

# IPCO INTERNATIONAL LIMITED

(Incorporated in Singapore)  
(Company Registration Number 199202747M)

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## RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (THE “SIAS”) ON THE ANNUAL REPORT 2018

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The Board of Directors (the “**Board**”) of Ipco International Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) refers to the queries raised by the SIAS in relation to the Group’s Annual Report for the financial year ended 30 April 2018. The Company held its Annual General Meeting on 30 October 2018 and replies as follows:

### **Question 1**

As noted in the Corporate Information section (page 2 of the annual report), the company’s directors are Mr James Moffatt Blythman (as executive director) and the following three independent directors, namely Ms Chai Siew Hoon, Mr Joseph Chen and Mr Ng Fook San.

Mr Chen and Mr Ng were each appointed on 19 January 2018. Ms Chai, who was first appointed on 25 April 2014, would retire at the close of the Annual General Meeting and will not be seeking re-election. Ms Chai’s impending cessation as director (due to retirement) follows a year in which the company experienced the following:

- Mr Ross Yu Limjoco resigned as independent director on 2 August 2017;
- Mr Chwee Han Sin was not re-elected by shareholders at the company’s AGM on 31 August 2017;
- Requisition of an Extraordinary General Meeting (EGM) on 17 October 2017;
- Mr Joseph Chen and Mr Ng Fook San appointed as independent directors on 19 January 2018;
- Mr Carlson Clark Smith’s removal as executive director at the EGM on 19 January 2018 and his subsequent dismissal as Chief Financial Officer (“CFO”) on 28 February 2018;
- Appointment of Messrs Baker Tilly TFW as auditor of the company at an EGM held on 28 February 2018;
- Mr James Moffatt Blythman’s appointment as CFO on 1 March 2018 and the subsequent appointment as executive director on 28 May 2018; and
- Mr Goh Hin Calm’s resignation as Interim Chief Executive Officer (“CEO”) on 14 March 2018 and appointment to his previous position as Senior Finance and Admin Manager and his subsequent dismissal on 27 April 2018.

- (i) **Has the NC reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?**
- (ii) **With Ms Chai’s retirement from the board on 30 October, has the nominating committee (NC) reviewed the board’s size and composition? Has the NC started the search and nomination process for independent directors?**

- (iii) **Can the NC elaborate in greater detail the search and nomination process for directors, especially independent directors? Would the NC be widening its reach and leverage a professional search firm to find a director who is of a right fit for the board?**
- (iv) The position of the chairman of the board has been vacant since August 2006. **Would the NC be reviewing this?** The chairman plays an important role in leading the board and in ensuring its effectiveness.
- (v) **What are the board's plans to ensure stability in the boardroom so that the board can provide its entrepreneurial leadership for the long-term success of the company?**
- (vi) The company has not included a Sustainability Report in its annual report. Under the SGX guidelines for sustainability reporting that was introduced in 2016, companies have up to 12 months from the end of the financial year to publish their first report, starting with any financial year ending on or after 31 December 2017. Rule 711B states that the sustainability report must describe the issuer's sustainability practices with reference to the following primary components: (a) material environmental, social and governance factors; (b) policies, practices and performance; (c) targets; (d) sustainability reporting framework; and (e) board statement. **Could the board/management clarify if it will be publishing a full Sustainability Report, including the key material issues affecting the company, in accordance with Rule 711B? The company should also show how the material issues affect its business model and how the business model delivers long term value for its stakeholders.**

#### **Company's response to Question 1**

- (i) The effectiveness of the Company is reliant on the appropriate mix of skill and expertise of the Board. The NC who is tasked to ensure a formal and transparent process considers the current and future needs of the Company as well as the current skill set of existing directors in making their recommendations to the Board. The current members of the NC are mindful of the skillsets the Board would require. Mr. Blythman speaks Mandarin and has lived in Asia for 7 years and is, therefore, eminently suited to represent the company in its businesses in China and North America. Mr. Joseph Chen and Mr. Ng are, respectively, a veteran financier and engineer, with many years of guiding and leading companies across industries.
- (ii) The NC has commenced its search for a suitable candidate to replace Ms Chai. When a suitable candidate has been identified the NC will make a formal recommendation to the Board.
- (iii) The two remaining NC members Messrs Ng and Chen have extensive business networks in Singapore, Asia and North America. Preliminary discussions with potential Directors have already commenced. If deemed necessary, the NC may reach out to a professional search firm to assist but to date has not done so, as the Company is also mindful of the need to conserve working capital to ensure that the Company's businesses are prioritised and shareholders' interests protected thereby.
- (iv) The NC will be reviewing whether the appointment of a Chairman would further enhance the Board's effectiveness for an appropriate balance of power, increased accountability and independent decision making. The NC is of the opinion that the two new independent directors have deep experience in leading and guiding the Company in the meantime, while the search for additional directors to comply with the correct composition of board members, the AC, NC and RC is underway. Once a suitable candidate has been appointed to fill Ms Chai's vacancy a NC meeting will be convened to explore this option.

