IPC CORPORATION LTD
(Company Registration Number: 198501057M)

RESPONSES TO QUERIES FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ("SGX-ST") ON THE UNAUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 ("FY2019 RESULTS")

The Board of Directors of IPC Corporation Ltd (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to provide the following information in response to SGX-ST's queries on 6 February 2020 in respect of the Group's FY2019 Results:

SGX-ST's Query 1:

On page 2 of the FY2019 Full Yearly Results, the Company explained that "The losses in FY2019 were mainly due to fair value loss on financial assets, at FVPL which relates to the Group's preference shares investment in Nest Hotel Japan Corporation ("NHJC"), a company incorporated in Japan, whereas the gains in FY2018 were mainly contributed by the fair value gain on the same financial assets, at FVPL offset against the write-down on the 24% interest in land held for development, JU REN DA SHA." Fair Value loss on NHJC amounted to ($11.631 million) in FY2019 after a fair value gain of $31.34 million was recognized in FY2018. Please provide the following details:

(i) What percentage of NHJC does the Company own;

(ii) To provide specific details of the terms of the preference shares investment in NHJC, the economic benefits that will accrue to the Company arising from its investment and its legal rights and obligations as a preference shareholder of NHJC;

(iii) How is the investment in the preference shares in NHJC recorded in the statement of financial position of the Company and what forms the basis of the value reported therein in FY2017, FY2018 and FY2019;

(iv) How does the financial and operating performance of NHJC affect the income statement of the Company and how is its earnings reported by the Company;

(v) Please provide the basis for having to perform the valuations in FY 2018 and again in FY2019 and recognizing the "fair value loss on financial assets at FVPL" which relates to the preference shares investment in NHJC in FY2019;

(vi) Please disclose the valuation methodology used and the specific material assumptions that resulted in the reporting of each of (i) the gain of $29.9million in FY2018; and (ii) the loss of $11.76million in FY2019. Please quantify each of the material assumptions used in the computation of the valuation that varied between the two valuation reports and provide details on the basis for using these respective numbers;

(vii) To justify how each of these quantified assumptions, which gave rise to the respective significant Fair value loss/(gain) on financial assets, in each of FY2018 and FY2019 is reasonable;

(viii) Please disclose the rationale and underlying policy for the Company to undertake the valuations of the preference shares in both FY2018 and FY2019. Please disclose if annual valuations were similarly previously undertaken and clarify if it is the intention of the board for annual valuations to be undertaken thereafter, after FY2019; and

(ix) In view that significant FV gains of $31.34 million were reported in FY2018 followed immediately by significant FV losses of $11.76 million in FY2019, would it be reasonable for the significant loss of $11.76 million to be adjusted out of the FY2018 FV gain as these significant fluctuations relate to the same asset? Please justify and provide specific details.

<u>Company's Response to Query 1:</u>

(i) IPC owns Convertible Preference Shares in NHJC, if converted into common shares, IPC could own about 80% of NHJC. This has also been disclosed on page 57 Note 16 of our 2018 Annual Report.

(ii) The Convertible Preference Shares that the Company owns do not have voting rights. These Convertible Preference Shares will be automatically converted into common shares on 31 Jul 2050 but the company has the exercisable right to convert on 1 Jan 2022. This has also been disclosed on page 57 Note 16 of our 2018 Annual Report.

(iii) In 2017, this investment was classified under Financial Asset Available for Sale and was carried at cost in accordance with FRS 39. In 2018, NHJC's business expanded significantly with the addition of 6 hotels under its management and a further 6 hotels under construction contracted to commence business between 2019 and 2020. With the expansion of business, NHJC achieved economies of scale and its value accordingly increased. The Company has also adopted SFRS(I)9 on 1 January 2018. Under SFRS(I)9, the Company has measured this equity investment at fair value and classified as FVPL (Fair Value through Profit or Loss). In 2019, the Company continues to classify this investment as Financial Assets, at FVPL.

(iv) The financial, operating performance and its earnings of NHJC will not directly affect the income statement of the Company, whereas the differences of fair value of this investment will be recognized as other gain or loss in the Income Statement of the Company as explained in Item 1(iii) above.

