



RESPONSE TO SGX-ST QUERIES REGARDING THE COMPANY'S ANNUAL REPORT FOR FINANCIAL YEAR ENDED 28 FEBRUARY 2022

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 4 August 2022 in respect of the Company’s annual report for the financial year ended 28 February 2022 announced on 10 June 2022.

SGX-ST’s Query 1 :

Under Note 12(d), it is stated that the Company incorporated Nico Precision Technology Solutions (Jiangsu) Co., Ltd (“**NPT**”) for CNY32,267,480 (USD5,050,672), representing 100% of equity interest. The purpose of this subsidiary was to relocate the Group’s existing factory in Suzhou to Jiangsu.

- Please advise if the board has considered using such funds to finance a fair and reasonable exit offer to shareholders per LR1309. If it has been considered, please explain the limitations/reasons why the Company did not utilize such funds for a fair and reasonable exit offer to shareholders.
- Please also explain the rationale behind the relocation of the factory in Suzhou to Jiangsu, and how this would affect the operations/profitability of the Group in the future.
- Please describe the principal assets and activities of Nico Steel Centre (Suzhou) Co., Ltd (“**NSC**”), and the Group’s future plans with respect to NSC and NPT.
- Please also disclose whether NPT has acquired, leased or identified a prospective factory to replace the Group’s existing factory in Suzhou, and if it has, please confirm whether majority of the USD5.05m investment into NPT would be/has been utilized for this purpose.

Company’s Response:

(A), in relation to:

- “ - ***Please advise if the board has considered using such funds to finance a fair and reasonable exit offer to shareholders per LR1309. If it has been considered, please explain the limitations/reasons why the Company did not utilize such funds for a fair and reasonable exit offer to shareholders.***”

Starting from FY2018, the Group had been exploring opportunities to relocate the Group’s entire factory operation to a new location in the northern region of Jiangsu province. The factors the Company took into account for the relocation are, among others, (a) increasing labour costs, (b) challenges to environmental control issues brought about by the on-going urbanisation plan being implemented by the city government of Suzhou, which would over time also contribute to even higher costs, generally, as Suzhou urbanises, and (c) the availability of tax incentive programs outside of Suzhou.

For the purpose of the relocation and the capitalisation of NPT, for FY2022, NSC declared dividends amounting to US\$5.05 million to the Company. The Company then directed NSC to apply the US\$5.05 million dividends declared towards fulfilling the paid-up capital of NPT. After registration of the paid-up capital of NPT to the sum of US\$5.05 million, NPT then advanced the amount of US\$5.05 million to Nico Steel Solutions (Suzhou) Pte Ltd (“**NSS**”) and Nico Steel Technology (Suzhou) Co., Ltd (“**NSTS**”) for their working capital requirements.

Prior to the incorporation of NPT, the Group’s cash and cash equivalent were US\$4.3 million as at 31 August 2021 and US\$4.5 million as at 28 February 2022.

The US\$5.05 million loaned via NPT to NSS and NSTS does not comprise new or a separate pool of funds. It represents the working capital of the Group and cannot be used for the purpose of an exit offer to shareholders for reasons previously explained to the Exchange, as the Group is a going-concern.

(B), in relation to:

“ - Please also explain the rationale behind the relocation of the factory in Suzhou to Jiangsu, and how this would affect the operations/profitability of the Group in the future.”

Please refer to the explanation provided under (A) for the rationale behind the relocation of the factory in Suzhou to Jiangsu.

As to how such a relocation would affect the operations/profitability of the Group in the future, it’s hoped that with an overall lower cost base, for the reasons cited under (A) above, the operations/profitability of the Group would benefit from such an overall lower cost base. However, shareholders should not read into the foregoing statement of benefitting from an overall lower cost base as a Forward Looking Statement as none is intended by the Company.

(C), in relation to:

“ - Please describe the principal assets and activities of Nico Steel Centre (Suzhou) Co., Ltd (“NSC”), and the Group’s future plans with respect to NSC and NPT.”

The principal activities of both NSC and NSS are the provision of metallurgical solution and metal slitting services - NSC services export oriented customers in China and NSS services the local market in China. The principal assets of NSC comprises property, plant and equipment, inventories, trade receivables and cash and cash equivalents. As explained above, as a result of the ongoing urbanisation of Suzhou by the city government of Suzhou which is taking place within the vicinity of the Group’s Suzhou production facilities and for the other reasons cited above under (A), it would be prudent to move the operations of NSC and NSS to Jiangsu. After completion of the relocation, the current operations of NSC and NSS will be performed by NPT in Jiangsu. The business and nature of operations of the Group in China will not be changed as a result.

