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

RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (“SIAS”) ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMEMBER 2018

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 for the financial year ended 31 December 2018 (“**FY2018**”) (“**Annual Report 2018**”) and appends its response as follows:

Q1. As noted in the chairman’s statement, the operating environment remained challenging. It was highlighted that the Group achieved cost efficiencies and improve the product mix, leading to a higher gross profit margin (“GPM”) for stationery of 33.1% in FY2018 (from 30.9% in FY2017) and a stable GPM for the trading business at around 2.5%.

EBITDA was US$0.9 million, down from US$1.06 million in FY2017.

However, it was not mentioned that the group once again slipped into a loss following the transfer of the listing to Catalist.

Group Financial Highlights US$’000	FY2018	FY2017	FY2016	FY2015	FY2014
Sales for the Group	**115,037**	125,810	114,569	239,169	248,577
(Loss) / Profit before tax	**(299)**	97	(2,053)	718	(7,298)
EBITDA*	**949**	1,064	183	2,304	1,185

(Source: Company annual report)

As seen from the consolidated statement of profit or loss and other comprehensive income (page 45), profit before tax of US$97,000 in FY2017 slipped to a (loss) before tax of US$(299,000) in FY2018.

2018 net (loss) after tax for the year amounted to US$(61,000), after tax credit of US$238,000.

Total comprehensive (loss) for FY2018 was US$(858,000).

More critically, the Group’s core stationery business saw a decrease in revenue by US$4.1 million or 19%, or 14% excluding the effect of the weaker Stirling and Australian dollar to the US dollar.

(i) **Following the Company's transfer to the Catalist board, and in view of the renewed losses in FY2018, would the Board be once again carrying out a strategic review of the Group's core businesses and operations?**

Our Board has several discussions on the review of the Company's core businesses and operations. The stationery business will remain the core business of the Group. The Group will continue to launch new products that are targeted towards specific customer segments. The Group also intends to grow the revenue of the trading business.

(ii) **Can the management elaborate further on the business model and identify the key drivers of value/profit for the Group?**

The Group is in the process of transforming the stationery business into a design-led lifestyle product business, selling through multiple channels, in multiple countries. The biggest asset of the Group is its Collins brand, which has 200 years of history in premium markets including the UK and Australia, and is trusted and loved by its customers.

(iii) **Can the board help shareholders understand the long-term viability of the stationery business? What is the back-up plan?**

The stationery industry is facing unprecedented disruption driven by digitisation. This is reflected both in consumer product and channel preferences. However, within the industry, it is noted that the lifestyle segment of some major companies has been experiencing double-digit growth and favourable profit margin.

Hence, the main focus for the Group is to complete transforming the stationery business into a design-led lifestyle product business in the next 3 to 5 years. This may include wider range of lifestyle related product categories, other than lifestyle diaries and notebooks. During this journey, the Group will also actively evaluate potential expansion through relevant strategic alliances, joint ventures or acquisitions.

(iv) **What are the core competencies of the key management team that would help the Group return to profitability?**

The Group has a highly experienced and diverse key management team, with working experience ranging from 15 to 40 years. Each leadership team member brings along rich experience in the consumer goods industry as well as other industries. This combined experience offers the Group not only excellent industry know-how, but also an agility mindset to tackle challenges from an industry that is facing unprecedented disruption.

(v) **What achievements have the Group made in its ecommerce foray?**

Online sales (including direct and 3rd party portals) contributed about 9% (or US$1.60 million) of the Group's 2018 stationery sales, and is one of the Group's focused growth area. Our Group is in the process of revamping our ecommerce platform. In addition, we are actively expanding our 3rd party online distribution in new markets. We are also hiring more employees with specific ecommerce experience to strengthen the team for better results.

2. **Would the Board/management provide shareholders with better clarity on the following operational matters? Specifically:**

(i) **Write-down of inventories: In FY2017, the Group recognised an impairment of US$(1.68) million as part of the review of the operations. This was a significant increase from the US$(924,000) impairment recognised in FY2016. In FY2018, the impairment continued with the recognition of US$(1.28) million in write-down.**

Would management help shareholders understand the reasons for the elevated levels of inventory write-down? What is the Group's stocking/replenishment policy? Following the write-down, what is the average age of inventory? What is the level of slow-moving inventory? What is the role of the audit committee in assessing the carrying value of the inventories?

