

RESPONSE TO SGX-ST QUERIES ON THE COMPANY'S UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED 31 AUGUST 2021

The Board of Directors (the “**Board**”) of Nico Steel Holdings Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to provide the following additional information in response to the queries raised by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 3 November 2021 in respect of the Company’s unaudited condensed interim financial statements for the financial period ended 31 August 2021 (the “**Financial Statements**”) announced on 13 October 2021.

SGX-ST’s Query 1 :

Please disclose the aging of the Company’s trade receivables.

Company’s Response :**Aging of the Group’s trade receivables**

	Current	1-30 days	31-60 days	61-90 days	91-120 days	121-150 days	>150 days	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
At 31.8.2021								
Group's trade receivables	5,154,121	371,055	498,705	22,255	0	4,060	126,872	6,177,068
% of Group's trade receivables	83.4%	6.0%	8.1%	0.4%	0.0%	0.1%	2.0%	100%

SGX-ST’s Query 2 :

Please provide information on the Group’s inventory turnover days.

Company’s Response :

	Group HY2022
Inventory turnover days (Days)	170

SGX-ST's Query 3 :

With regard to the other payables disclosed on page 16 of the Financial Statements, please disclose the aging and nature of these other payables and whether the counterparties are related parties.

Company's Response :**Breakdown of other payables :**

	Group HY2022 US\$
Other creditor- pension & medical insurance	29,401
Other creditor- other suppliers	441,779
Other payable- provision for reinstatement cost	98,350
Other tax payable- VAT	(1,938)
	<u>567,592</u>

Other payables aging as at 31 August 2021:

Other payables are aged within one year.

Nature of other payables :

Other payables mainly comprise of sundry payables for freight charges, repair and maintenance expenses, stationary expenses, pension and medical insurance, provision for reinstatement cost, VAT tax payable and other consumable expenses incurred during the ordinary course of the Group's operations. The counterparties are not related parties.

SGX-ST's Query 4 :

Please provide the reason(s) for the significant borrowings of US\$3.5 million by the Group when the Group recorded a cash and cash equivalent of US\$4.3 million as at 31 August 2021.

Company's Response :

Borrowings of US\$3.5 million comprised of lease liabilities of US\$0.4 million and unsecured working capital bank loans of US\$3.1 million.

Unsecured working capital bank loans of US\$3.1 million include non-current working capital bank loan of US\$0.7 million and current working capital bank loan of US\$2.4 million.

Unsecured non-current working capital bank loan of US\$0.7 million was obtained by a subsidiary in Singapore under the Temporary Bridging Loan Programme for SMEs during the financial period.

Unsecured current working capital bank loans of US\$2.4 million were obtained to purchase inventories where the loan amounts are disbursed to the supplier subject to the bank's approval of the supplier's invoices and purchase orders submitted by a subsidiary in People's Republic of China. The repayment terms of these bank loans are either 180 days and/or 150 days, which approximates the general credit terms given by suppliers that the subsidiary trades with.

The Group recorded a cash and cash equivalent of US\$4.3 million as at 31 August 2021. The Group has taken steps to conserve cash resources for expansion and growth amid the current challenging business environment. The expected working capital requirements in the next 12 months are as follows:

1. Investment of production equipment in Singapore entity's factory to fulfil the additional investment requirement set by JTC Corporation for the further extension of the current term lease for another 20 years from 1 January 2023;
2. Research and development costs for the Liquid Forging Project in Singapore entity; and
3. Expected costs for Group's China entities to shift their operations to the northern region of Jiangsu Province.

In addition to setting aside sums for the above activities, the Group is also cautious that increases in costs relating particularly to transport and logistics, electricity and additional health and safety measures at its operating sites will need to be catered for in the event of a rapidly changing COVID situation in China (which has opted to pursue a Zero Covid approach) that could result in frequent snap lockdowns and other changes that both directly and indirectly affect the operating sites.

SGX-ST's Query 5 :

Please provide the reason(s) for the significant accounts payables/trade and other payables of US\$1.7 million when the Group recorded a cash and cash equivalent of US\$4.3 million as at 31 August 2021.

Company's Response :

Trade payables and other payables increased by 23.4% from US\$1,098,820 as at 28 February 2021 to US\$1,355,926 as at 31 August 2021, which is in line with business operations of the Group and the past practices. Accrued operating expenses of US\$353,999 as at 31 August 2021 mainly comprised of audit fees, agent fees, directors' remuneration and staff remuneration. These expenses were incurred towards the end of the financial period which will be paid out only in the following financial period.

The Group recorded a cash and cash equivalent of US\$4.3 million as at 31 August 2021. The Group has taken steps to conserve cash resources for expansion and growth amid the current challenging business environment. The expected working capital requirements in the next 12 months are as follows:

1. Investment of production equipment in Singapore entity's factory to fulfil the additional investment requirement set by JTC Corporation for the further extension of the current term lease for another 20 years from 1 January 2023;
2. Research and development costs for the Liquid Forging Project in Singapore entity; and
3. Expected costs for Group's China entities to shift their operations to the northern region of Jiangsu Province.

In addition to setting aside sums for the above activities, the Group is also cautious that increases in costs relating particularly to transport and logistics, electricity and additional health and safety measures at its operating sites will need to be catered for in the event of a rapidly changing COVID situation in China (which has opted to pursue a Zero Covid approach) that could result in frequent snap lockdowns and other changes that both directly and indirectly affect the operating sites.

BY ORDER OF THE BOARD

Tan Chee Khiong Danny
Executive Chairman & President

Date : 5 November 2021