

IPCO INTERNATIONAL LIMITED

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

RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (THE “SIAS”) ON THE ANNUAL REPORT 2017

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 on 28 August 2017 in relation to the Group’s Annual Report for the financial year ended 30 April 2017 and appends the replies as follows:

Question 1

The Independent Auditors of the company have issued a Disclaimer of Opinion in their Independent Auditors’ Report on the financial statements of the Company and its subsidiaries (the “**Group**”) for the financial year ended 30 April 2017.

Going Concern: The Independent Auditors have not been provided with sufficient appropriate evidence to support the key assumptions used in the projected cash flows and are “unable to assess if the use of going concern basis in the preparation of these financial statements is appropriate” (page 11).

Following a query raised by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 18 August 2017, the directors of the company have provided a response disclosing the reasons for the directors’ view that the use of going concern basis to prepare the financial statements is appropriate.

(a) Can the directors explain their roles and involvement in the audit of the financial statements?

(b) What other appropriate evidence is being sought by the Independent Auditors? Can the directors help shareholders understand why the company is unable to provide the Independent Auditors with the appropriate audit evidence? To what extent have the directors facilitated the audit by the Independent Auditors?

Transaction relating to Employee Share Scheme: Two additional partners were added to Xiaogan He Shun Investment Management Centre LLP (“**He Shun**”) which is the vehicle used for the implementation of the Employee Share Scheme of Hubei Zonglianhuan Energy Investment Management Inc. (“**HZLH**”).

HZLH is one of the group’s cash generating units and holds 100% equity interest in four subsidiaries supplying natural gas under 30 year exclusive contracts in the cities of Anlu, Dawu, Xiaochang, and Guangshui in Hubei Province, PRC.

(c) What is the level of the company’s oversight and control of the operating subsidiaries in the PRC, especially of HZLH?

The Board, with the concurrence of the Audit Committee, is of the opinion that the Group’s internal controls addressing financial, operational and compliance risks were adequate as at 30 April 2017 (page 9 – Directors’ Statement)

(d) How did the board (and the Audit Committee) arrive at its opinion that the group’s internal controls are adequate?

(e) What are the improvements to the internal controls following the discovery of the transaction at He Shun?

Company's response to (a)

Mr Carlson Clark Smith, Executive Director and Chief Financial Officer, and the Independent Directors, Mr Chwee Han Sin and Ms Chai Siew Hoon, have their roles described in the Annual Report FY2017 ("ARS") under Corporate Governance 96, 97, 101,102, 106 & 107.

Both Independent Directors also apply their working knowledge in commercial fields to assist in the Company's daily operation as and when required.

Each quarter Senior Management presents the financial statements to the Audit Committee. These are reviewed in detail, along with the accompanying notes to the financial statements. In addition Senior Management and the Directors conducted several meetings and discussions with the Independent Auditors.

Company's response to (b)

The Company to its best knowledge and effort has provided all information requested by the Independent Auditors during the course of the audit. The Independent Auditors have acknowledged that management did not place any restrictions or hinder them in the performance of their duties, and there was no limitation as to the quantity and scope of the information provided.

However, the Independent Auditors did not agree to some of the key assumptions made by management concerning the monthly cash flow projections, as the Share Placement exercise was still pending approval by SGX, and the finalised Listing Agreement for the sale of 261 lots of land by Capri LLC had not been signed prior to the issuance of the audit opinion on 7 August 2017.

Based on these elements of uncertainty, the Independent Auditors were unable to find enough concrete evidence to test sufficiently these two key assumptions, which led to the Disclaimer of Opinion stated on page 11 of the ARS.

Subsequent to the Independent Auditor's' opinion, as announced on 29 August 2017, SGX has provided In-Principle Approval for the Share Placement for gross proceeds of \$1.584 million. Moreover, as announced on 22 August 2017, Capri LLC has negotiated the final terms of a Listing Agreement with TeamBuilder KW, LLC of Washington State, USA for the sale of 261 lots at an aggregate price of US\$ 13 million. Assuming the local real estate market continues to remain favorable, Capri's management expects to realize substantial sale proceeds within six months of listing.

Company's response to (c)

Concerning He Shun, this was a very recent misunderstanding, as announced by the Company on 22 August 2017. Unfortunately, as of the date of the Independent Auditor's opinion (7 August 2017), the auditors were unable to obtain sufficient appropriate evidence regarding the nature and veracity of the transaction. To this end the Company has sought legal advice from a leading law firm in Shanghai and will provide appropriate updates. The management has no reason to believe that a viable solution in accordance with both PRC and Singapore regulations cannot be reached in due course.

