

NIPPECRAFT LIMITED

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

UPDATE OF FINANCIAL POSITION AND FUTURE DIRECTION FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 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 third quarter ended 30 September 2017.

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

Revenue	Period ended 30.09.2017	Period ended 30.09.2016	Variance	Change
	US\$'000	US\$'000	US\$'000	%
Stationery	14,612	14,896	(284)	-2%
Trading	65,718	58,387	7,331	13%
Total	80,330	73,283	7,047	10%

The Group recorded revenue of US\$80.3 million for the period ended 30 September 2017; an increase of US\$7.0 million or 10% against the corresponding period in 2016.

Stationery business revenue declined marginally by US\$0.3 million or 2%. This was mainly due to decline in revenue from the international markets of US\$0.5 million as a result of the restructuring exercise in 2016, where the Group sold slow moving goods and raw materials to some of its international customers. This was offset by increase in sales from the Australia and UK markets. The Group is also shifting away from customers that contribute low margin to the stationery businesses. Some of these businesses were lost in the short term, while the Group rebuild the customer portfolio with more profitable new businesses.

In terms of local currency, Australia market registered revenue increase of A\$0.3 million or 3% and the UK market registered an increase in revenue of GBP0.1 million or 2%. To mitigate the impact of GBP devaluation against the USD, the UK subsidiary implemented a 5% to 10% increase in average selling price.

The Group has successfully rectified the delay shipment problems in 2016 after outsourcing production to third party vendors. Current year stocks were delivered on time, and in Australia the subsidiary was amongst the first in the market to launch the 2018 diaries. Having said that, the Group still faced backlash from last year’s delivery delays. This includes reduction in sales order volume from some customers.

Trading business revenue increased by US\$7.3 million or 13% to US\$65.7 million due to increase in sales orders from third party customers. At the last Annual General Meeting ("AGM") held on 27 April 2017, the resolution to renew the Shareholders' Mandate for Interested Person Transactions ("IPT") was not approved by the shareholders. Accordingly, the trading business had focused its efforts to third party sales. Third party sales registered an increase of US\$5.9 million in 2017 as compared to the corresponding period in 2016. At the recent Extraordinary General Meeting held on 24 October 2017, the shareholders approved the IPT mandate. The trading business will commence to receive IPT sales orders and aim to deliver its shipments before year end.

Gross Profit	Period ended 30.09.2017		Period ended 30.09.2016		Variance	
	US\$'000	Margin	US\$'000	Margin	US\$'000	%
Stationery	5,107	35.0%	4,686	31.5%	421	9.0%
Trading	1,747	2.7%	1,654	2.8%	93	5.6%
Total Gross Profit	6,854	8.5%	6,340	8.7%	514	8.1%

The Group recorded a higher gross profit of US\$6.9 million for the period ended 30 September 2017; an improvement of US\$0.5 million or 8.1% as compared to the corresponding period in 2016.

In the stationery business, there was an improvement in gross profit by US\$0.4 million even though there was a marginal drop in revenue. Gross profit margin also improved from 31.5% to 35.0% for the similar period. The improvements were due to:

- 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.
- Reclassification of certain expenses from cost of sales to administrative expenses.

Gross profit margin for trading business remained consistent at the range of 2.7% to 2.8% during the year. The lower gross profit was due to different product mix traded.

Selling and distribution costs decreased by US\$0.6 million or 15% in 2017 compared to the corresponding period in 2016. No significant air freight costs incurred in current year due to delivery of products on time 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 increase efficiency in logistics operations. Lower marketing spent and lower headcount also attributed to the decline in selling and distribution costs.

General and administrative costs increased by US\$0.2 million or 8% in 2017 compared to the corresponding period in 2016. 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 legal costs of US\$0.1 million pertaining to the extension of extension of financial watch lists and holding extraordinary meeting to approve the IPT and share buy mandates.

The Group incurred a loss before tax of US\$0.04 million for the period ended 30 September 2017 as compared to a loss before tax of US\$2.1 million in the corresponding period in 2016.

For the period ended 30 September 2017, the Group recorded positive earnings before interest, tax, depreciation and amortisation, interest costs and exceptional items ("EBITDA") of US\$0.7 million as compared to a negative EBITDA of US\$0.2 million for the corresponding period in 2016.

2. Update on Future Direction

For the last quarter of 2017, the Group will focus on maximising sales both from the trading and stationery businesses. 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 has performed a business review on the existing land and building at the Singapore site. The Company will continue to operate on the present 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).

The Company is also exploring various options to increase the Company's market capitalisation.

As disclosed in the announcement dated 14 August 2017, the Group has reasonable grounds to believe that, subject to global economic conditions and events, the Group is expected to be profitable for the full year ending 31 December 2017. In the event that the Group is profitable for the financial year ending 31 December 2017, but is unable to meet the market capitalisation requirements of the Financial Exit Criteria for the Financial Watch List, the Company will consider seeking a transfer of its listing from the Mainboard to the Catalist.

BY ORDER OF THE BOARD

Connie Oi Yan Chan
Chairlady, Chief Executive Officer and Executive Director
6 November 2017