



Redflow Limited
ACN 130 227 271

16 November 2020

AGM – further update

Redflow advises that there has been further engagement with the non-Board endorsed candidate, Hunter Jiang by way of written exchange of information. A meeting with the Redflow Chairman, CEO and CFO was also offered to clarify aspects of his proposals but was declined by Mr Jiang.

PRC market

The Board is aware of the opportunities in the PRC market, is open to pursuing a China focussed strategy and is willing to engage meaningfully with proponents to explore opportunities.

The Board notes that it has, with the assistance of external PRC corporate advisors, actively considered PRC opportunities in the recent past, identified potential PRC based business partners and undertaken collaborative activities. These initiatives are continuing.

For example, in May 2019, Redflow entered into a collaboration to participate in a demonstration project for a part of the Haidong Transportation Group's Smart Grid Project in Qinghai Province. The project involved a 100kWh system using Redflow batteries¹.

Redflow's collaboration partner was ZBest Power Co. Ltd, a Chinese zinc bromine flow battery company which had previously partnered with China's State Grid, State Power Investment Co., Huaneng Group, China Huadian Group & China Science Academy on flow battery projects.

The 100kWh system was commissioned and successfully used to engage a number of PRC government and private stakeholders in the China renewable industry. The system, after being in a period of hibernation during the Chinese winter and during the COVID-19 outbreak, has recently been restarted with further external engagement planned in the coming weeks.

Redflow has also recently sourced some key battery materials from ZBest Power for use in its Gen3 battery and will continue to progress relevant collaboration and strategic sourcing opportunities with the Company.

Jiang Proposal

If adopted, the Jiang Proposal would represent a transformational change for Redflow.

Under Mr Jiang's proposal:

- Mr Jiang and two new directors nominated by him would takeover the Redflow Board and executive management;
- In lieu of salary, the new Board will issue Mr Jiang 250 million "in the money" options, exercisable at \$0.02 per option, at any time within 5 years of date of grant;
- Redflow would contribute its intellectual property to a Chinese based joint venture company in exchange for a minority equity interest in that Chinese company (to be negotiated but maximum 30%);
- the Chinese JV company would raise funding, outsource manufacturing to one or more third party Chinese manufacturers and sell China-made Redflow batteries in China and elsewhere; and
- Redflow shareholders will receive no immediate consideration in return for the loss of ownership of its IP, be potentially substantially diluted should Mr Jiang exercise the options that will be issued to him by the new Board, and will receive no consideration for the transfer of Board and management control.

¹ See ASX announcement dated 17 May 2019 '*Redflow expands into China*' and 2019 Annual Report.

Accordingly, to secure a Board recommendation, the Board would need to satisfy itself that there was a reasonable basis for the new strategic direction, the key risks (particularly implementation risk) were understood, there were appropriate risk management measures in place and the new strategy was demonstrably more favourable than the current strategy.

As parts of the written information provided to Redflow were unclear and in parts contradictory, Redflow reached out to Mr Jiang for a meeting to clarify Redflow's understanding. However, Mr Jiang has declined to engage further on the basis that he considered that a *'full, complete proposal'* had already been provided.

Board assessment

Subject to that qualification, set out in the Schedule is a high level overview of the Board's understanding of the key features of the Jiang Proposal and its present assessment based on the information provided to date.

Based on that information, the Board considers that the Jiang Proposal is not sufficiently well formed or supported by objective or verifiable information, to provide the Board with the reasonable basis required to recommend to shareholders to abandon its current strategy in favour of the Jiang Proposal.

In addition, based on the responses to date, the Board has reservations that its outstanding concerns can or will be adequately addressed by Mr Jiang.

The Board continues to recommend that shareholders vote against the appointment of Mr Jiang as a Director of Redflow..

Redflow current strategy

Redflow continues to progress and execute on its current strategy. As noted in its FY2020 results, this includes exploring strategic investment opportunities with relevant parties. Redflow can confirm it is in current discussions with a number of interested parties around strategic partnerships and potential investment.

