

VIBROPOWER CORPORATION LIMITED
(Company Registration No.: 200004436E)
(Incorporated in the Republic of Singapore)

RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT 2024

The Board of Directors (the “Board”) of VibroPower Corporation Limited (the “Company” (the “Company” and together with its subsidiaries, the “Group”) wishes to announce that the Company has received questions from Securities Investors Association (Singapore) (“SIAS”) relating to the Company’s on the Annual Report 2024 (“Annual Report”). The Company’s responses to the corresponding questions from SIAS are set out below:-

Question 1 from SIAS:

Q1. Would the board/management provide greater clarity on the following operational and financial matters? Specifically:

FINANCIAL AND OPERATIONS REVIEW

REVENUE

	FY2024		FY2023		Variance
	\$'000	%	\$'000	%	%
Projects	13,199	88.9	6,997	73.0	88.6
Power Plant	1,218	8.2	2,238	23.4	(45.6)
Others	428	2.9	341	3.6	25.5
Total Revenue	14,845	100.0	9,576	100.0	55.0

(Source: company annual report)

- (i) **Power generation solutions (Projects):** As noted in the chairman’s statement, the group completed notable projects, including the delivery of generators and fuel systems to IOI Central Boulevard Towers, Immigration & Checkpoint Authority Building, Mindef NS Hub at Bukit Gombak, and Kim Chuan Depot Extension. **What is the group’s value proposition in the projects segment? How does the group secure high margins projects?**
- (ii) **Power plant (Sludge oil processing):** Does the group have a proven track record in sludge oil processing? **What is the current capacity of the upgraded biomass power plant? What is the size of the addressable market for sludge oil processing, and how is the group positioning itself to capture market share?**
- (iii) **Power plant (Phase two upgrade):** What is the expected capital expenditure for the second phase of upgrading the biomass power plant to enable the sale of electricity to the national grid? **How does the company assess the financial viability and return on investment from this initiative?**

- (iv) **Performance bond:** As announced on 16 August 2024, the main contractor in the disputed project has called on the performance bond amounting to \$780,000. **Has the board reviewed the events leading to this dispute, and were any key internal gaps identified? What specific challenge is the group facing in providing the requested documentation related to the equipment supply? Furthermore, what guidance has the board given to management to prevent similar disputes from occurring in future projects?**

Company's response:

- (i) The Group has been in the power generations solutions (projects) business for over 30 years, since the Company's inception. The successful completion of the notable projects mentioned in the chairman's message underscores the Group's value proposition,
- (ii) Sludge oil is a by-product produced by the Group's biomass power plant. In the past, sludge oil was considered by some as waste. As an organisation in transition to a purpose driven enterprise, in alignment with sustainability, our strategy and objectives are to contribute to the establishment of a closed-loop economy. We sell sludge oil produced to other companies that have use for them. For shareholders' information, sludge oil has potential applications across various industries. It can be burned directly as fuel for heating or upgraded to Biofuel, and through processing may be used as soil nutrients.

For clarity, we do not carry out any of these sludge oil conversion activities. However, the sale of sludge oil, as a by-product of our operations, contributes approximately 20% to 30% to the power plant's revenue. The sale helps the Group minimise the impact our biomass plant operations have on the environmental and social systems we rely on. The outcome that we aim for in carrying on our biomass business is not to assess the size of the sludge oil market nor to determine how big a share we can capture. Disposing of sludge oil to entities that can make productive use of it is part of our governance framework in generating a sustainable income without compromising the environment and community within which we operate.

The capacity of the upgraded biomass power plant is 11.5MW, which if operated to its maximum utilization rate could generate up to 10MW of electricity.

- (iii) The estimated capital expenditure for the second phase of upgrading has been determined to be approximately RM50 million, based on an assessment made by an independent consultant.

The Group entered this power plant project at a low entry point, lower than the investment required to construct a new biomass power plant. The Group believes that this lower entry point may lead to better returns on its investment. More importantly, we believe that this investment represents another step in our transformation into a purpose driven organisation. However, shareholders should understand that potential challenges, such as changes or advancement in technology that enable our competitors with more resources to acquire equipments that are more efficient could disrupt our current financial modelling and projected outcome.

- (iv) The Company engaged the services of independent engineers to produce a failure analysis report and also engaged legal counsels regarding the merits of the customer's demand on the performance bonds. The issue of the provision of documentation was part and parcel of the larger dispute with the customer. In the ordinary course of handling large projects, there will always be differences in perspectives regarding specifications, delivery and performance. The Board and management have discussed the events leading to this unfortunate dispute and have unanimously agreed to engage all customers by being punctilious in documenting and recording requests for variation works, without compromising our relationship with them. Our customers comprise one of our key identified groups of key stakeholders.

Question 2 from SIAS:

Q2. The company formed a joint venture with Interra Resources Ltd (“Interra”) to construct a 2-megawatt solar farm within its biomass power plant in Malaysia and to develop a renewable energy supply business. The company issued \$1.5 million in redeemable convertible bond to its joint venture partner, with conversion rights that may be exercised under certain default conditions. The bonds carry an interest rate of 8.5% per annum and the maturity period is 36 months commencing from 1 December 2023.

The conversion price is at a 10% discount to the 30-day weighted average price at the conversion date.

