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

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**RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS") ON THE ANNUAL REPORT AND THE SUSTAINABILITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMEMBER 2019**

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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 in relation to the Company's Annual Report and Sustainability Report for the financial year ended 31 December 2019 ("**FY2019**") and appends its response as follows:

**Q1. The Company was first placed on the SGX watch-list in March 2014 following three straight years of losses and a market capitalisation that fell below $40 million. More losses followed during the time the Company was in the watch-list until FY2017 when it achieved a profit of US$16,000 and the Company obtained SGX's approval to transfer to the Catalist board.**

**For FY2018, the Company slipped into a loss for the year of US$(61,000) and losses increased to US$(864,000) in FY2019.**

**As shown in the Consolidated statement of cash flows (page 59), the Group recognised a write-down of inventories amounting to US$(1.388) million in FY2019.**

**Management had previously explained that the group primarily carries two types of products:**
**(a) Dated products (such as diary); and**
**(b) Undated products (such as journals, notebooks and accounts books).**

**In FY2017 and FY2018, the Group had written down of inventories related mostly to dated products, amounting to US$(1.68) million and US$(1.28) million respectively. As explained by management in April 2019, higher write-down of inventories was as a result of higher dated products at the end of the year due to weak replenishment by customers.**

(i) **In FY2019, did the Group once again recognise write-down of inventories amounting to US$(1.388) million relating mostly to dated products?**

Majority of the written-down inventories for FY2019 were related to dated products.

(ii) **If so, was it due to weaker replenishment by customers? How does the Company forecast and adjust its inventories knowing that dated products have a "limited lifespan" and that the Group had already written of US$3 million of such inventories in the past two years?**

The Company strives to balance between write-offs and out-of-stock, which translates into lost sales opportunities. The forecast is based on projections given by key customers, overall historical trend, and expected demand from gain in market share and new markets. Given the nature of the business, there is a long lead time between forecast, production and sales – the start of the process is typically from the fourth quarter of the calendar year before with the first delivery of diary sales typically in July for the following calendar year. Depending on the demand of the end consumers, customers' final demand or replenishment may also differ from the forecast. As such, there may be excess stock and a portion of diaries could be written-off at the end of the season.

In FY2019, economic and retail environment was challenging and customer replenishments remained weak. In addition, the inventory written-off was exacerbated by a key customer that went into administration in the UK in the first quarter of 2019.

(iii) **Can the independent directors help shareholders understand if the write-down of inventories was an issue that was discussed with management? What was the guidance given by the Board to management?**

The independent directors' focus is on the overall profitability of the business. They review the business with management regularly and discuss with management on the strategy moving forward. Inventory write-down was one of the matters discussed. Other priorities discussed include sales and diversification strategy which would help to reduce the reliance on any single market or product category. Over the past two years, our independent directors had noted that green shoots were sprouting in the new markets as well as the acceptance of our lifestyle stationery. However, these initiatives have yet to bear fruits in covering the core erosion in the traditional stationery business.

**Management had also stated the following observations:**
- **a continual decline in the traditional stationery business**
- **stationery industry is facing unprecedented disruption driven by digitisation**
- **a highly challenging retail environment in both the UK and Australia**
- **loss of sales from a UK key customer that went into administration**

**Despite the challenges, the Board has set the main focus for the Group to transform the stationery business into a design-led lifestyle product business.**

(iv) **Can management share its achievements in transforming the business to a design-led lifestyle product business from the past 2 years?**

Over the past two years, the Group has revamped its brand and expanded its range of lifestyle stationery products. In 2019, one of our new designs – Savile Row received The Stationers' Company Warrant award in the UK. In the same year, we held successful brand launch events in Japan, London, Sydney and Jakarta. Our lifestyle products are now regularly featured in traditional and social media. In stores, our product presentation is also much more relevant to lifestyle. One of the examples is a collaboration with Singapore Airlines to produce a limited edition journal which is available for sale on flight as well as online at KrisShop.

While these results were encouraging, lifestyle product is still a small portion of our overall sales. It would require some time for it to grow to a similar level as our core business.

Please refer to Appendix to this announcement for more information on some of our new lifestyle products.

(v) **How much more capital will the Group commit to the transformation?**

The Group has been using its existing resources and has not added nor committed any new resources to the transformation exercise.

(vi) **Is the Board considering any diversification into new businesses that have superior growth prospects?**

The Board is actively exploring new business diversification and/or any potential merger and acquisition opportunities that will create value for both the shareholders and the Group.

**Q2 In the trading business, the Group appeared to have some success with a major third party customer operating from Hong Kong. The trading amount was approximately US$28.3 million in FY2019, up from US$8.3 million in FY2018.**

(i) **Can management help shareholders understand the competitive advantage of its trading arm?**

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

However, this competitive advantage may be easily be eroded should we not be able to source the right product for our customers or that the demand for customers' product dwindled.

Although we have gained some traction in incremental revenue of US$20 million from a Hong Kong customer, in the same period, we have lost about US$10 million of revenue from Malaysia and Singapore too.

(ii) **What are the major opportunities in the next 18-24 months, especially as the global economy and the supply chain have been badly disrupted by the COVID-19 outbreak that started in 2020?**

As discussed in 2(i), we expect the trading business to continue to be challenging in the next financial reporting period. In addition, the availability of bank credit facility is also limiting our ability to grow our trading arm. Despite the uncertainties arising from the COVD-19 pandemic on the demand and supply of pulp we will continue to be on the lookout for opportunities and strive to create shareholders' value during the uncertain times ahead.

(iii) **How does the trading division manage the risks associated with trading, especially market/pricing risks and credit risks?**

Please refer to our discussion in 2(i).

**Q3. The Group has published its sustainability report which covers the corporate office and the stationery operations for Singapore, Australia and the United Kingdom for FY2019.**

(i) **Given that the external revenue of the trading segment is approximately US$105 million, compared to just US$16 million for its stationery business, would the Board be considering including the trading business in the reporting scope of the sustainability report?**

Due to the nature of the trading business which is signified by high revenue but low gross margin, it is managed with minimal resources. Our Board will consider to include trading business into the future Sustainability Reports when the contribution margin of this business becomes significant.

**In addition, following the materiality assessment exercise in FY2019, materials sourcing was identified as one of the material topics for the Group. The key raw material for the Group is pulp and paper. The Group has received certification from both Forest Stewardship Council ("FSC") and Programme for the Endorsement of Forest Certification ("PEFC").**

(ii) **Material aspect: The Group has set a 85% target for obtaining material from sustainable sources. The performance for FY2019 was 84%, marginally short of its own target. Would the Board help shareholders understand if there are plans to raise the target to 100% in the near future? What were the reasons for the shortfall in FY2019?**

We produce certain customized branded products based on the specifications required by our customers. These customers are extremely price-sensitive. Furthermore, given that materials from sustainable sources are generally more expensive, it may not be commercially viable to target to achieve 100% in the near future.

As a result of competing in the abovementioned market segment, there was a variance in sales and production mix, which subsequently caused a marginal 1% short from the target set.

**BY ORDER OF THE BOARD**

Connie Oi Yan Chan
Executive Chairlady and Chief Executive Officer

19 June 2020

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*This announcement has been reviewed by the Company's sponsor, SAC Capital Private Limited (the "**Sponsor**"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "**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 Lee Khai Yinn (Tel: (65) 6232 3210) at 1 Robinson Road, #21-00 AIA Tower, Singapore 048542.*

*Appendix*

## *I. The Stationers' Company Warrant 2019 Award*

***II. Australia Sky News Interview***


## Collins Debden eyes off US, Japan in growth strategy

15/12/2019 | 9min

After 200 years on the market, diary maker Collins Debden hopes the "romance" of putting pen to paper will help bring in new users in the United States and Japan.

Speaking with Sky News, Chief Executive Connie Chan said the company is eyeing off the two nations as she looks to return the company to profit.

"[The investors] have given us time, opportunity, and investment for us to really explore the new markets – look at revamping and refreshing the brand, the product range, and now we're ready to go back and expand into different markets... and get back to growth," she said.

When asked how digitisation had disrupted the brand, Ms Chan said there was a growing movement – especially among millennials to return to analogue products.

"Digitalisation gives a ton of convenience and speed but then we're really seeing a movement that everything just becomes too much, everything is so easy, that nothing is precious, and we feel lost," she said.

"People want that connection."