Endorsement of Board recommendation by Mr Simon Hackett (Redflow's largest shareholder)

The Board's recommendation that shareholders vote against the appointment of Mr Jiang as a director of Redflow is supported by Mr Simon Hackett, Redflow's largest shareholder. Mr Hackett has provided the following present intention statement and has consented to the inclusion of his statement in this announcement:

"I remain in full support of the current Board and management and their ongoing strategy and activities.

I feel the information provided and approach advocated by Mr Jiang is opaque in respect of many critical details and adds substantial execution risk to Redflow's ongoing activities. It is my conclusion that the strategy advocated by Mr Jiang is unlikely to lead to a successful outcome for Redflow.

I therefore intend to vote against Mr Jiang's nomination as a Non-Executive Director of Redflow."

This notice has been authorised for release to the ASX by the Managing Director.

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About Redflow www.redflow.com

Redflow Limited, a publicly listed Australian company (ASX:RFX), produces small 10kWh zinc-bromine flow batteries that tolerate daily hard work in harsh conditions. Marketed as [ZCell](#) and [ZBM2](#), Redflow batteries are designed for high cycle-rate, long time-base stationary energy storage applications in the residential, commercial & industrial and telecommunications sectors, and are scalable from a single battery installation through to grid-scale deployments. Redflow batteries are sold, installed and maintained by an international network of energy system integrators. Redflow's smart, self-protecting batteries offer unique advantages including secure remote management, 100 per cent daily depth of discharge, tolerance of high ambient temperatures, a simple recycling path, no propensity for thermal runaway and sustained energy delivery throughout their operating life.

Schedule
Board assessment of Jiang Proposal²

Feature	Jiang Proposal	Board Assessment
China Joint Venture Company (JVC)	<p>Investment vehicle - China company under Chinese law</p> <p>Activity – the Chinese company will own Redflow's battery intellectual property and outsource manufacturing to third party Chinese manufacturers</p> <p>Shareholders – Redflow, Chinese investors and potentially Chinese local government</p> <p>Contributions – Redflow IP and cash by Chinese investors and potentially Chinese local government</p> <p>JV Interests – initially, Redflow maximum 30%, Chinese investors minimum 70%. Later, potential for local Chinese government investment of 10 - 20%.</p> <p>IPO – Redflow investment exit by IPO of the China joint venture company</p>	<p>Redflow loses IP ownership – IP ownership exchanged for maximum 30% minority interest in Chinese joint venture company which Redflow does not control</p> <p>China JV partners – undisclosed</p> <p>Potential local Chinese government equity investors – undisclosed</p> <p>JV interest – uncertain – requires valuation by China based valuer of Redflow IP and registration by Chinese government authorities</p> <p>JV terms – unknown – to be negotiated</p> <p>JV management and governance - unknown</p> <p>Enforcement risk – risk of enforcing contractual and other legal rights under Chinese law</p> <p>Foreign country risk – inherent risk associated with operations in China</p>
Outsourced China manufacturing	<p>Re-evaluate – Thailand manufacturing facility</p> <p>Outsourced manufacture - China JVC to outsource manufacturing to third party Chinese manufacturers to reduce manufacturing costs to be competitive on a global scale whilst continuing to increase investment in R&D.</p> <p>Automate manufacturing process</p>	<p>Outsourced manufacturing risk – Redflow's past experience with outsourced manufacturing is that implementing systems to manage quality control and efficiency is highly challenging because battery manufacture is complex. The Jiang Proposal does not address these technical and resourcing challenges.</p> <p>Retention of manufacturing capability – it is unclear whether the technical capability of the Thai facility will be retained</p> <p>Outsourced manufacturer – identity and capability undisclosed</p> <p>Technical plan – details undisclosed</p> <p>Financial feasibility – undisclosed – no financial assumptions or analysis provided to enable review of whether target cost reductions claimed are achievable.</p>