- (v) The new Board is investigating into various issues and its work has been disclosed to the company's shareholders through its various announcements and updates. The Company believes that the new Board, in fact, heralds the commencement of a period of stability.
- (vi) The Company will release its Sustainability Report together with its FY2019 Annual Report.

## **Question 2**

The group has three core businesses as follows:

- Capri Investments LLC ("Capri")
  - Hubei Zonglianhuan Energy Investment Management Inc. ("HZLH")
  - ESA Electronics Pte Ltd ("ESA")
- (i) **For the benefit of both new and old shareholders, please provide a clear action plan for each of the three core businesses, highlighting management's priorities and targets for the next 6-18 months.**
  - (ii) **What is the level of oversight, influence and control over the subsidiaries' day-to-day operations and strategic matters?**
  - (iii) **Please also include the changes to be made to each of the three operations to strengthen the internal controls in these subsidiaries and the risk management systems and the processes in the company to oversee the subsidiaries.**
  - (iv) **Can the audit committee clarify if the group has an internal audit function (page 106)? In the past 2-3 years, or since the new management team is in place, has there been any internal audit work carried out as directed by the AC? Would the AC consider looking into the formal establishment of an internal audit function (be it in-house or outsourced)?**
  - (v) **Does the company staff have adequate resources and experience to perform in their job functions? Are the key positions filled with capable and motivated staff?**

## **Company's response to Question 2**

### **(i) Capri Investments LLC ("Capri")**

Capri Investment L.L.C. ("Capri"), in which the Group holds a 100% equity interest, is engaged in property development and is currently in the planning stage of its next phase of 261 residential lots in its Falling Water Project which is located near the cities of Seattle and Tacoma in the state of Washington, USA.

As disclosed in previous announcements and the 2018 Annual Report of the Company, the Hearing Examiner on 28 March 2018 released his decision granting the twenty-first annual extension of the preliminary plat, with conditions.

Capri in accordance with these conditions, has already submitted the Minor Amendment application and the application for the pre-design report to the Department of Health for the Large On-site Sewerage System. Both of which are major milestones.

Jones Lang LaSalle in conjunction with John L. Scott is assisting Capri to sell or develop its next phase of 261 residential lots.

Given the difference in prices there is a large incentive to endure a long commute for housing that is more in sync with the market fundamentals regarding the buyer's purchasing power. The average household income in Pierce County is around US\$72,000 and with an average home sale price of US\$399,000 that is a ratio of 5.5. In King County the average household income is US\$75,000 but the average home sale price is US\$800,000 putting the income to home ratio at 10.7 for King County. Given the disparity in these ratios it is expected that there will be a continuing long-term trend of buyers seeking affordability in Pierce County.

#### **Hubei Zonglianhuan Energy Investment Management Inc. ("HZLH")**

The Government of the People's Republic of China ("PRC") policies on favouring cleaner energy including natural gas, continue to cause gas shortages nationwide. HZLH continues to work closely with its upstream suppliers to mitigate cost increases.

HZLH's Anlu, Dawu and Xiaochang concessions have now entered the maturity phase and future cash flows are expected to be stable.

Guangshui's Compressed National Gas ("CNG") Receiving and Distribution Centre is expected to be connected shortly to the upstream supplier's main gas pipeline resulting in costs savings and efficiencies.

The Board is in discussion with Xiaogan He Shun Investment Management Centre LLP ("He Shun") to resolve the outstanding receivable of RMB26.8 million from He Shun relating to the shares disposed by CEEP in March 2015.

