NIPPECRAFT LIMITED
(Company Registration No. 197702861N)
(Incorporated in the Republic of Singapore)

RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (“SIAS”) AND SHAREHOLDERS ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021

The Board of Directors (the “**Board** or the “**Directors**”) of Nippecraft Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) refers to the questions raised by SIAS (question **Q1** to **Q3**) and Shareholders (question **S1** to **S5**) in relation to the Company’s Annual Report for the financial year ended 31 December 2021 (“**FY2021**”) and appends its response as follows:

Q1. The chairman reported that the company posted a net profit for the second consecutive year lifted by the strong performance in the stationery business. This was encouraging especially given the challenges brought about by the pandemic.

Gross profit margin for the stationery business rose by 11.1% due to better sales mix and less discounts offered in FY2021. In the key markets of Australia and UK, there are further relaxation of COVID-19 rules which augurs well for the group. Management has a clear vision to build upon the strong foundation based on the Collins brand.

It will continue its effort in digitalising the stationery business by investing in technology to improve customer experience and reach out to new customers. Management’s key focus will be growing the online presence of the brands in multiple markets across the world. This focus will support further sales growth for our stationery business.

For FY2021, the group generated a profit after tax of US$0.3 million and EBITDA was at US$1.4 million. The group’s cash and cash equivalents strengthened to US$23.0 million.

(i) **Would the newly redesignated CEO, Mr. Raja Hayat, be giving shareholders an overview of the group’s growth strategy for Collins brand during the AGM? Please also post the presentation slides (and/or a transcript) on SGX for the benefit of all shareholders and potential investors.**

Yes, Mr. Raja Hayat will be giving shareholders an overview of the Group’s growth plans and strategy for the coming year. A copy of the presentation slides, together with minutes of the AGM will be posted on the SGXNet after the AGM.

(ii) **What is management’s familiarity with the other key market of Australia?**

The Group has been doing business in Australia for more than 40 years. The Management team has a good grasp of the consumer sentiments and the distribution channels in Australia. The local management team has significant industry experience and their familiarity of the Australia market is evidenced by the improvement in the revenue generated in Australia in FY2021 as compared to FY2020.

(iii) **How much will the group be investing in digitalising the business?**

Since 2019, the Group has revamped its sales platforms and websites to enhance customers' experience and sales processes. We have also implemented an enterprise resource planning system to increase employees' productivity and streamline workflows. As a Group, we will continue to adopt technology to improve processes and workflows as well as customers' experience. We expect to tap into existing resources to fund the capital expenditure.

(iv) **What are some of Collins' (and Debden's) successes in social media?**

We developed more targeted content on social media and this has increased the viewership of our social media engagements and impressions by an average of 30% year-on-year. Website visits have improved by an average of 20% year-on-year and the average session duration remained constant at 3 minutes.

(v) **What are some of the targets the board has set for the group in the stationery business?**

The stationery business is our core business and the Group managed to turn this business around to become profitable in FY2021, amidst a challenging environment due to, *inter alia*, COVID-19. However, there are significant challenges ahead in this highly competitive industry, including rising costs. Given the circumstances, the Group does not expect rapid growth in the stationery business in FY2022 and the targets set for the stationery business are to grow its revenue and maintain profitability.

(vi) Separately, in the pulp trading business, revenue was relatively flat at US$124.1 million (FY2020: US$128.3 million). Although the segment accounts for 89%-90% of the group's total revenue, management only stated that "gross profit margin for trading business decreased by 1.4% due to strong market competition". **Can management provide more colour on the operations and the opportunities in the trading segment?**

As discussed in our response to SIAS questions on 19 June 2020, our trading business seeks to identify and respond to the supply and demand differential of pulp on a global scale. We use arbitrage to trade physical pulp without incurring pricing risk.

The trading business is a very lean operation. Our credit management team ensures timely collection from our customers so as not to expose the Company to unnecessary credit risk. In addition, our specialisation in price risk management allows our customers to stabilise their cashflow, lock-in their profitability and at the same time grow their business without worrying about uncertainties ahead.

However, this competitive advantage may be easily eroded if we are unable to source the right product for our customers or if the demand for customers' product dwindles.

The bottom line is inversely co-related to the USD interest rate. In addition, geopolitical instability will also limit the sources of pulp that we are able to offer to our customers.

As disclosed on page 15, paragraph 10 of our unaudited full year financial statements announcement for FY2020 (dated 24 February 2021), we have disclosed that the margin for our trading business was expected to reduce significantly in FY2021 due to strong market competition arising from slashing of rates by competitors to gain market share. The Company expects the trading business to continue to face headwinds in view of such competition, increasing interest rates and geopolitical instability. On page 26 of our unaudited full year financial statements announcement for FY2021 (dated 24 February 2022), it is expected that the gross margin of the trading business to remain depressed.

