



RESPONSE TO SGX-ST QUERIES ON THE COMPANY'S UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE HALF-YEAR AND FULL 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 6 June 2022 in respect of the Company’s unaudited condensed interim financial statements for the half year and full year ended 28 February 2022 announced on 29 April 2022.

SGX-ST’s Query 1 :

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

Company’s Response :

	Group FY2022
Inventory turnover days (Days)	<u>168</u>

SGX-ST’s Query 2 :

Please disclose the breakdown and aging schedules for trade and other receivables.

Company’s Response :

(i) Breakdown of the Group’s trade and other receivables:

	Group FY2022 US\$
Trade receivables	6,574,426
Less: Loss allowance	(180,083)
	<u>6,394,343</u>
Other receivables:	
- Other debtors	9,947
- GST/VAT receivables	3,319
- Others	23,028
	<u>36,294</u>
Deposits	69,744
Prepayments	224,192
	<u>6,724,573</u>

(ii) **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
Group	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
At 28.2.2022								
Trade receivables	4,524,107	286,193	724,323	599,905	7,181	102,379	150,255	6,394,343
Other receivables*	36,294	-	-	-	-	-	-	36,294
Trade and other receivables*	4,560,401	286,193	724,323	599,905	7,181	102,379	150,255	6,430,637
% of Trade and other receivables	70.9%	4.5%	11.3%	9.3%	0.1%	1.6%	2.3%	100%

Note:

* - Other receivables exclude deposits and prepayments.

(iii) **The average credit terms for the trade receivables contracts**

Trade receivables are non-interest bearing and the credit terms extended to customers generally ranging from 30 to 90 days.

(iv) **The Company's plan for the collection of the outstanding receivables, and whether the Company has commenced any legal actions for recovery.**

1. The Group regularly monitors and reviews its trade receivables ageing and follows up with customers through phone call and / or email in to make collections.
2. Where trade receivables of a significant amount has been outstanding past 90 days, our Executive Director and President, Mr. Danny Tan will personally follow up and, if appropriate, meet with the CEO or director of those slow paying customers to discuss outstanding trade receivables.
3. The major trade receivables of the two subsidiaries in People's Republic of China ("PRC") are insured by third party insurance companies.
4. In addition to the above, as a last resort, the Group will pursue legal action to recover the debts. As of today, the Group has not had to resort to legal action to recover any outstanding trade receivables, as our trade receivables are collected eventually.

(v) **The Board's opinion on the reasonableness of the methodologies used to determine the value of the receivables as well as any impairment.**

a) **Trade receivables:**

In respect of the Group's trade receivables amounting to US\$6.3 million, management uses a provision-matrix to determine the lifetime expected credit loss allowance for trade receivables. In determining the expected credit loss rates, the Group considers historical loss rates for each category of customers and makes adjustments to reflect current and forward-looking macroeconomic factors that affect the ability of the customers to settle the receivables.

Trade receivables are written off when there is no reasonable expectation of recovery, i.e., when there is objective evidence that the subject trade receivable should be written off, such as when a debtor fails to engage in a repayment plan with the Group and when such debtor fails to make payments when its trade receivables are more than 365 days past due. Prior to writing off any receivables, the Company will continue to engage in collection efforts to attempt to recover the receivables due, which includes the steps set out above in (iv). Where recoveries are made, these are recognised in profit or loss.

Subject to a final decision to write off particular trade receivables after recovery efforts have been expanded and there is objective evidence of the likelihood of non-recoverability as set out in the paragraph above, our trade receivables are valued as recorded.

The table below provides information on the Group's credit exposure in relation to trade receivables under SFRS(I) 9 as at 28 February 2022 and 28 February 2021.

	Current to 365 days past due	More than 365 days past due	Total
	US\$	US\$	US\$
Group			
As at 28 February 2022			
Expected loss rate	0%	100%	
Trade receivables	6,394,343	180,083	6,574,426
Loss allowance	-	(180,083)	(180,083)
Total trade receivables (net)	6,394,343	-	6,394,343
As at 28 February 2021			
Expected loss rate	0%	100%	
Trade receivables	5,586,033	191,603	5,777,636
Loss allowance	-	(191,603)	(191,603)
Total trade receivables (net)	5,586,033	-	5,586,033

As can be seen in the illustration above, our Group's loss allowance has been about 2% to 3% of the total trade receivables.

b) Other receivables:

The Group does not expect any significant credit losses from other receivables.

Other receivables amounting to US\$36,294 are as set out in the breakdown above and are incurred in the ordinary course of business activities and operation of the Group. Deposits amounting to US\$69,744 relate to deposits for utilities and factory rentals. The counterparties are not related parties.

