**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") AND SHAREHOLDERS ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2024**

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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 (questions **Q1** to **Q3**) in relation to the Company's Annual Report for the financial year ended 31 December 2024 ("**FY2024**") and appends its response as follows:

**Q1**. In the pulp and related trading segment, revenue declined to US$91.0 million in FY2024 from US$96.8 million in the prior year. Segment profit remained marginal at US$57,000 in FY2024 (2023: US$60,000), implying net margins of approximately 0.06%.

(i) **What are the key drivers of profitability in the pulp trading segment, and how does the group assess the segment's strategic value beyond revenue contribution?**

The profitability of the pulp trading segment is influenced by global pulp prices, efficient supply chain operations, strong supply chain relationships, trading volume, competition and financial resources.

This segment continues to play a significant role to the Group's overall revenue and contributed a gross profit of US$901,000 (refer to page 19 of our full year result announcement on 25 February 2025). The profit from the segment was derived after taking into account both external and internal cost allocation.

(ii) **Given the extremely thin margins, has the board conducted a downside risk assessment of this trading activity? In particular, how does the board weigh the risk of outsized losses stemming from events such as maritime disruptions, product quality issues or counterparty defaults — especially when the typical annual segment profit is only US$60,000?**

The pulp trading segment operates in a low-margin environment. The shipments are managed either by the suppliers or customers directly. Pulp as a commodity, has a low risk of dispute on product quality. In an unlikely event of a product quality issue, it will be addressed through claims against the suppliers directly. To mitigate downside risks, including counterparty default risk, all purchase orders received are reviewed and approved by Management before an order can be accepted. Some considerations Management considers prior to the acceptance of an order includes (i) margins for the trade; (ii) cost of facilities utilised for the trade; (iii) background and credit worthiness of the customer; (iv) shipping terms of the trade; (v) payment terms. Our credit management team actively monitors the accounts receivables, conducts regular follow-up and ensures timely collections. In addition, periodic reviews of the customers' payment patterns will be studied to ascertain their creditworthiness.

(iii) **What are the reasons for the changes in customer profile?** For instance, the group traded significantly with customers in Continental Europe in 2024 and no longer with customers in Malaysia, Indonesia, as well as substantially reducing the volume with Hong Kong customers.

The customer profile may vary from year to year, influenced by the timing of purchase orders issued by customers, the availability of other competitive traders and the availability of financial resources to fulfil those orders.

(iv) **In view of the persistently low profitability, has the board evaluated whether the segment continues to serve the long-term interests of shareholders? Would it be more prudent to redeploy working capital and management bandwidth into higher-yielding business areas?**

Trading business has contributed positively over the years for both revenue and gross profit. In FY2024, the Trading business contributed US$901,000 in gross profits (about 11% of the total gross profits of the Group). The Board will continue to work with Management to explore higher-yielding businesses and ways to improve yields of existing businesses with the goal of improving the return on its capital while balancing the risks.

**Q2.** The group owns the stationery core brands, Collins and Debden. Collins has a strong heritage dating back to the early 1800s in the United Kingdom, while Debden[1] was launched in Australia and New Zealand in 1978. In 2021, the group introduced a new brand, Jumble & Co, and began offering lifestyle products focused on promoting mental wellness in 2022.

Revenue from stationery products over the past six years has remained relatively stable:

- 2019: US$15.77 million
- 2020: US$14.74 million
- 2021: US$16.02 million
- 2022: US$15.21 million
- 2023: US$14.75 million
- 2024: US$14.33 million

(i) **While management has maintained a steady top line, how confident is the board that long-term demand for traditional stationery products will remain sustainable amid rising digital adoption and evolving consumer habits?**

Our e-commerce sales have grown over the years and created opportunities for us to engage directly with the end users of our traditional stationery products. These direct interactions have given us a deeper understanding of their needs. Based on those interactions, we believe there will always be a sustained demand for high-quality branded stationery. Therefore, rather than competing directly with digital tools, our strategy focuses on offering a meaningful and tactile alternative. Traditional stationery continues to appeal to consumers who appreciate thoughtful design, creativity, and the sensory experience of writing by hand.

[1] The brand is named after the old Debden Road in Singapore, which is now part of the Changi International Airport.

(ii) **What are the major growth opportunities besides identified by management for the stationery segment? Is there a clear product innovation or market expansion roadmap in place?**

We are focused on capturing the next generation of stationery users by blending innovative design with a strong commitment to sustainability through e-commerce sales. Our design is always delightfully pragmatic – it anticipates, facilitates, satisfies and is simple. We also create everyday lifestyle products inspired by honest human sentiments, reminding people to embrace all of life's moods – the good, the bad and the ugly. In summary, our products will focus on wellness and mental health of the end users of our products. Collaborations with institutions such as the Glasgow School of Art and external design agencies enable us to develop fresh and appealing products that are tailored for younger consumers. These strategic partnerships are integral to our roadmap for design-led innovation and market expansion.