In addition, the auditors have pointed out that manual processes are still being used by the trading segment (a key audit matter). **Would the audit committee review how it could automate the processes and systems given the voluminous sales transactions in the segment?**

Our Audit Committee has been championing for the use of technology to improve processes and workflows where possible, while taking into consideration, among others, operational and economic requirements and the availability of technological solutions. However, every customer order in the trading business is unique with an extremely high level of specificity in demands from each customer. For example, the age of the vessel used to ship the pulp, how the pulp be packed and the shipping route to take. Given the myriad of variables, automation may not be suitable. Notwithstanding, our Audit Committee is mindful of the relevant risks and in FY2021 our Internal Auditor has covered the Group's internal control and the sales and purchases transactions of the trading business in its review. No material weakness was highlighted. Nevertheless, our Audit Committee will consider adopting an appropriate and suitable technology to automate this process where appropriate.

Questions raised by Shareholders

S1. With the advent and increasing usage of technology, such as the usage of laptops, e-learning, work from home, does the company consider itself (stationary business) to be in a sunset industry that is fading away slowly? If so, please explain your thinking as to why it is or it is not a sunset industry. And also elaborate what steps and measures are being done to reverse the decline, if possible.

Based on research conducted by management, the global stationery market was estimated to be worth more than US$180 billion in 2020 and is expected to continue to grow. Our stationery business grew by 9% from US$14.7 million in FY2020 to US$16.0 million in FY2021. This growth was the result of the ongoing transformation to a Lifestyle brand by introducing new products to attract new customers and the digitalisation of our stationery business. Please refer to the presentation slides when it is released via the SGXNet on the steps and measures adopted by the Company to grow its stationery business.

Q2. As shown on page 11 (Key financial data), the group achieved return on equity of between (2.82)% and 1.05, averaging (0.344)% over the past 5 years.

Key Financial Data	FY2021	FY2020	FY2019	FY2018	FY2017
US$'000					
Sales for the Group	**140,143**	143,048	120,629	115,037	125,810
Profit / (Loss) before tax	**300**	225	(753)	(299)	97
EBITDA*	**1,437**	1,314	436	722	981
At year-end (US$'000)					
Shareholders' funds / Net assets	**31,010**	30,849	30,319	31,050	32,287
Total assets	**63,398**	57,687	47,663	50,596	66,662
Total borrowings	**–**	–	–	–	–
Per Share Data (cents)					
Net earnings / (losses) **	**0.092**	0.017	(0.246)	(0.017)	0.005
Net assets***	**8.820**	8.780	8.630	8.840	9.190
Financial Ratios					
Return on equity (%)	**1.05**	0.19	(2.82)	(0.19)	0.05

* *EBITDA means earnings before interest, taxes, depreciation and amortisation.*
** *Earning/(Loss) per share is based on the weighted average number of shares.*
*** *Net assets per share is based on the number of issued shares (excluding treasury share) as at year end.*

(Source: company annual report)

(i) **What is the group's cost of capital?**

The Group's weighted average cost of capital is 4.53%.

(ii) **Is the group able to generate a return that is reasonably higher than the cost of capital taking into account the risks involved in the group's businesses? If not, would the directors consider how it can safeguard the interest of the company and its shareholders (including return of capital or an orderly liquidation)?**

The returns on capital have improved over the last two years. The board believes that the Group is moving in the right direction. As the Group continues on its transformation journey as a Lifestyle brand, the Group would be able to generate a higher return than the cost of capital in the long run.

Q3. The company announced on 22 October 2021 that it had granted an option to purchase to Pan Ocean International Pte Ltd for the sale of its property located at 9 Fan Yoong Road, Singapore 629787 for a cash consideration of $2.68 million.

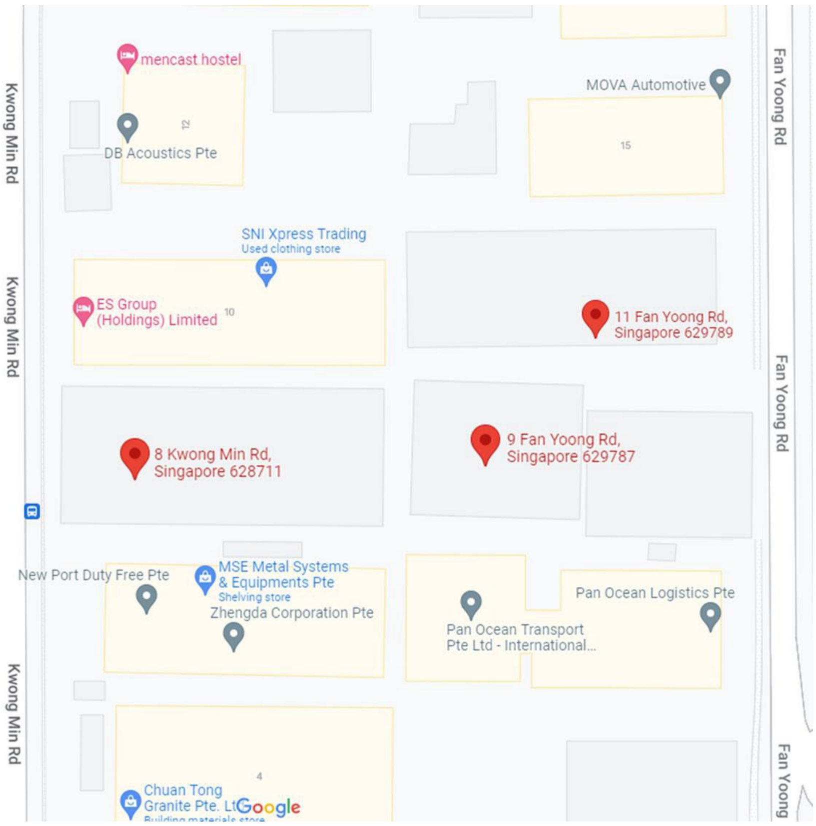
The option was exercised on 25 October 2021.