During systematic audits conducted by our internal auditor in China, both recently and in previous years, no significant control or administrative deficiencies have been identified. As part of its internal control procedure, the Singapore headquarters does communicate regularly with HZLH and receives monthly management accounts. Until the transaction relating to the Employee Share Option Scheme arose, the Directors were of the opinion that the existing internal controls were adequate and that HZLH has been quite well managed. Given the current circumstances, the Directors will review and reinforce existing oversight and control procedures and will recommend new controls as required. One measure proposed

is to send staff more regularly to HZLH's site office to conduct more frequent meetings and to improve communications.

Please note that, despite this recent episode, there were no other notable incidents that arose previously. Over the past many years HZLH has consistently performed quite well financially in terms of both revenue and profit growth.

Company's response to (d)

The Audit Committee has full access to and co-operation from the management and has been provided with the resources required for it to discharge its functions properly. The Audit Committee also has full discretion to invite any Director and executive officer to attend its meetings. The external auditor has unrestricted access to the Audit Committee.

Moreover, the Company has engaged independent and reputable internal audit firms in Singapore and Shanghai, who have discerned no significant internal control deficiencies. The Board and Senior Management have and will continue to monitor internal controls within the organization to ensure effective follow-up to recommendations made by the Internal Auditors.

Company's response to (e)

The Company will emphasize the issue to our Internal Auditor in China to strengthen internal controls, in addition to sending staff more regularly to HZLH's site office to conduct more frequent meetings and improve communications.

Question 2

In the Directors' Statement (page 7 to 9) dated 7 August 2017, it was shown that the audit committee comprised Chwee Han Sin (as chairman), Chai Siew Hoon and Ross Yu Limjoco.

In the company's announcement dated 2 August 2017 titled "Resignation of Independent Director – Mr Ross Yu Limjoco", the company made the following declaration:

Following Mr Ross Yu Limjoco's resignation as independent director, the company has declared that the Audit Committee has a minimum of 3 members.

(a) Can the board confirm the current members of the audit committee?

As disclosed in the annual report (page 108), BDO has indicated to the Audit Committee and the Board of its intention not to seek for reappointment as auditor of the Company at the forthcoming AGM.

(b) Can the AC disclose the process for selecting the external auditor? What is the progress made in the appointment of the new independent external auditors?

Company's response to (a)

Please refer to pages 8, 9 and 108 of the 2017 Annual Report, where it is stated that throughout the Financial Year 2017, i.e., from 1 May 2016 to 30 April 2017, Mr. Ross Yu Limjoco was a member of the Audit Committee. His resignation took effect subsequent to the financial year on 2 August 2017, As such the Audit Committee had a minimum of three members throughout Financial Year 2017.

Company's response to (b)

The Company invited three audit firms who provided their qualifications, track records, and cost estimates for their services. Based on senior management's recommendation and the Board's assessment and concurrence, the Board and Audit Committee will propose the appointment of a new external auditor. To this end the Company will call an Extraordinary General Meeting to seek approval from SGX and shareholders to appoint a new external auditor for the forthcoming financial year 2018.

Question 3

On 2 June 2017, the company announced that it has been notified by the Singapore Exchange Securities Trading Limited (the "SGX-ST") that it will be placed on the watch-list with effect from 5 June 2017 due to the Minimum Trading Price ("MTP") Entry Criterion.

Listing Rule 1314(2) of the Listing Manual states that the Company will be assessed by the SGX-ST for removal from the Watch-list if it records volume-weighted average price of at least S\$0.20 and an average daily market capitalisation of S\$40 million or more over the last 6 months.

(a) Can the company clarify if the minimum average daily market capitalisation of \$40 million applies to the company for its assessment to be removed from the watch-list?

(b) Has the board deliberated on the options available to the company to meet the requirements of Listing Rule 1314(2)? If so, can the company disclose its plans to exit the watch-list?

Company's response to (a)

The daily market capitalisation of S\$40 million applies to the Company, as it is listed in the main board of SGX-ST. The Board is aware of this matter, which is currently under discussion.

Company's response to (b)

Please see the reply to Q3 (a).

BY ORDER OF THE BOARD

Carlson Clark Smith
Executive Director and Chief Financial Officer
30 August 2017