In accordance with the expected credit loss assessment methodology adopted by the Group, if there is any objective evidence of impairment, appropriate provisions will be made.

Based on the information available as at the date of the unaudited interim financial statement, the Board has assessed the methodology adopted by management on the recoverability of the trade and other receivables and is satisfied that such methodology adopted is reasonable, noting that the Group has been using the methodology described above consistently.

There is no indication to further impair the remaining trade and other receivables as at 28 February 2022.

(vi) The Board's assessment of the recoverability of the remaining trade and other receivables.

The Board does not expect significant credit losses arising from the remaining trade and other receivables as the major trade receivables are insured by third party insurance and the non-trade receivables are all under current credit terms. As set out above, the Group's loss allowance has been about 2% to 3% of its total trade receivables.

SGX-ST's Query 3 :

Please disclose the nature and breakdown of "Bill payables", and explain why the Company has provided a guarantee for such payables.

Company's Response :

(i) Breakdown of Bills payable :

	Group FY2022 US\$
Outstanding Bills payable to Bank	<u>795,125</u>
	<u>795,125</u>

(ii) Nature of bills payable :

Bills payables refers to the short-term trade financing facility the Group has with its bankers to finance the purchase of our inventory.

(iii) Why has the Company provided a guarantee for bills payable :

The provision by the Company of a corporate guarantee is a condition of the grant of such trade financing facility.

SGX-ST's Query 4 :

Please explain why the cost of sales has increased comparatively more revenue.

Company's Response :

Cost of sales mainly comprise purchases, freight inwards, production consumable and depreciation of property, plant & machinery. Please refer to the breakdown of the Cost of sales as below:

	FY2022 US\$	FY2021 US\$	Increase/ (decrease)
Cost of inventories	13,880,534	11,726,192	18%
Freight inward charges	364,816	120,149	204%
Production consumable	2,734,652	1,064,628	157%
Depreciation of property, plant and machinery	128,467	107,539	19%
	<u>17,108,469</u>	<u>13,018,508</u>	31%

Group's cost of sales increased 31% from US\$13.0 million in FY2021 to US\$17.1 million in FY2022, mainly due to higher production consumable, freight inward charge and cost of inventories in FY2022. The majority cost in cost of sales is cost of inventories referring to the purchase cost for raw materials from suppliers which increased 18% from US\$11.7 million in FY2021 to US\$13.9 million in FY2022 due to an increase in metal price in the reported financial period. Freight inward charges increased significantly from US\$0.1 million in FY2021 to US\$0.4 million mainly due to the continuing global supply chain disarray have led to the skyrocketing freight rate and container shortage which have further pushed up Group's transportation costs. Production consumable mainly comprise direct labour cost, utilities, auxiliary materials and subcontractors' processing fees. Production consumable increased significantly from US\$1.1 million in FY2021 to US\$2.7 million in FY2022 mainly due to processing fees and auxiliary materials also increased highly in the reported financial period. Hence, cost of sales increased 10% more than the variance for revenue in FY2022.

SGX-ST's Query 5 :

Please provide a breakdown of the nature of profits from the “other” segment, and in particular, provide more details on what constitutes “investment holding”.

Company's Response :**(i) Breakdown of profits from “Others” segment :**

	Others segment FY2022 US\$
Company	
Reportable segment revenue	5,049,861
Reportable segment expenses	(673,234)
Reportable segment profit	<u>4,376,627</u>
Tax expenses	(13,851)
Reportable segment profit after tax	<u>4,362,776</u>

(ii) Nature of profits from other segment :

Other segment is related to the Company which is principally operate as investment holding company. The profit after tax from the Company mainly contributed from dividend income of US\$5,049,861 less the operating expenses of US\$673,234 and tax expense of US\$13,851. The dividend income was received from its wholly owned subsidiary, Nico Steel Centre (Suzhou) Co., Ltd (“**NSC**”).

(iii) Details on Investment holding :

The Company has reinvested the dividend income US\$5,049,861 from NSC directly in its wholly-owned subsidiary, Nico Precision Technology (Jiangsu) Co., Ltd (“**NPT**”) which was incorporated in the PRC on 30 September 2021. Please refer to Company’s announcement dated 13 October 2021 for details on the incorporation of NPT.

The investment into NPT had no material impact on the earnings per share and net tangible asset per share of the Group for the financial year ended 28 February 2022. It is also not expected that the investment into NPT will have any material impact on the earnings per share and net tangible asset per share of the Group for the financial year ending 28 February 2023.

BY ORDER OF THE BOARD

Tan Chee Khiong Danny
Executive Chairman & President

Date : 10 June 2022