



NANOFILM TECHNOLOGIES INTERNATIONAL LIMITED

(Company Registration Number 199902564C)

(Incorporated in Singapore on 13 May 1999)

**RESPONSE TO SGX QUERIES ON THE FULL YEAR RESULTS FOR
THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

Nanofilm Technologies International Limited (the “**Company**”) has received queries from the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) in relation to its full year financial results for the financial year ended 31 December 2020 announced on 26 February 2021. The Company’s response to the queries of SGX-ST are set out below.

SGX-ST Queries

1. Please disclose the

- (i) **breakdown and nature of the Group’s non-current Other receivables and other non-current assets of \$488,000 and \$180,000 as at 31 Dec 2020 and 31 Dec 2019 respectively**

	Group	
	<u>2020</u>	<u>2019</u>
	S\$'000	S\$'000
Other receivables:		
Staff loan	-	180
Other non-current assets:		
Advances for purchases of property, plant and equipment	488	-
Total	<u>488</u>	<u>180</u>

The non-current loan to staff as at 31 December 2019 were unsecured, interest-free and fully repaid in 2020.

The advances for purchases of property, plant and equipment were advances to suppliers for factory renovation and purchases of fixed assets by the Company’s two subsidiaries in Yizheng.

Credit Suisse (Singapore) Limited and Oversea-Chinese Banking Corporation Limited are the Joint Issue Managers for the initial public offering of shares in, and listing of, the Company on the Mainboard of the SGX-ST on 30 October 2020 ("Offering"). Citigroup Global Markets Singapore Pte. Ltd., Credit Suisse (Singapore) Limited and Oversea-Chinese Banking Corporation Limited are the Joint Global Coordinators for the Offering. Citigroup Global Markets Singapore Pte. Ltd., CLSA Singapore Pte Ltd, Credit Suisse (Singapore) Limited and Oversea-Chinese Banking Corporation Limited are the Joint Bookrunners and Underwriters for the Offering

(ii) the Board’s assessment of the recoverability of the non-current other receivables and other non-current assets.

There is no credit risk as the non-current staff loan of \$180,000 was fully repaid in 2020 and the advances for purchases of property, plant and equipment of \$488,000 would be offset against future billings for the factory renovation and purchases of fixed assets.

2. Please disclose why finance income amounted to only \$525,000 when the Company has significant cash and bank balances amounting to \$227,355,000.

The average month end cash and bank balances during January to September 2020 were S\$32,407,000. Subsequent to the listing of the Company on 30 October 2020, the Company received net IPO proceeds of \$190,500,000 which accounted for the significant cash and bank balances amounting to \$227,355,000 as at 31 December 2020.

The finance income of \$525,000 for the financial year ended 31 December 2020 was as follows:

<u>Period</u>	<u>Finance Income (\$)</u>
January to October 2020	288,000
November to December 2020	237,000
Total	525,000

3. It was disclosed that the Group recorded impairment loss allowance on trade receivables and contract assets of \$1,287,000, mainly attributed to an impairment loss allowance of \$1.1mil arising from a customer in the Industrial Equipment Business Unit. In this regard, please disclose the following information:-

i. the identity of this customer;

The customer is Advanced Solar Power (Hangzhou) Inc. (龙焱能源科技(杭州)有限公司) (“ASP”) with which the Group contracted to supply two Cadmium Telluride (“CdTe”) thin film surface solution and production in-line equipment for solar cell panels, that were constructed and delivered in instalments between 2017 and 2019 (“ASP Project”).

ii. the Group’s plan to recover the trade receivables;

The Group is seeking legal advice on possible recourse actions to recover the outstanding debts due from ASP.

iii. whether the customer mentioned in (i) above is a major customer and whether the Company continues to transact with this customer, and if so, what are the commercial reasons in doing so;

ASP is not a major customer of the Group. Its contribution to the revenue of the Group in the last three years since 2018 is insignificant. The Group currently provides technical support to ASP in respect of the industrial equipment sold as part of its after sales warranty obligations. The Group does not intend to continue transacting with this customer otherwise. The cessation of business with ASP will have no material impact to the Group’s operations and financial performance.

iv. how long are the debts outstanding and when were the sales reported?

The Group recorded total sales of S\$23.0 million from the ASP Project, out of which S\$20.9 million have been invoiced to ASP. The Group has received payment of S\$20.9 million as of to-date, leaving \$2.1 million outstanding as contracts assets as at 31 December 2020.

The outstanding contract assets of \$2.1 million as at 31 December 2020 were partial sales recognized based on percentage of completion method in FY2017 (\$577,000) and FY2019 (\$1,530,000).

The impairment loss allowance of \$1.1 million was a 50% provision made in respect of the total outstanding contract assets of \$2.1 million as at 31 December 2020.

v. what were the actions taken to recover the trade receivables?

