Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Nippecraft Limited

Stock code: N32

Meeting details:
Date: 24 June 2020
Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. The company was first placed on the SGX watch-list in March 2014 following three straight years of losses and a market capitalisation that fell below $40 million. More losses followed during the time the company was in the watch-list until FY2017 when it achieved a profit of US$16,000 and the company obtained SGX's approval to transfer to the Catalist board.

For FY2018, the company slipped into a loss for the year of US$(61,000) and losses increased to US$(864,000) in FY2019.

As shown in the Consolidated statement of cash flows (page 59), the group recognised a write-down of inventories amounting to US$(1.388) million in FY2019.

Management had previously explained that 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).

In FY2017 and FY2018, the group had written down of inventories related mostly to dated products, amounting to US$(1.68) million and US$(1.28) million respectively. As explained by management in April 2019, 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.

(i) **In FY2019, did the group once again recognise write-down of inventories amounting to US$(1.388) million relating mostly to dated products?**

(ii) **If so, was it due to weaker replenishment by customers? How does the company forecast and adjust its inventories knowing that dated products have a "limited lifespan" and that the group had already written of US$3 million of such inventories in the past two years?**

(iii) **Can the independent directors help shareholders understand if the write-down of inventories was an issue that was discussed with management? What was the guidance given by the board to management?**

Management had also stated the following observations:
- a continual decline in the traditional stationery business
- stationery industry is facing unprecedented disruption driven by digitisation
- a highly challenging retail environment in both the UK and Australia
- loss of sales from a UK key customer that went into administration

Despite the challenges, the board has set the main focus for the group to transform the stationery business into a design-led lifestyle product business.

(iv) **Can management share its achievements in transforming the business to a design-led lifestyle product business from the past 2 years?**

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(v) **How much more capital will the group commit to the transformation?**

(vi) **Is the board considering any diversification into new businesses that have superior growth prospects?**

Q2. In the trading business, the group appeared to have some success with a major third party customer operating from Hong Kong. The trading amount was approximately US$28.3 million in FY2019, up from US$8.3 million in FY2018.

(i) **Can management help shareholders understand the competitive advantage of its trading arm?**

(ii) **What are the major opportunities in the next 18-24 months, especially as the global economy and the supply chain have been badly disrupted by the COVID-19 outbreak that started in 2020?**

(iii) **How does the trading division manage the risks associated with trading, especially market/pricing risks and credit risks?**

Q3. The group has published its Sustainability report which covers the corporate office and the stationery operations for Singapore, Australia and the United Kingdom for FY2019.

(i) **Given that the external revenue of the trading segment is approximately US$105 million, compared to just US$16 million for its stationery business, would the board be considering including the trading business in the reporting scope of the sustainability report?**

In addition, following the materiality assessment exercise in FY2019, materials sourcing was identified as one of the material topics for the group. The key raw material for the group is pulp and paper. The group has received certification from both Forest Stewardship Council ("FSC") and Programme for the Endorsement of Forest Certification ("PEFC").

(ii) **Material aspect:** The group has set a 85% target for obtaining material from sustainable sources. The performance for FY2019 was 84%, marginally short of its own target. **Would the board help shareholders understand if there are plans to raise the target to 100% in the near future? What were the reasons for the shortfall in FY2019?**

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^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings)