

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 2016 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 April 2016, SGX-ST granted an extension of time to 1 March 2017 for the Company to exit financial watch list.

The Company has been placed on the Minimum Trading Price (“MTP”) Entry Criterion Watch List since 3 March 2016.

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 2016.

1. Update on Financial Position**Consolidated Income Statement**

Revenue	FY2016	FY2015	Variance	Change
		Re-presented		
	US\$'000	US\$'000	US\$'000	%
Trading	90,129	211,529	(121,400)	(57.4%)
Stationery	24,440	27,640	(3,200)	(11.6%)
Total	114,569	239,169	(124,600)	(52.1%)

The Group recorded revenue of US\$114.6 million in FY2016; a decline of US\$124.6 million or 52.1%.

Trading business revenue declined by 57.4% or US\$121.4 million to US\$90.1 million. The decline was due to slowdown in orders received from the Indonesia markets.

Stationery business revenue declined by US\$3.2 million or 11.6%. This was due to (i) delays by outsourcing vendors in delivery of products to customers resulted in slowdown in sales and (ii) translation loss on UK sales resulting from the sharp depreciation of GBP against major currencies.

The UK market constitutes 46% (2015: 43%) of the total stationery sales. As the Company's pricing to UK customers for FY2016 have been pre-agreed upon, any increase in selling price to offset the depreciation of GBP can only be materialised in FY2017.

Gross Profit	FY2016		FY2015		Variance	Change
			Re-presented			
	US\$'000	Margin	US\$'000	Margin	US\$'000	%
Trading	2,525	2.8%	6,155	2.9%	(3,630)	(59.0%)
Stationery	7,239	29.6%	5,898	21.3%	1,341	22.7%
Total	9,764	8.5%	12,053	5.0%	(2,289)	(19.0%)

The Group recorded a lower gross profit of US\$9.8 million; a decline of US\$2.3 million or 19.0%. This is due to:

- (i) Trading business gross profit declined by US\$3.6 million in FY2016 in line with the decline in trading business revenue.
- (ii) In the stationery business, there was an improvement in gross profit by US\$1.3 million and gross profit margin (from 21.3% to 29.6%) despite the drop in revenue. This is due to:
 - a) increase in average selling price and different product mix traded;
 - b) restructuring and scale down production activities at the Singapore site. Prior to restructuring, the Company incurred US\$0.7 million of production costs for first half of 2016 at the Singapore site. These relates mostly to wages incurred prior to restructuring; and
 - c) continuous effort to outsource production to overseas vendors at lower costs.

Included in cost of sales are depreciation costs and property tax of total US\$0.8 million incurred at the Singapore site. As the production volume is low due to outsourcing programme, the Company will be performing a business review on the existing land and building at Singapore site.

EBITDA and NPBT

Group	FY2016	FY2015	Variance	Change
		Re-presented		
	US\$'000	US\$'000	US\$'000	%
Net (loss)/ profit before tax	(2,053)	718	(2,771)	385.9%
Add redundancy payout	1,316	-	1,316	N/M
Less Gain arising on liquidation and strike off of subsidiaries	(10)	-	(10)	N/M
Adjusted net (loss)/ profit before taxation	(747)	718	(1,465)	204.0%
Add depreciation	525	535	(10)	(1.8%)
Add interest expense	395	1,051	(656)	(62.4%)
Adjusted EBITDA (loss)/ profit	173	2,304	(2,131)	(92.5%)

EBITDA: earnings before interest, tax, depreciation and amortization

NPBT: Net profit before tax

N/M : not meaningful

Adjusted EBITDA declined by 92.5% from US\$2.3 million in FY2015 to US\$0.2 million in FY2016 mainly due to decline in revenue of US\$124.6 million, partly offset by improvement in gross margin from 5% in FY2015 to 8.5% in FY2016.

The Group recorded a translation loss of US\$7.5 million in FY2016 mainly due to UK operations as a result of devaluation in GBP.

For further details of the results of the Group, please refer to the unaudited full year announcement released on 24 February 2017.

2. Update on Future Direction

Going forward, the Company remains cautious on its business outlook given the new uncertainties in the global economic conditions. The focus of the Group will be to support the growth of its existing customers and seek to develop new markets and customers. The Company will continue to outsource its production, streamline costs, improve operational efficiencies and profitability. The Company will perform a business review on the existing land and building at the Singapore site. The Company will also explore investment opportunities when they arise.

BY ORDER OF THE BOARD

Connie Oi Yan Chan
Chief Executive Officer and Executive Director
24 February 2017