(iii) **Has Jumble & Co. met internal targets in terms of brand recognition, sales traction, and profitability? What is its contribution to revenue and segment profit in FY2024?**

Like any emerging brand, Jumble & Co. is still in the early phase of its journey. Achieving full brand recognition and market penetration takes time. In the meantime, we are encouraged by its financial performance to-date and remain committed to its ongoing growth. Jumble & Co. has already contributed positively to our revenue, and we are confident in its long-term potential.

As noted in the chairman's message, the margin for stationery business climbed from 46.4% to 52.4%.

(iv) **What were the main drivers of the improved gross margin in the stationery segment?**

The gross profit margin for the stationery business increased from 46.4% to 52.4% mainly driven by a favourable sales mix and an improved inventory management that lead to a decrease in the write-down of inventories.

The group recorded inventory write-downs of US$586,000 in FY2024 and US$686,000 in FY2023—both figures exceed the reported stationery segment profit which was US$268,000 and US$141,000 respectively.

(v) **How is the board addressing inventory management and forecasting accuracy in light of the disproportionate write-downs relative to segment profit?**

Stationery business stocks comprise both dated and undated products. Dated products are products with short shelf-life. We recognise that effective inventory management remains a key challenge. However, we have made significant progress over the years in reducing the financial impact of write-downs. Inventory write-downs have improved from US$1,388,000 in the financial year ended 31 December 2019 to US$586,000 in FY2024. By leveraging on data-driven demand forecasting, rigorous Stock Keeping Units ("SKU") rationalisation and agile production planning, our Management team has steadily enhanced the forecasting precision. We continue to remain committed to further minimising obsolescence risks while ensuring the operational flexibility required to adapt to seasonal shifts and evolving customer demands.

Across its digital platforms, all three brands have relatively low social media followings and engagement. For example, *Jumble & Co* Australia has only 42 Instagram followers. Collins Debden have about 3,000 Instagram followers.

(vi) **How does management assess the group's digital and social media presence in supporting its consumer brands?**

Our digital strategy is aligned with the preferences of our core customer base. While social media serves as a valuable channel for brand awareness, we prioritise digital direct marketing, a tactical tool that has demonstrated greater effectiveness in optimising the engagement and conversion rates among our targeted customer demographic. That said, we fully recognise the growing importance of social media platforms, particularly in appealing to a younger demographic and adapting our marketing strategies to shifting consumer trends.

**Q3.** As disclosed in the annual report, the group began FY2024 with US$15.4 million in cash and cash equivalents and ended the year with US$13.7 million. Interest income totalled US$211,000, implying a yield of approximately 1.45% on the average cash balance of US$14.55 million.

Only US$4 million was placed in fixed deposits (earning 1%) with the rest held as bank balances and cash.

(i) **What is the group's current cash management framework and how often is it reviewed by the board?**

The Group maintained a disciplined cash management framework focused on optimising liquidity, meeting operational funding needs and supporting strategic capital expenditure, as required. Key elements of the framework include cash flow forecasting, working capital management and treasury policies.

Cash balances are actively monitored and managed across operating entities, with temporary surpluses allocated to short-duration instruments, typically ranging from one to three months deposits in reputable banks. These placements are assessed on a rolling basis and may not necessarily be renewed, depending on timing and operational funding requirements.

The US$13.7 million cash balances as at 31 December 2024 are not idle capital held in a single entity, but rather the aggregate sum across all cash-generating business units, including fixed deposits as well as balances maintained in non-interest-bearing current accounts for operational funding needs.

The Board regularly reviews the Group's cash balances and is working with Management to better manage these balances and enhances its yield.

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If the group were to cease operations and invest its cash reserves in stable, investment-grade instruments yielding 3% to 3.5%, it would generate risk-free interest income of approximately $436,500 to $509,250 annually. This contrasts with the risks associated with its current operations in trading and stationery sales.

(ii) **In the absence of near-term accretive investments, would the board consider returning capital to shareholders to allow them to make their own capital allocation decisions?**

Currently, the markets for both of its business segments are in a fiercely competitive landscape. In our primary Stationery markets, while the Board remains confident of the prospects of this segment, geographical tensions, shifting consumers consumption patterns and stringent monetary and fiscal policies remain. As such, the Group is adopting a defensive and conservative approach in terms of its capital allocation.

If an opportunity arises, the Group may explore new business diversification and/or any potential merger and acquisition opportunities that will create value for our shareholders.

As such, it is prudent for the Group to hold more cash to ride through the challenges ahead and be ready to take advantage of opportunities when they arise. The Group continues to be committed to a disciplined cash management framework focusing on optimising liquidity, meeting operational funding needs and supporting strategic capital expenditure, as required.

**BY ORDER OF THE BOARD**

Raja Hayat
Executive Director and Chief Executive Officer

22 April 2025

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