Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Nippecraft Limited

Security: Nippecraft Limited

Meeting details:
Date: 24 April 2019
Time: 9.00 a.m.
Venue: 9 Fan Yoong Road, Level 4, Conference room, Singapore 629787

Company Description

Nippecraft Limited, together with its subsidiaries, engages in trading and sourcing recycled waste, chemicals, papers, paper bags, pulp, and other related materials. It operates through Stationery Business and Trading Business segments. The company also designs, manufactures, distributes, and trades in diaries/planners, journals, notebooks, organizers and refills, compendiums/conference folders, calendars, and other stationery products for the office, home, or school environment under the Collins and Debden brands. In addition, it supplies paper based stationery products. Nippecraft Limited operates in Singapore, the United Kingdom, Europe, Australia, the United States, Indonesia, Hong Kong, Malaysia, and internationally. The company was founded in 1977 and is headquartered in Singapore. Nippecraft Limited is a subsidiary of APP Printing (Holding) Pte Ltd.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=N32)

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1. 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 $97,000 in FY2017 slipped to a (loss) before tax of $(299,000) in FY2018.

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

Total comprehensive (loss) for FY2018 was $(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?

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

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

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

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

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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 $(1.68) million as part of the review of the operations. This was a significant increase from the US$(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?

(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?**

(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?

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):

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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?

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

(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?

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

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

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=Nippecraft%20Ltd&cid=6424,4611

The company's response could be found here: -----