(v) The accounting policy as described in item 1(iii) above and in line with the Company corporate practice to perform yearly valuation.

(vi) The overall valuation approach was to first estimate the underlying equity value of the underlying entity using income approach and market approach, which will then be the input to the option-pricing model used to derive the value of the preference shares.

The specific material assumptions and estimates used in the valuation report were discount on lack of control and marketability, risk-adjusted discounted rate, terminal growth rate, projected revenue growth rate and market multiple (disclosed in our announcement dated 22 Feb 2019).

The material assumptions used in the computation of the valuation that varied between the two valuation reports are as follows:

	2018	2019
Discount rate	6.5%	7.4%
Terminal growth rate	1 %	0.7%
Revenue growth rate	15% - 40%	2.1% - 18.4%
Market multiple	13.2 X - 15.2 X	11.4 X - 13.4X
Discount on lack of control and marketability	40%	40%

The parameters used were based on market comparable and the entity's projected growth.

(vii)

	Relationship of the assumptions to the fair value
Discount rate	The higher the discount rate, the lower the fair value.
Terminal growth rate	The higher the terminal growth rate, the higher the fair value.
Revenue growth rate	The higher the revenue growth rate, the higher the fair value.
Market multiple	The higher the multiple, the higher the fair value.
Discount on lack of control and marketability	The higher the discount, the lower the fair value.

As disclosed in item 1(iii) and the parameters used as stated in 1(vi) had resulted in the significant fair value gain in 2018. Whereas in 2019, the parameters used in 1(vi) and with the significant decrease in the projected revenue growth, coupled with the higher discounted rate, lower market multiple and terminal growth rate which were dictated by the slower market growth at the end of 2019 had resulted the significant loss in the fair value.

Consequently, afore-mentioned quantified assumptions were reasonable.

(viii) As explained in 1(iii) above, and it is the intention of the board for annual valuations to be undertaken thereafter, after 2019, as long as the preference shares remains unconverted.

(ix) The fair value loss in FY2019 was due to the changes in estimates as described in item 1(vi) above which resulted in a lower valuation obtained for the FY2019, it is not a prior year adjustment resulting from an error or change in accounting policy.

SGX-ST's Query 2:

On page 8 of the FY2019 Full Yearly Results, the Company explained that "In 2019, the foreign tourists' **growth rate of 2.2%** was the smallest since 2012 according to Nikkei Asian Review on 10 Jan 2020, as compared with 8.7% growth in 2018 according to Nikkei Asian Review on 16 Jan 2019: (a) Japan's inbound visitor growth slowed in 2019 due partly from a significant drop in South Korean tourists amid bilateral tensions. The number of South Korean visitors declined 7.6% for July and dropped further to more than 60% by November. (b) The pace of growth has slowed down from the number of visitors from China to Japan (Nikkei Asian Review 1st Jan 2020)."

(i) Please provide the occupancy rates of the underlying hotels managed by NJHC in FY2019 compared to FY2018 to justify that this significantly impacted the value of the Company's interest in NHJC Preference Shares by a significant loss of $11.76 million;

(ii) Please disclose the basis how NHJC's management fees are computed/paid and whether these are fixed annual sums; and

(iii) Please disclose whether and how the preference shareholders are entitled to profits or a share of profits of NHJC to justify the reasonableness of the data used in the assumptions for the valuation reports.

Company's Response to Query 2:

(i) The occupancy rates of the underlying hotels managed by NHJC in FY2019 compared to FY2018 was lower by about 4%.

The significant impact on the value of the Company's interest in NHJC Preference Shares has been explained in 1(vi) above.

(ii) NHJC's income for each hotel = GOP (Gross Operating Profit) – Rent Payable (either fixed or variable).

(iii) The preference shareholder is entitled to dividend if declared.

As disclosed in item 1(vi) above, the option-pricing model is used to derive the Convertible Preference Shares value, which has taken into consideration contractual terms of the Preference Shares. The share of profit (dividend) should not be used to justify the reasonableness of the data used in the assumptions for the valuation reports.

For and on Behalf of the Board

Lauw Hui Kian
Director

7 February 2019