

NIPPECRAFT LIMITED

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

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED

The Board of Directors (the “**Board**”) of Nippecraft Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) sets out below its responses to the queries from the Singapore Exchange Securities Trading Limited (the “**Exchange**” or “**SGX**”) on 8 August 2017 relating to the Quarterly Update dated 4 August 2017 for the period ended 30 June 2017.

Query 1:

Pursuant to Listing Rule 1313(2) an issuer on the Financial Watch List or Minimum Trading Price Watch List (collectively, the “Watch Lists”) must for the period in which it remains on the Watch Lists, provide the market with quarterly update on its efforts and the progress made in meeting the exit criteria of the Watch Lists, including where applicable its financial position, its future direction, or other material development that may have a significant impact on its financial position. As such, please disclose:

- i. What are the efforts and progress if any made for the period under review, and**
- ii. What is the future direction with a view to meeting the exit criteria of the Watch Lists (“Financial Exit Criteria” and “MTP Exit Criteria”) (emphasis added).**

Response:

- i. During the first half of the financial year ended 31 December 2017 (“**1HFY2017**”), the Group recorded a higher gross profit of US\$3.7 million; an improvement of US\$0.3 million or 9.7% as compared to the corresponding first half of 2016. The improvement was mainly driven by the stationery business which recorded an increase in gross profit by US\$0.6 million or 34.5% as a result of the Group’s previous initiatives.

In 1HFY2017, the Group has successfully negotiated the terms with its third party logistics and warehouse providers to reduce the warehouse and devanning costs in Australia and the United Kingdom, the two key locations which its subsidiaries operate in. These initiatives have reduced the warehouse and distribution costs as evident in the decline in distribution and marketing expenses for the half year ended 30 June 2017 as compared to the corresponding period in 2016.

The increased cost reduction as compared to the corresponding period in the prior financial year is also attributed to more efficient coordination and production allocation efforts between the Group and the outsourcing vendors. In 2017, the Group has switched to local material suppliers in order to reduce outsourcing lead time but at the same time maintaining the products’ quality standards. As a result, delivery of products to the respective markets were completed on time and there was no need to incur significant air freight costs in the first half of 2017.

For UK market, the UK subsidiary implemented a 5% to 10% increase in average selling price to mitigate the impact of the GBP devaluation.

In addition to the existing markets, the Group is exploring the entry of new stationery markets in the Middle East, India and Japan. This should bring additional stationery revenue and profit.

For the Japan market, the Company has made further investments of US\$50,000 in product development, market research and is in the midst of establishing a distributor.

In Singapore, the Group has also made progression in expanding its customer base for the corporate market. In 1HFY2017, the Group has re-established three new corporate customers in Singapore.

- ii. The Company is committed to meeting both Financial Exit Criteria and MTP Exit Criteria of the Watch Lists.

The Company will continue to improve profitability through gaining operational and organisational efficiency via the steps mentioned above.

The Company is also exploring various options to increase the Company's market capitalisation.

The Board will update shareholders as and when there are any material developments.

In the event that the Group is profitable for the financial year ending 31 December 2017, but is unable to meet the market capitalisation requirements of the Financial Exit Criteria for the Financial Watch List, the Company will consider seeking a transfer of its listing from the Mainboard to the Catalist.

Query 2:

Please provide in the Quarterly Update a summary of the Company's financial position as at end of the period under review, as required by the Listing Rule 1313(2).

Response:

The Group and Company's financial position as at 30 June 2017, as disclosed in the half year results announcement dated 4 August 2017, are set out as follows:

	Group		Company	
	30/6/2017	31/12/2016	30/6/2017	31/12/2016
	US\$'000	US\$'000	US\$'000	US\$'000
Non-Current Assets				
Property, plant and equipment	3,957	4,232	3,900	4,184
Investment in subsidiaries	-	-	16,512	16,512
	3,957	4,232	20,412	20,696
Current Assets				
Inventories	9,049	4,174	588	677
Trade receivables	12,750	20,591	361	534
Amounts due from subsidiaries	-	-	5,319	2,759
Amounts due from related companies	10,585	5,228	-	-
Other receivables, deposits and prepayments	2,303	1,658	260	151
Cash and bank balances	13,752	16,401	1,599	736

	48,439	48,052	8,127	4,857
Current Liabilities				
Trade payables	18,260	16,014	1,474	583
Amounts due to subsidiaries	-	-	2,035	2,012
Amounts due to related companies	191	682	37	11
Other payables and accruals	2,574	3,928	494	525
Loans and borrowings	-	43	-	43
Provision for taxation	92	185	-	-
	21,117	20,852	4,040	3,174
Net Current Assets	27,322	27,200	4,087	1,683
Non-Current Liabilities				
Deferred taxation	210	210	210	210
	210	210	210	210
Net Assets	31,069	31,222	24,289	22,169
Capital and Reserves				
Share Capital	36,817	36,817	36,817	36,817
Asset revaluation reserve	748	748	748	748
Foreign currency translation reserve	(7,175)	(7,443)	-	-
Accumulated profit / (losses)	679	1,100	(13,276)	(15,396)
	31,069	31,222	24,289	22,169

Group level

Current assets increased by US\$0.4 million due to (i) increase in inventories by US\$4.9 million as a result of outsourcing delivery on schedule in preparation of sales for second half of 2017; (ii) increase in receivables from related party by US\$5.4 million due to timing of collection from trading customers; offset by (iii) decrease in cash balances by US\$2.6 million and (iv) decrease in receivables from third parties by US\$7.8 million due to timing in collections.

Current liabilities increased by US\$0.3 million primarily due to timing of payments to suppliers.

Company level

Increase in current assets by US\$3.3 million due to (i) increase in cash and bank balances by US\$0.9 million as a result of dividend income from a subsidiary and (ii) increase in receivables due from subsidiaries by US\$2.6 million as a result of higher sales (delivery of products on schedule) in the first half of 2017.

Increase in current liabilities by US\$0.9 million due to timing of payments to outsourcing vendors.

Query 3:

It was disclosed that the Trading business revenue declined by US\$8.9 million or 17.1% to US\$42.8 million mainly due to slow down in sales to related parties. At the recent Annual General Meeting ("AGM") held on 27 April 2017, the resolution to renew the Shareholders' Mandate for Interested Person Transactions ("IPT mandate") was not approved by the independent shareholders. Trading business has since ceased to take on any new orders. The subsidiary is currently fulfilling the sales orders received prior to the date of the AGM. It was also disclosed that subject to the IPT mandate being renewed by the independent shareholders and the actual volume of IPT in the event of IPT mandate is renewed, the trading business of the Group is expected to be lower compared to prior years. It was also disclosed in paragraph 2 that, "Subject to the IPT mandate being renewed by the independent shareholders and the actual volume of IPT in the event that the IPT mandate is renewed, the trading business of the Group is expected to be lower compared to prior years." In this regard, please disclose:

- i. Does the Company have any plan for renewing of the IPT mandate after it has been voted down at the AGM on 27 April 2017;**
- ii. Whether the non-renewal of the IPT mandate will have a material impact on the Company's financial performance and financial position for the current period; and**
- iii. What are the Company's plans in the event that the Company is unable to continue to sell to related parties?**

Response:

- i. The Company is considering seeking shareholders' approval for the adoption of a new IPT mandate.
- ii. The trading business has focused its sales efforts on third party sales since shareholders' approval for the IPT mandate was not obtained at the AGM held on 27 April 2017.

Notwithstanding that the IPT mandate was not renewed at the AGM held on 27 April 2017, the Group has reasonable grounds to believe that, subject to global economic conditions and events, the Group is expected to be profitable for the full year ending 31 December 2017.

- iii. As mentioned in the note above, the Company has focused on securing more sales orders from third parties since shareholders' approval for the IPT mandate was not obtained at the AGM held on 27 April 2017.

BY ORDER OF THE BOARD

Connie Oi Yan Chan
Chairlady, Chief Executive Officer and Executive Director
14 August 2017