The ASP Project is considered a first of its kind frontier project, where the Group developed and customized two CdTe thin film surface solution and production in-line equipment for solar cells panels, based on ASP's specifications. The Group had been in constant discussions with ASP to address their demands on the technical specifications, and to carry out acceptance of the equipment delivered. Although the production line is completed and operational, ASP has not made payment of the outstanding debts. The Group is seeking legal advice on possible recourse actions to recover the debts.

vi. the Board's opinion on the reasonableness of the methodologies used to determine the value of the impairment

Based on legal advice, the Board believes that there is good prospect in recovering the outstanding debts of \$2.1 million. However, on the grounds of prudence, as at 31 December 2020, the Group provided impairment loss allowance of 50% of the outstanding contract assets as there is an increase in credit risk since initial recognition owing to the ongoing negotiation and discussion with ASP for payment which, partly due to the pandemic, took longer than expected.

4. Please provide a breakdown of Trade and other receivables, and other current assets of \$95,670,000 and \$58,210,000 as at 31 Dec 2020 and 31 Dec 2019 respectively, and provide, on a line item basis, reasons for the significant increase of trade and other receivables, and other current assets for FY2020.

	Group		Changes
	<u>2020</u>	<u>2019</u>	<u>%</u>
	S\$'000	S\$'000	
Trade receivables:			
- Third parties, net	85,958	49,561	73.4
Other receivables:			
- Deposits	278	267	4.1
- GST/VAT and other taxes receivable	2,250	1,880	19.7
- Sundry debtors	1,228	712	72.5
	<u>3,756</u>	<u>2,859</u>	31.4
Other current assets:			
- Prepayments	214	483	(55.7)
- Advances to suppliers	5,742	5,307	8.2
	<u>5,956</u>	<u>5,790</u>	2.9
Total	<u>95,670</u>	<u>58,210</u>	64.4

Trade receivables were at S\$86.0 million as at 31 December 2020, an increase of S\$36.4 million (73.4%) from S\$49.6 million as at 31 December 2019 primarily due to the increase in revenue by the Advanced Materials BU (66.4% growth YoY) and Nanofabrication BU (90.3% growth YoY) during the year. Trade receivables are generally on 30 to 90 days' terms.

The increases in the Group's GST/VAT and other taxes receivable by S\$0.4 million (19.7%), sundry debtors by S\$0.5 million (72.5%) and advances to suppliers by S\$0.4 million (8.2%) were generally in line with the increase in the Group's business activities during the year.

The decrease in the Group's prepayments is insignificant and was mainly due to payment timing differences.

5. **Please provide a breakdown of Trade and Other Payables of \$47,148,000 and \$37,014,000 for the period ended 31 Dec 2020 and 31 Dec 2019 respectively, and an explanation, on a line item basis, for the increase in trade and other payables.**

	Group		<u>Changes</u>
	<u>2020</u>	<u>2019</u>	<u>%</u>
	S\$'000	S\$'000	%
Trade payables:			
- Third parties	32,770	22,552	45.3
Other payables:			
- Accrued operating expenses	10,230	11,177	(8.5)
- Advances received for issuance of ordinary shares under ESOS Scheme 2017	1,216	-	n.m.
- VAT and other taxes payable	636	2,634	(75.9)
- Sundry creditors	2,296	384	497.9
- Derivatives payables	-	267	n.m.
	<u>14,378</u>	<u>14,462</u>	(0.6)
Total	<u>47,148</u>	<u>37,014</u>	27.4

Trade payables were at S\$32.8 million as at 31 December 2020, an increase of S\$10.2 million (45.3%) from S\$22.6 million as at 31 December 2019, generally in line with the increase in the Group's business activities related mainly to the fabrication of coating equipment built in-house for our Advanced Materials BU during the year. Trade payables are interest-free and are normally settled on 30 to 90 days' terms.

As at 31 December 2020, the Company has received advances of S\$1.2 million from the employees for issuance of ordinary shares under ESOS Scheme 2017. On 6 January 2021, the Company issued 2,073,000 new ordinary shares in the capital of the Company at the exercise price of S\$0.5868 each pursuant to the exercise of 2,073,000 options granted under the Company ESOS Scheme 2017.

The decrease in the Group's VAT and other taxes payable was mainly due to payment timing differences.

Sundry creditors were at S\$2.3 million as at 31 December 2020, an increase of S\$1.9 million (497.9%) from S\$0.4 million as at 31 December 2019. The increase was mainly attributable to the amounts payable to contractors for construction of the Shanghai Plant 2.

**BY ORDER OF THE BOARD
NANOFILM TECHNOLOGIES INTERNATIONAL LIMITED**

Lim Kian Onn
Chief Financial Officer
15 March 2021