- (i) Can the board, especially the independent directors, help shareholders better understand the rationale of issuing the redeemable convertible bond under the current terms? Why was this structure chosen over other potential financing options?**
- (ii) Has the board/management explored cheaper sources of financing?**
- (iii) Has the board considered green bonds/green financing? Could these options provide a more cost-effective and long-term sustainable source of financing?**
- (iv) Specifically, what deliberations did the board have on the 10% conversion discount to the 30-day weighted average share price? Is there a risk that this has the potential to lead to a “death spiral” of the company’s shares?**
- (v) With the company’s shares trading at a 75% discount to its book value, has the board quantified the dilutive impact of the convertible bond if the conversion option is exercised?**
- (vi) What is the expected return on investment on the 2-megawatt solar farm and how does it compare to the cost of the convertible bond?**

Company’s response:

- (i)** Please refer to announcement made on 1 November 2023 for the rationale of issuing the convertible bonds to Interra, which was to meet the respective business strategies and objectives of the parties. There is no other financial option available at the preliminary stage of this project.
- (ii)** Yes. The Company will approach local financial institutions for funding when the project has become more matured and bankable from a financial institution’s point of view.
- (iii)** At the nascent stage of development for this particular project, such instruments are not available to the Group.
- (iv)** The energy generated from the solar farm is for self-consumption under the SELCO scheme implemented by SESB, without off-take agreement in relation to supplying power to the local power grid.
- (v)** Very careful consideration has been given to conversion, in compliance with the listing rules. The Company also included in the agreement various built-in protections, such as a restriction that the number of conversion shares must not exceed 15% of the Company’s enlarged share capital. In any event the conversion right is not exercisable unless the Company fails to make payment of interest, or of principal at maturity.

- (vi) As stated above and in the announcement related to the agreement concerned, there is no right to convert unless the Company fails to make payment of interest, or of principal at maturity.
- (vii) The payback period for the amount invested in solar farm is approximately 6 years in accordance with a feasibility study report provided by a third-party independent consultant. The amount of savings in electricity consumption exceed the cost of the convertible bonds.

Question 3 from SIAS:

Q3. At the annual general meeting scheduled to be held on 27 September 2024, Mr Ernest Yogarajah s/o Balasubramaniam will retire pursuant to the company's constitution and will be seeking re-election.

As disclosed in the Notice of annual general meeting, should Mr Ernest Yogarajah s/o Balasubramaniam be re-elected, the director shall remain as a member of the audit committee, nominating committee and remuneration committee.

Mr Ernest Yogarajah s/o Balasubramaniam was first appointed to the board on 10 May 2007.

The biography of the director can be found on page 6 of the annual report. Additional information on director seeking re-election can be found on pages 29 to 32.



- (i) **What is the total shareholder return over the past 5, 10 and 17 years?**
- (ii) **Did the nominating committee (NC) consider if the nomination and re- election of Mr Ernest Yogarajah s/o Balasubramaniam would impede the pace of board renewal?**
- (iii) **Can the NC confirm that Mr Ernest Yogarajah s/o Balasubramaniam, if re- elected, would continue to serve as the non-independent non-executive chairman of the board? How does the board justify the decision in light of governance best practices regarding independence of the chairman?**
- (iv) **Can Mr Ernest Yogarajah s/o Balasubramaniam outline his key contributions and achievements as a director/chairman over the past 17 years? If re-elected, what fresh perspectives and value-added initiatives does he intend to bring to the board to enhance shareholder value?**
- (v) **Is Mr Ernest Yogarajah s/o Balasubramaniam satisfied with the board's performance in protecting the interests of its shareholders and creating long-term shareholder value?**

Company's responses:-

- (i) Total shareholder return ("TSR") over the past 5, 10 and 17 years are as follows:

	Annualised TSR %
Past 5 years	93%
Past 10 years	84%
Past 17 years	44%

- (ii) The NC has reviewed and considered the re-election of Mr Bala and concurred with the Board that Mr. Bala has a wealth of relevant experience and institutional knowledge which is particularly useful for his role as non-executive chairman. As explained in the Company's corporate governance report, notwithstanding his designation as non-executive, Mr. Bala is no less independent than the other independent directors. The Company will bring on more directors if particular skills are required, and for a fresh perspective.
- (iii) Yes, Mr Bala, if re-elected, would continue to serve as a non-independent non-executive chairman of the board. Please refer to pages 13 and 29 of the Annual Report wherein it is disclosed that Mr Bala does not have any business or other relationship with the Company, its related corporations, substantial shareholders, or its officers that could interfere or be reasonably perceived to interfere with the exercise of the non-executive chairman's independent business judgment, in the best interests of the Company. He does not have any familial relationship at all with the Executive Director and does not hold any shares in the Company. The NC and the Board are, therefore, of the view that the intent of Principle 2 of the Code of Corporate Governance has been satisfied in relation to the independence of decision-making and the lack of any business, familial or any other relationship of Mr. Bala, as reiterated in this paragraph.
- (iv) Mr Bala is a practicing lawyer and Director of Unilegal LLC. During his tenure as Independent and Non-executive Director from 2007 to 2020, he guided Management in navigating various business dealings and major corporate transactions, which ensured that the Group's interests were always safeguarded. As Chairman of the Board, he continues to leverage his legal expertise and extensive knowledge of the Group's business accumulated over the years to guide Management in navigating challenges from both the legal and commercial perspectives. His analytical skills and quick grasp of issues have helped Management negotiate successfully with counterparties. In the opinion of the NC, as non-executive chairman, and owing to his long tenure and possession of institutional and historical knowledge of the Group, Mr. Bala is an asset to the Group in the prevention of management override and concentration of power.
- (v) Throughout the pandemic and after, Mr. Bala was instrumental in advising Management on how it should continue to innovate to maintain a competitive edge, including the exploration of new growth opportunities. Overall, Mr Bala is satisfied with the Board's performance. Mr. Bala is committed along with the other board members in creating a value generation model that serves the group of stakeholders the Company has identified as key in its sustainability journey.

By order of the Board

Benedict Chen Onn Meng
Chief Executive Officer
26 September 2024