² Based on information provided by Mr Jiang to date

Feature	Jiang Proposal	Board Assessment
Manufacturing plan	<ul style="list-style-type: none"> • Build and commission 5 automated lines of 10mw capacity totalling 50mw within 12 months; • Expand to 150mw within 24 months; • Continued expansion to 300mw production capacity within 36 months and prepare for IPO • IPO of China JV and will look to expand to 600mw within 48 months • Target cost price for the battery below US\$200/kwh for the standalone battery and US\$300 for total systems costs within 24 months. 	<p>No reasonable basis or assumptions have been provided to support these aspirational or forward looking statements.</p> <p>Redflow is unable to evaluate the feasibility of this plan.</p>
China sales strategy	<p>Sales and distribution business plan targeting multinational engineering procurement construction and commissioning companies (EPCC) and system integrators in China.</p>	<p>Potential customers – specific customers undisclosed. Claims of ability to secure long term EPCC contracts cannot be verified.</p> <p>Sales and distribution business plan – no business plan has been provided to permit the verification of the assumptions used to support the proposal.</p>
Sales strategy outside China	<p>The China joint venture company will supply China made batteries to Redflow for on-sale</p>	<p>Supply terms – undisclosed. No financial analysis provided</p> <p>Redflow margin on re-sale – unknown due to undisclosed supply terms</p>
Chinese local government support	<p>Incentives - Chinese local government incentives are available in the form of equity (and debt) investment, land access and rent support, personal incentives for local tech and R&D staff</p> <p>Sales support – Chinese local government can provide significant sales commitments.</p>	<p>Potential local Chinese government equity investors – undisclosed</p> <p>Participation terms – conditions and terms of equity or debt funding and sales support – undisclosed</p>
Research and development	<p>Pending an operations review, Brisbane remains HQ and the core hub for product development and R&D.</p> <p>Intention to keep a current technical expertise, increase investment in R&D.</p>	<p>No commitment that Australian based operations will continue following 'operations review'</p>

Feature	Jiang Proposal	Board Assessment
Funding	'Straight equity placement or placement facility' in excess of A\$10 million from institutional investors.	<p>Investors – identities undisclosed</p> <p>Uncommitted – no letters of comfort or support disclosed.</p> <p>Investor profile – uncertainty as to whether provider of placement facility are opportunistic short term investors or longer term value investors.</p>
Board	Removal of all current Board members Replacement with Mr Jiang (Managing Director), Mr Navin Sidhu and Mr Michael Higginson (non-executive directors).	<p>Key man risk - significantly increased due to reliance on Mr Jiang.</p> <p>Governance – loss of significant skills and experience of current Board members and implications for management oversight</p>
Australian senior management	Cut executive and managerial remuneration	<p>Key man risk - significantly increased due to reliance on Mr Jiang</p> <p>New management team – undisclosed (except Mr Jiang)</p>
Mr Jiang's personal experience and network	<p>Attached is CV provided by Mr Jiang.</p> <p><i>[Note – the information contained in the CV has not been verified by Redflow which makes no statement in relation to its accuracy]</i></p>	<p>Key man risk – the Jiang Proposal relies principally on Mr Jiang's personal network and ability to implement his proposal.</p> <p>Redflow has not been provided adequate verifiable information to satisfy itself about whether Mr Jiang's past experience and relationships can be leveraged to assist implement his ambitious proposal</p>
Mr Jiang's remuneration	<p>Nominal salary - A\$1 per annum</p> <p>Options - 250,000,000 options exercisable at \$0.02 per options expiring 5 years from date of grant³</p>	<p>Dilutionary to existing shareholders - if fully exercised, represents over 20% of the current issued capital. Further dilution would occur if additional A\$10 million of equity was placed in accordance with the proposed funding plan.</p> <p>Exercise price materially lower than market price – exercise price is 0.7 cents (35%) lower than current market price⁴.</p>