#### **ESA Electronics Pte Ltd ("ESA")**

The Group holds an 81.25% equity interest in ESA Electronics Pte Ltd ("ESA"). ESA is a Singapore incorporated company engaged in the business of assembling, trading and providing consultancy services in the semiconductor industry. ESA also acts as agents and distributors of semi-conductor back-end equipment such as vision inspection systems and test systems.

ESA's financial performance improved in 1QFY19 compared with 1QFY18 predominately due to increased burn-in-board sales to Taiwan and Philippines.

Moving forward, ESA will have a future development focus on broader applications, consider overseas productions to remain cost competitive and expand its sales footprint in key markets.

- (ii&iii) As noted in earlier Company announcements, previous management of the Company were unable to visit the Company's overseas subsidiaries namely HZLH and Capri as their passports had been impounded by the Commercial Affairs Department of the Singapore Police since 2014. Mr Carlson Clark Smith who was also the Manager of Capri did not disclose this fact in SGX announcements prior to 19 January 2018.

The current Executive Director Mr Blythman is also the Manager of Capri. This year he has made 4 trips to Seattle including representing Capri's interests before the Pierce County Hearing Examiner. He is in daily communications with Capri's engineering, legal and sales consultants.

Mr William Koh is the CEO of ESA who has day to day control over the operations. Payments made by ESA require co-signing by a Company Director. Monthly management reports are prepared by ESA's Accountant and reviewed by the Company's finance department. Mr Koh provides both the Executive and the Board regular updates on the performance of ESA. The Directors of the Company discuss regularly with Mr Koh and his key management personnel the business environment and the future directions of the ESA.

The Shareholders of the Company on 19 January 2018, appointed Mr Tony Ng an industry veteran who brings with him 30 years of experience. He has already developed alongside Mr Koh and ESA's finance team, an improved financial management tool which provides greater oversight of the business and assists in decision making.

Mr Wilson On Wang Sang is the Director of HZLH and is in regular communication with the Executive Director of the Company. Mr On has met on several occasions with Board members to discuss strategy and operational challenges brought about by the gas shortage. The Company together with HZLH's management team is looking at ways to further improve communication and reporting.

- (iv) From 30 August 2017 to 19 January 2018 the Company did not have a properly constituted Audit Committee. The Audit Committee which was properly constituted following the 19 January 2018 Extraordinary General Meeting reviewed the previous years financial statements and had highlighted irregularities of which it raised to the SGX and queries made of the Company's previous auditors BDO LLP.

Due to resourcing issues, the Audit Committee ("AC") Chairman has been involved personally in reviewing internal controls and has already implemented tighter controls relating to operating and capital expenditure and greater accounting oversight. The AC has also reviewed processes and procedures to streamline administrative work.

Moving forward the AC Chairman is likely to adopt a hybrid model which would utilise a local Internal Audit expert for HZLH and utilising existing staff for the Singapore subsidiary. Capri has minimal transactions each year as no lots have been developed and sold from Financial Years 2016 to 2018.

- (v) The CEO of ESA and Director of HZLH have been in their position since the Company acquired/commenced operations. Key positions in the Company and its subsidiaries are filled by long-serving staff who have in-dept knowledge of the Company and its operations. To continue to motivate and reward staff and align with the long-term organisation goals, the Board may consider recommending to the shareholders the adoption of an employee share option scheme.

### **Question 3**

For the financial year ended 30 April 2017, the independent auditors provided a disclaimer of opinion in which they did not express an opinion on the accompanying consolidated financial statements of the group and the statement of financial position of the company. The basis for the disclaimer of opinion was (a) Transaction relating to Employee Share Scheme and (b) Going concern. The auditors also included an Emphasis of Matter ("EOM") which relates to the investigations by the Commercial Affairs Department ("CAD") of the Singapore Police Force.

For the financial year ended 30 April 2018, the independent auditors have once again included a disclaimer of opinion on the consolidated financial statements of the group in their Independent Auditors' Report dated 3 October 2018 in relation to the audited consolidated financial statements of the group and the company for the financial year ended 30 April 2018 ("FY2018") (the "Financial Statements").

The basis for Disclaimer of opinion now includes:

- Opening balance
- Transaction relating to Employee Share Scheme
- Development properties
- Investment in subsidiaries and Receivables due from subsidiaries
- Contingent liabilities
- Appropriateness of going concern assumption

The EOM relating to the investigations by CAD remains.