CIRCULATION - 254,000

### *III. Dymocks Sydney Window Display*

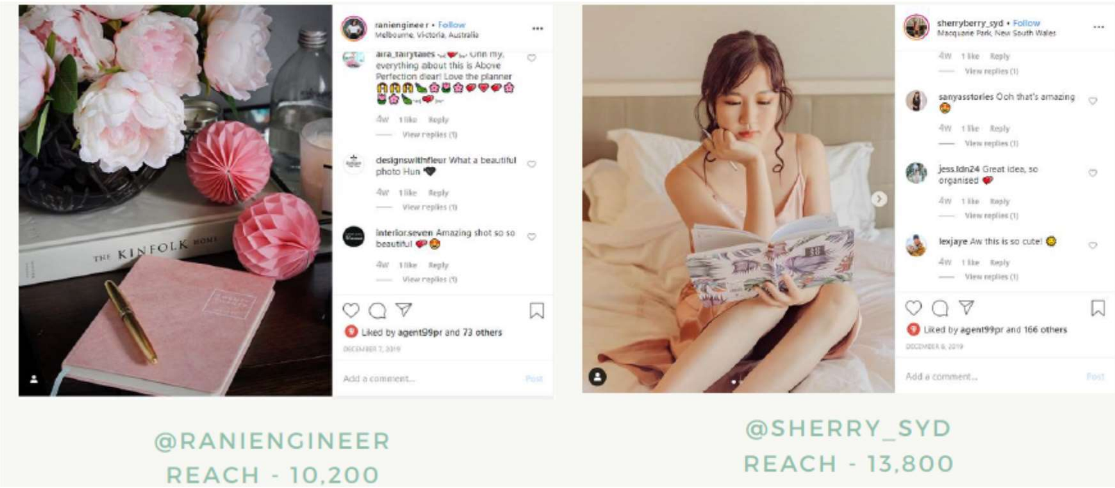

### *IV. UK Popup/Media Event*

### *V. Collaboration with Singapore Airlines*

### *VI. Trade Marketing Drive*


### *VII. Japan Launch*

## VIII. Social Media Blitz

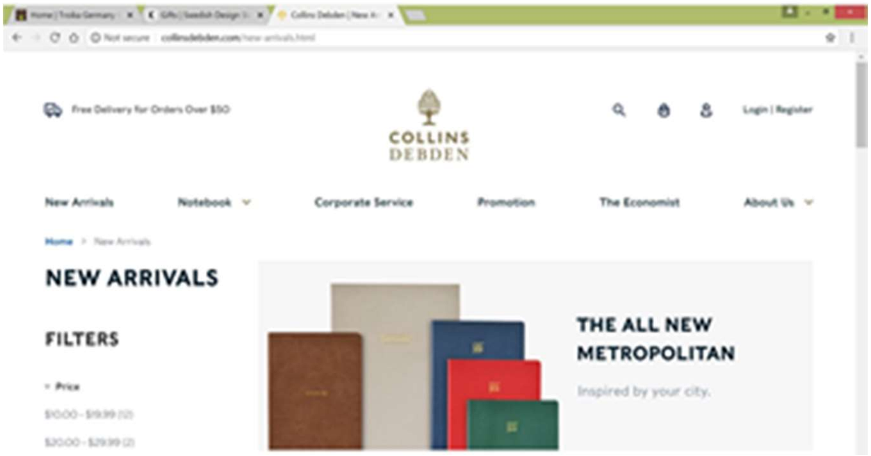



## IX. Jakarta Media Launch

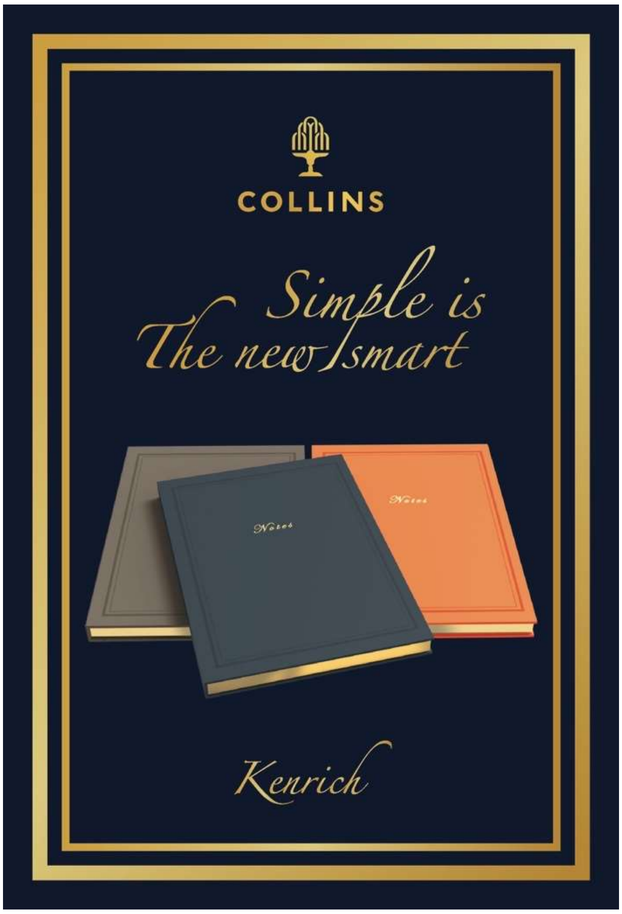

Collins Rayakan Hari Lahirnya yang ke-200

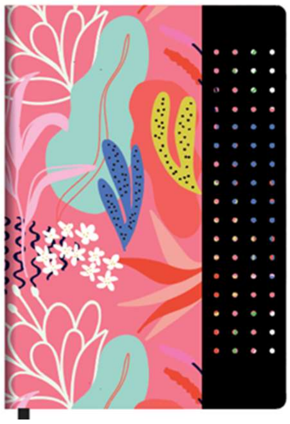

Terus Berinovasi, Cara Collins Bertahan Hingga 200 Tahun

### *X. Global e-commerce expansion*




### *XI. New Collections to be launched in Second and Third Quarters of Year 2020*



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