(i) **Is the sale still on track? Has management been in contact with Jurong Town Corporation to understand why it has not issued its consent on the sale?**

The sale is subject to JTC's approval and we are informed that JTC is currently in the midst of reviewing the buyer's business proposal in respect of the Property.

(ii) **In addition, can the board help shareholders understand the efforts by the group in the past year to crystallise and unlock the value in its remaining properties, i.e. 11 Fan Yoong Road and 8 Kwong Min Road?**

The Board is mindful of balancing the operational needs of the Group, the remaining duration of the leases and unlocking the value of these properties. Accordingly, the Company has continued to rent out certain properties to improve the returns of the properties while at the same time using these properties to meet its operational requirements. The Board will continue to review the usage of these properties with a view to maximise its value to the Company.



(Source: Google maps)

(iii) **With the sale of 9 Fan Yoong Road, does it mean that the group will not be able to amalgamate the sites so as to extract greater value from the group's properties?**

The site cannot be amalgamated upon the sale of 9 Fan Yoong Road. Considering the varied lease expiry of each property that the Group owns, 9 Fan Yoong Road has a remaining lease of 5.5, years (as at today) while the other properties have more than 17 years to expiry. Given the circumstances, an amalgamation of the properties may not necessarily extract greater value for the Group's properties.

(iv) **What were the level of discussions with Pan Ocean, the purchaser of 9 Fan Yoong Road, to acquire all three assets?**

Pan Ocean did not express any interest to purchase the other two properties.

Questions from Shareholders

S2. I note the company is selling its property at 9 Fan Yoong Road to Pan Ocean International. If the transaction materialises, the property will be sold below valuation. Why did the company sell the property below valuation?

Did the company conduct an open and transparent bidding process to ensure that it receives the highest and best offer for its property? Please detail the sale process and what steps were taken to ensure that the property was sold for the highest value, and that shareholders' interests are protected.

The decision to sell the property was made after consideration of, *inter alia*, the Company's plan for the property, the remaining lease and the applicable cashflows for the options available for this property.

The Company engaged several companies including ERA Realty Network Pte Ltd as the marketing agents for the property and marketing for the property was carried out on a non-exclusive basis from November 2020 to October 2021. Pan Ocean's offer was the highest offer received by the Company.

S3. I note that our head office is located at 9 Fan Yoong Road. If the sale materialises, would our head office be relocated? And to where? Would it be relocated to 11 Fan Yoong Road or to 8 Kwong Min Road? Would there be capex needed to refurbish our properties at 11 Fan Yoong Road or 8 Kwong Min Road to house the new head office? What is the anticipated cost involved? Or would our office remain at 9 Fan Yoong Road, i.e. we lease back our original office space at 9 Fan Yoong Road?

We have considered several options and will keep the shareholders updated after we receive the approval from JTC on the sale of 9 Fan Yoong Road via SGXNet.

S4. With the rising commodities and raw material prices, how does the company manage its costs, so as to still be able to earn a reasonable rate of return for the company and shareholders?

Rising commodities and raw material prices are currently a global phenomenon. As much as the management tries to manage the cost, it is inevitable that our stationery business will be impacted. One of the measures that our stationery business had adopted is to review our third-party vendors on a timely basis and redistribute our production to those vendors whom are willing to help us to mitigate the increase in paper and raw materials prices while maintaining the required quality of the finished goods.

S5. Is the company impacted, directly or indirectly by supply chain disruptions? In what way is it impacted, if any? How does the company manage and deal with supply chain disruptions?

It is inevitable that our Group has been impacted by supply chain disruptions as we outsource our production. As a result, our cost structure and delivery to our customers have been affected. A dedicated team is responsible for managing such disruptions and they will communicate daily with our partners to limit any potential delays and mitigate these disruptions.

BY ORDER OF THE BOARD

Raja Hayat
Executive Director and Chief Executive Officer

21 April 2022

The announcement has been reviewed by the Company's sponsor, SAC Capital Private Limited ("Sponsor"). This announcement has not been examined or approved by the Singapore Exchange Securities Trading Limited ("SGX-ST") and the SGX-ST assumes no responsibility for the contents of this announcement including the correctness of any of the statements or opinions made, or reports contained in this announcement.

The contact person for the Sponsor is Ms. Charmian Lim (Tel: +65 6232 3210) at 1 Robinson Road, #21-00 AIA Tower, Singapore 048542.