(D), in relation to:

“ - Please also disclose whether NPT has acquired, leased or identified a prospective factory to replace the Group’s existing factory in Suzhou, and if it has, please confirm whether majority of the USD5.05m investment into NPT would be/has been utilized for this purpose.”

At the current time, NPT has not acquired, leased or identified alternative factory premises to replace the Group’s existing factory in Suzhou. However, with the issue of the business license by the local government of Jiangsu to NPT, Management will be in a position to discuss opportunities to acquire or lease land for the new factory.

The US\$5.05 million will be used for the costs and expenses in effecting the relocation and also for the working-capital requirements of the Group's operations when relocated to Jiangsu. As explained under (A), the US\$5.05 million represents the cash and cash equivalent held by the Group and is currently being used for the ordinary conduct of the Group's business and operating activities. It is, therefore, important to understand that the US\$5.05 million is not a fixed sum that has been allocated for the sole purpose of meeting the costs of acquiring a new factory and other ancillary setting-up expenses. The Group will have to assess the total costs required when it has identified a suitable factory site in Jiangsu and will further have to assess whether it will be able to fund the total costs of the relocation from internal resources or a combination of internal resources and external borrowings.

SGX-ST's Query 2 :

Under Note 13, it is noted that the Company disclosed ~ USD4.7m as Inventory - finished goods. Please disclose the aging breakdown of the finished goods for FY22 and FY21.

Company's Response :

Breakdown of the ageing of Group's finished goods:

Finished Goods	<u>30 days</u>	<u>60 days</u>	<u>90 days</u>	<u>120 days</u>	<u>150 days</u>	<u>> 150 days</u>	<u>TOTAL</u>
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
FY2022	411,484	743,522	214,368	268,036	119,329	2,982,761	4,739,500
FY2021	336,182	394,820	161,014	362,761	155,375	3,332,669	4,742,821

SGX-ST's Query 3 :

It is noted under Note 16, that there was cash at bank of ~ USD4.5m as at FY22. Please explain whether such amounts are held as restricted cash and what currencies the cash is held in. Please also confirm if the board has considered using such funds to partially finance an exit offer to shareholders. If so, please detail the reasons why the Company is not using this to finance an exit offer to shareholders, as well as any constraints (i.e. currency controls etc).

Company's Response :

The cash and cash equivalents of USD4.5 million is held mainly in USD and RMB. As explained above and also previously in the Company's responses to queries from the Exchange, the cash and cash equivalent represents the working capital of the Group for its business and operations and does not represent distributable cash or reserves that can be used to return cash to shareholders.

SGX-ST's Query 4 :

It is noted from the statement of cash flows and under Note 19, that the Company has obtained fresh financing of ~ USD2.2m via 'Bank Loan C' which is unsecured. Please provide more details on this loan, including but not limited to:

- The terms of usage;
- The type of loan (i.e. working capital facility etc);
- Any loan covenants that are atypical;
- Clauses for extension past the maturity date of 2024; and
- Whether there are any cross guarantees.

Please also explain if the board considered using the loan proceeds to finance part of the exit offer.

Company's Response :

The Bank Loan C was granted under the Enterprise Financing Scheme ("EFS") Temporary Bridging Loan I ("TBL I") by DBS Bank Ltd ("DBS") to the Singapore Subsidiary of the Company. The purpose of EFS TBL I as set out under the terms of grant by DBS is for working capital.

The key covenants of EFS TBL I include provisions that oblige the Company to act as guarantor for the loan, to maintain at all times a Net Worth of not less than US\$10,000,000/-, and not exceed at all times a maximum Leverage Ratio of 1.35 times. There are no unusual or atypical covenants.

There are no provisions for an extension of the maturity date past 2024.

The Company is the Guarantor for this Bank Loan C and DBS has not required any other Group subsidiary to provide cross or additional guarantees.

The objectives and purposes of loans granted under the EFS TBL I are clear and do not include financing an exit offer.

BY ORDER OF THE BOARD

Tan Chee Khiong Danny
Executive Chairman & President

Date : 10 August 2022