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).

Similar to FY2017, the write-down of inventories was related mostly to provisions for dated products. Higher write-down of inventories was as a result of higher dated products at the end of the year due to weak replenishment by our customers.

The average age of inventory is 118 days, which is approximately 4 months. The Audit Committee, in consultation with the Auditors, takes prudent view of assessing the carrying value of the inventories.

(ii) **Restructuring expenses: The Group incurred further restructuring expenses of US$213,000 in FY2018. In FY2016, there was already a major restructuring exercise that resulted in redundancy pay-out exceeding US$1.3 million. Has the Group carried out a second round of restructuring? Have the operations been streamlined in response to market demand and trends? What are some of the outcomes of the Group's restructuring and how has the cost structure improved?**

A second restructuring exercise was carried in 1Q2018 to streamline the support structure of the Singapore office. Referring to page 89 of the Annual Report 2018, Note 20, personnel expenses have reduced by US$470,000.

(iii) Plant and machinery: In Note 3 (page 75 – Property, plant and equipment), the Group has US$3.246 million recognised as the carrying value of leasehold land and buildings. The 3 buildings along Fan Yoong Road/Kwong Min Road are stated at their July 1993 revalued amounts. As disclosed in Note 2 (page 59 – Significant accounting policies: Property, plant and equipment), the revalued amount is the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Can the Board provide shareholders with an updated valuation of the properties?

The most recent valuation as at 31 December 2018 evaluated by Savills for the leasehold properties is S$15.3 million.

	Net Book Value 31 Dec 2018 S$' million	Valuation 31 Dec 2018 S$' million
9 Fan Yoong Road Singapore 629787	1.3	6.2
11 Fan Yoong Road Singapore 629789	1.0	4.8
8 Kwong Min Road Singapore 628711	0.9	4.3
Total	3.2	15.3

3. The Group's major properties as at 31 December 2018 are 9 Fan Yoong Road, 11 Fan Yoong Road and 8 Kwong Min Road.

A summary of the detail of the three leasehold buildings is shown in the table below (page 78):

3. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) The Group's major properties as at 31 December 2018 are as follows:

Type of property	Location	Approximate land area (in square metres)	Tenure
Four–storey factory cum office building	9 Fan Yoong Road Singapore 629787	4,622.4	60–year lease from 1 November 1967
Single–storey factory building	11 Fan Yoong Road Singapore 629789	4,499.3	60–year lease from 15 July 1982
Single–storey factory building	8 Kwong Min Road Singapore 628711	4,551.4	Lease of 55 years and 11 months from 1 July 1983

(Source: Company annual report)

(i) Given that the Group has restructured and outsourced its production, has the Board reviewed the Group's assets?

The Board has been reviewing the Group's leasehold assets. Shareholders will be informed via SGXNet should there be a recommendation for the leasehold properties.

(ii) What is the strategic value of the three properties in the Group's long term plan?

Currently, the Singapore office and warehouse reside at the leasehold properties. Shareholders will be informed via SGXNet should there be a recommendation for the leasehold properties.

(iii) Is it prudent to continue to carry the three property as fixed assets (under Property, plant and equipment) when the assets are no longer used for the Group's production?

Currently, the Singapore office and warehouse reside at the three leasehold properties. Less than 30% of the gross floor area are leased to third parties to generate income. In FY2018, the lease income earned is US$360,000.

(iv) Has the Board evaluated the options for the three properties?

The Board has been evaluating the options for the three properties. Shareholders will be informed via SGXNet should there be a recommendation for the leasehold properties.

(v) Does the Board consider it opportune to monetise the assets to crystallise the value for shareholders?

Shareholders will be informed via SGXNet should there be a recommendation to monetise the leasehold properties.

BY ORDER OF THE BOARD

Connie Oi Yan Chan
Executive Chairlady and Chief Executive Officer

25 April 2019

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*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, SAC Capital Private Limited (the "**Sponsor**"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"). The Sponsor has not independently verified the contents of this announcement.*

This announcement has not been examined or approved by 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.

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