xinjiang	Registered capital	US\$1.4 million (approximately RMB9.0 million)
Yingtian	Registered capital	US\$0.1 million (approximately RMB0.5 million)
Shandong Yangguang Institute	Purchase consideration of the acquisition	US\$4.3 million (approximately RMB28.0 million)
Xinyuan Thermal Power	Purchase consideration of the acquisition	US\$13.1 million (approximately RMB85.0 million)
Xintai Zhengda Thermoelectric	Purchase consideration of the acquisition and construction of new facilities	US\$22.0 million (approximately RMB145.0 million)
Yongxing Thermal Power	Purchase consideration of the acquisition	US\$41.6 million (approximately RMB275.8 million)
General	Administrative and general expenses for business expansion of Green Investment related business	US\$7.3 million (approximately RMB47.7 million)
Total Convertible Bonds Proceeds utilized		US\$112.7 million (approximately RMB739.1 million)
Balance of Convertible Bonds Proceeds available for use		US\$13.5 million (approximately RMB93.7 million)

*Note: The balance of Convertible Bonds proceeds has already been committed in the investment of the GI project.

The exchange rate is based on the actual settlement conditions.

Each of the above utilisation of the proceeds from the Convertible Bonds is consistent with the intended use as disclosed in the Company's circular to shareholders dated 13 February 2017 and 21 August 2018.