The audit committee (AC) comprises Mr Joseph Chen (as chairman), Mr Ng Fook San and Ms Chai Siew Hoon. The AC carries out its functions in accordance with Section 201B(5) of the Singapore Companies Act, Chapter 50 and has been entrusted with the following functions, including the review with the auditors the audit plans, their evaluation of the system of internal controls, audit reports and management letter and ensure the adequacy of the Group's system of accounting controls and co-operation given by the Management to the Auditors; and review the co-operation given by the Company's officers to the auditors.

- (i) **Would the AC help shareholders understand their individual and collective efforts in ensuring the adequacy of the group's system of accounting and the co-operation given by the management to the auditors?**
- (ii) **What were the AC's responses when the auditors were unable to perform audit procedures to obtain sufficient appropriate audit evidence to satisfy themselves as to (a) the appropriateness of the accounting treatment, (b) whether the carrying values in the financial statements contain misstatements, or (c) whether any impairments/reversal or additional liabilities are necessary?**
- (iii) **How is the AC going to resolve the basis for disclaimer of opinion brought up by the independent auditors?**
- (iv) **Would it be prudent to AC to consider impairments and write-downs to bring the carrying values to levels that are supported by appropriate audit evidence?**

In the Directors' Statement (page 7), the directors have stated that, in their opinion:

*the consolidated financial statements of the Group and the statement of financial position and the statement of changes in equity of the Company as set out on pages 15 to 90 [of the annual report] are properly drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 30 April 2018 and of the financial performance, changes in equity and cash flows of the Group and the changes in equity of the Company for the financial year then ended in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore;*

- (v) **Given the disclaimer of opinion, would the directors help shareholders understand the basis for their opinion that the consolidated financial statements of the group and statement of financial position and changes in equity of the company "give a true and fair view" of the company's operations and finances?**

### **Company's response to Question 3**

- (i) During the financial year ended 30 April 2018, Mr Carlson Smith (Executive Director and CFO) ceased as Executive Director on 19 January 2018 and as CFO on 27 February 2018; and Mr Goh Hin Calm (Interim CEO) ceased as Interim CEO on 14 March 2018 and subsequently terminated from reduced duties on 27 April 2018.

As the current management did not have access to Mr Carlson Smith and Mr Goh Hin Calm during the preparation of the Financial Statements of the Group and Company, as well as files and financial records removed from the Company by the Commercial Affairs Department relating to previous financial years and transactions as disclosed in Note 34 to the financial statements, management came to the opinion that the financial statements represented a true and fair view by making appropriate enquiries of the Group Accountant and her team; reviewing available documentation; and opinions of expert advisors for valuations.

Documents made available to the Company's auditors include:

- (a) All books of account and supporting documentation, financial records and related data.  
(b) All minutes of meetings of shareholders, directors and committee of directors.

The Board also notes that both HZLH and ESA Auditors BDO Shanghai and RSM Chio Lim LLP Singapore were of the view that the financial statements of these two main operating subsidiaries represent a true and fair view and as such gave unqualified opinions save for an emphasis of matter relating to the CAD investigations.

- (ii) The auditors have reviewed the available documents provided to them by management. However, the Company's new independent auditors Baker Tilly TFW have no access to the work papers of the previous auditors BDO LLP, thus they were unable to verify the opening balances including adjustments and carrying values. The AC raised several issues to the Company's previous auditors of which copies were provided to the SGX. The Company has been trying to resolve this issue through legal correspondence, however to date, BDO LLP has not been responsive.
- (iii) The Board will continue to engage with BDO LLP to get access to their work papers.
- (iv) The Company engaged independent valuers to assess any impairments which resulted in a significant impairment of the goodwill of HZLH. The issues as to why the Company was unable to provide supporting document as to the carrying value of Capri's land for sale was due to:
- (i) the significant buildout period of the Falling Water PDD from 2002 to 2017 and;  
(ii) Capri was established in 2002 but only became a controlled entity in 2005 when EEL acquired a further 20% of Asia Plan from Brentwood Overseas Limited and;  
(iii) the financial statements of Capri for the financial year 30 April 2017 were reviewed by the previous auditor BDO LLP for the financial year ended 30 April 2017 for consolidation purposes and they did not disclaim on this carrying amount which suggests they had sufficient audit evidence and;  
(iv) as stated above, the current auditors do not have access to BDO LLP's work papers.

### **BY ORDER OF THE BOARD**

Allan Tan Poh Chye  
Company Secretary  
1 November 2018