

NIPPECRAFT LIMITED

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

UPDATE OF FINANCIAL POSITION AND FUTURE DIRECTION FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 UNDER RULE 1313 (2) OF THE LISTING MANUAL

Nippecraft Limited (the “Company” together with its subsidiaries, the “Group”) was placed on the financial watch-list pursuant to Rule 1311 of the Singapore Exchange Securities Trading Limited’s (“SGX-ST”) Listing Manual on 5 March 2014. On 1 June 2017, SGX-ST granted a further extension of time up to 12 months to 1 March 2018 for the Company to exit from the financial watch list.

The Company has been placed on the Minimum Trading Price (“MTP”) Entry Criterion Watch List since 3 March 2016 and will continue to be in the MTP watch list with effect from 5 June 2017. The Company must take active steps to meet the requirements of Rule 1314(2) of the Listing Manual within 36 months from 5 June 2017 to exit the MTP watch list.

Pursuant to Rule 1313 (2) of the Listing Manual of the SGX-ST, the Board of Directors of the Company wishes to provide the following updates in respect to the financial position of the Company and the Group for the year ended 31 December 2017.

1. Update on Financial Results
Consolidated Income Statement

Revenue	FY2017	FY2016	Variance	Change
	US\$’000	US\$’000	US\$’000	%
Stationery	21,967	24,440	(2,473)	-10.1%
Trading	103,843	90,129	13,714	15.2%
Total	125,810	114,569	11,241	9.8%

The Group recorded revenue of US\$125.8 million in FY2017; an increase of US\$11.2 million or 9.8% against FY2016 attributable mainly to the trading business.

Stationery business revenue declined by US\$2.5 million or 10.1%. Sales in Australia and UK declined by 10.9% and 4.2% respectively in terms of local currency. This was due to (i) weak 4th quarter general market demand in the Australia and UK markets resulting in slower replenishments; (ii) the Group shifted away from customers that contribute low margin to the stationery businesses and (iii) decline in revenue from the international markets by US\$0.5 million. This was part of the restructuring exercise in FY2016 where the Company sold slow moving stocks and raw materials to some of its international customers. No such significant sales materialised in FY2017.

Trading business revenue increased by US\$13.7 million or 15.2% to US\$103.8 million. This was due to increase in sales orders from third party customers.

Gross Profit	FY2017		FY2016		Variance	
	US\$’000	Margin	US\$’000	Margin	US\$’000	%
Stationery	6,779	30.9%	7,239	29.6%	(460)	-6.4%
Trading	2,752	2.7%	2,525	2.8%	227	9.0%
Total Gross Profit	9,531	7.6%	9,764	8.5%	(233)	-2.4%

The Group recorded a lower gross profit of US\$9.5 million; a decrease of US\$0.2 million or 2.4% mainly due to the decline in gross profit for stationery business by US\$0.5 million.

Decline in stationery business gross profit was due to reduction in sales as set out above and was offset by the improvement in gross profit margin from 29.6% to 30.9%. The improvement in gross profit margin was due to:

- i. increase in average selling price and different product mix sold. The Group shifted away from customers that contribute low margin to the stationery business;
- ii. scaled down of production activities at the Singapore plant in 2016 as part of the Group's restructuring plans. Production savings arising from lower production wage costs;
- iii. offset by customers claims amounted to US\$0.5 million received in FY2017 as a result of FY2016 shipment delays. Had these claims not incurred, the adjusted gross profit margin for FY2017 would be 33.0%; and
- iv. provision for slow-moving inventories recognised under cost of sales amounted to US\$1.7 million in FY2017 as a result of weak sales replenishments.

Gross profit margin for trading business remained consistent at the range of 2.7% to 2.8% during the year.

Distribution and marketing expenses decreased by US\$1.1 million or 18.6% in FY2017 compared to FY2016. No significant air freight costs incurred in current year due to on time delivery of products by outsourcing vendors. In 2017, the Group switched to local material suppliers in order to reduce outsourcing lead time but at the same time maintaining the products' quality standards. The Group also successfully negotiated the terms with third party logistics and warehouse providers to reduce the warehouse and devanning costs in Australia and the United Kingdom. This is part of the Group's effort to increase efficiency in logistics operations. Better control on marketing spent and headcount also attributed to the decline in distribution and marketing expenses.

Administrative expenses increased by US\$0.2 million or 5.2% in FY2017 compared to FY2016. The increase was mainly due to reclassification of HR, Finance and IT related costs from cost of sales commencing from 2H2016. The Group also incurred additional legal costs of US\$0.1 million pertaining to the extension of financial watch lists and holding extraordinary meeting to approve the IPT and share buy mandates.

Finance costs increased by US\$ 0.1 million due to increase in discounting interest rates.

Adjusted earnings before interest, tax, depreciation and amortisation, interest costs and exceptional items ("EBITDA") improved by US\$0.9 million from US\$0.2 million in FY2016 to US\$1.1 million in FY2017 mainly due to the reduction in operating expenses by US\$0.9 million from FY2016.

Consolidated Statement of Financial Position

	Group	
	31/12/2017	31/12/2016
	US\$'000	US\$'000
Non-Current Assets		
Property, plant and equipment	3,882	4,232
Investment in subsidiaries	-	-
	3,882	4,232
Current Assets		
Inventories	4,537	4,174
Trade receivables	33,825	20,591
Amounts due from subsidiaries	-	-
Amounts due from related companies	9,724	5,228
Other receivables, deposits and prepayments	3,060	1,658
Cash and bank balances	11,634	16,401
	62,780	48,052
Current Liabilities		
Trade payables	30,432	16,014
Amounts due to subsidiaries	-	-
Amounts due to related companies	113	682
Other payables and accruals	3,426	3,928
Loans and borrowings	-	43
Provisions	194	185
	34,165	20,852
Net Current Assets	28,615	27,200
Non-Current Liabilities		
Deferred taxation	210	210
	210	210
Net Assets	32,287	31,222
Capital and Reserves		
Share capital	36,817	36,817
Asset revaluation reserve	748	748
Foreign currency translation reserve	(6,394)	(7,443)
Accumulated profit / (losses)	1,116	1,100
	32,287	31,222

Fixed assets declined due to depreciation charges incurred.

Current assets increased by US\$14.7 million mainly due to increase in third party trade receivables and amount due to related companies. This was mainly due to timing of billing and receipts from trading customers, which resulted in the decline in cash from operating activities as at 31 December 2017. Stocks increased by US\$0.4 million due to timing of shipment of stocks to Australia.

Current liabilities increased by US\$13.3 million primarily due to timing of payments to third party trading suppliers.

For further details of the results of the Group, please refer to the unaudited full year announcement released on 23 February 2018.

2. Update on Future Direction

In the medium term, the Group's next focus will be to transition the business to more profitable products and segments. In addition to new markets, the Group will be launching new products that are more design and lifestyle oriented. The Group has also commenced a portfolio review to streamline the product ranges. The strength of the Collins and Debden brands remains one of the Group's strongest assets.

The Company will continue to outsource its production, streamline costs, and improve operational efficiencies and profitability.

The Company will continue to work with current vendors to improve their efficiency and achieve more outsourcing savings. The Company is also developing new vendors to reduce over-reliance risks on certain vendors. The Company will continue to operate in the Singapore premises and sublet more area to third party tenants. The subletting income will partially offset the current fixed costs (depreciation of land and building and property tax).

For the year ended 31 December 2017, the Group achieved a profit before tax of US\$0.1 million. However, the Group is unable to meet the market capitalisation requirements of the Financial Exit Criteria for the Financial Watch List. The Company will be seeking a transfer of its listing from the Mainboard to the Catalist.

The Company would like to remind all shareholders that there is no assurance that the SGX-ST will grant the abovementioned transfer. As such, shareholders of the Company are advised to exercise caution when dealing in the shares of the Company and to refrain from taking any action in relation to their shares which may be prejudicial to their interests. Persons who are in doubt, as to the action they should take, should consult their stockbroker, bank manager, solicitor, accountant or other professional advisers.

BY ORDER OF THE BOARD

Connie Oi Yan Chan
Chairlady and Chief Executive Officer
23 February 2018