³ Based on proposal to pay total exercise price of up to '\$5 mill AUD over 5 years'

⁴ Based on closing share price of 2.7 cents as at 13 November 2010

Feature	Jiang Proposal	Board Assessment
Mr Jiang's remuneration (ctd)		<p>Remuneration significantly higher than current Managing Director – the total cost of the proposed options package is potentially in the range of A\$3,000,000 (if the options are expected to be exercised in the first year after grant) to \$4,750,000 (if the options are expected to be exercised over the 5 year option period)⁵.</p> <p>This is significantly higher than the current Managing Director's remuneration.</p> <p>No disposal restrictions – options can be exercised and shares sold immediately. There are no disposal restrictions to align remuneration with long term outcomes for shareholders.</p> <p>No performance hurdles – there are no performance hurdles to link remuneration with performance</p> <p>No service condition – there is no exercise condition requiring that Mr Jiang's engagement has not terminated to link remuneration with commitment to Redflow.</p>
Non-executive director remuneration	<p>Director's fee – A\$20,000 per year</p> <p>Options – 2,500,000 options exercisable at \$0.02 per options expiring 5 years from date of grant⁶</p>	<p>Fixed remuneration – not reflective of time commitment and responsibilities of the role</p> <p>Equity based remuneration – increased risk that the emphasis on equity component may lead to bias in decision-making and compromise objectivity</p>

⁵ Based on the Black Scholes methodology and general assumptions used to value the Managing Director's equity incentive as disclosed in the Redflow 2020 AGM Notice of meeting. The total cost would be expensed as a remuneration expense and reported as executive remuneration over the period during which the options are expected to be exercised.

⁶ The Jiang Proposal refers to providing '50k AUD worth of options'. Assumes that option terms will be same as Mr Jiang's options.

Mr Jiang's CV as provided by Mr Jiang

Biography of Mr Hunter Jiang: CEO of GCL Solar Energy Technology Holdings

Hunter Jiang is an experienced career Chief Executive Officer and successful entrepreneur having held the Key roles of CEO and President at GCL-Poly one of the largest Solar companies in the world listed on the mainboard of the Hong Kong Stock Exchange. During his time at the company, GCL-Poly's market capitalization grew from **\$2.5 Billion HKD** to over **\$80 Billion HKD** at it's peak within 3 years. In 2008, Hunter raised ~ **\$1.5 billion USD** for the company.

Hunter has helped many high-tech companies successfully IPO in Hong Kong and has an unmatched depth of experience and knowledge in dealing at the highest level with stakeholders including state-owned enterprises, multinational foreign companies, and large private enterprises in the Renewable energy Sector's throughout Asia.

Hunter has extensive executive experience; he became Group President of GCL-Poly in September 2007 and then transitioned into the Chief Executive Officer role in February 2008. In November 2009 Hunter led The China Investment Corporation (CIC) to take a **\$5.5 billion HKD** stake in GCL Poly, Hunter remained with GCL-Poly until 2012.

Prior to GCL-Poly Hunter was the Chief Executive Officer of Shanghai Alison Group Co. Ltd., a manufacturer of steel pipe, petrochemicals, and specialty packaging headquartered in Shanghai, from 2005 to 2007.

Prior to that From 1998 to 2005, Mr. Hunter Jiang was the Chief Executive Officer of IPC Corp. China, a wholly owned subsidiary of IPC Corporation Ltd, a company listed on the Mainboard of the Singapore Exchange Limited whose businesses include Technology Investment as well as property investment and development.

Hunter obtained a Bachelor's degree in accounting from Shanghai Lixin University of Commerce, a degree in English from the East China Normal University Shanghai and an MBA from Macau University of Science and Technology.

Hunter Jiang Bloomberg Profile: <https://www.bloomberg.com/profile/person/17270033>