USP Group Limited

(Incorporated in Singapore)
(Co. Reg. No: 200409104W)

UNAUDITED QUARTERLY FINANCIAL STATEMENT ANNOUNCEMENT FOR THE PERIOD ENDED 31 DECEMBER 2018

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENT OF 3rd QUARTER RESULTS

1(a)(i) An income statement and statement of comprehensive income, or a statement of comprehensive income for the group together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group					
	Unaudited					
	3 months ended			9 months ended		
	31/12/2018 ("Q3 2019")	31/12/2017 ("Q3 2018")	Increase/ (Decrease)	31/12/2018 ("Q3 2019")	31/12/2017 ("Q3 2018")	Increase/ (Decrease)
	S$'000	S$'000	%	S$'000	S$'000	%
Revenue	11,036	9,585	15.14	34,361	30,678	12.01
Cost of Sales	(7,298)	(6,181)	18.07	(21,969)	(19,950)	10.12
Gross Profit	**3,738**	**3,404**	9.8	**12,392**	**10,728**	15.51
Other income, net (see Note 1(a)(ii))	263	1,060	(75.19)	(317)	978	(132.41)
Selling and distribution expenses	(471)	(333)	41.44	(1,173)	(1,067)	9.93
General and administrative expenses (see Note 1(a)(ii))	(3,369)	(3,909)	(13.81)	(10,665)	(10,801)	(1.26)
Finance costs	(515)	(413)	24.70	(1,519)	(1,203)	26.27
Loss before tax	**(354)**	**(191)**	85.34	**(1,282)**	**(1,365)**	(6.08)
Exceptional item	-	1,164	NM	-	1,164	NM
(Loss)/profit before tax after exceptional item	(354)	973	(136.38)	(1,282)	(201)	537.81
Income tax	(83)	-	100.00	(83)	-	100.00
(Loss)/profit after tax	**(437)**	**973**	(144.91)	**(1,365)**	**(201)**	579.10
(Loss)/profit for the period attributable to:						
Owners of the Company	(380)	806	(147.15)	(1,238)	(352)	251.70
Non-controlling interests	(57)	167	134.13	(127)	151	(184.11)
Total comprehensive (loss)/profit for the period	**(437)**	**973**	(144.91)	**(1,365)**	**(201)**	579.10
EBITDA	**907**	**1,994**	(54.51)	**2,409**	**2,832**	(14.94)

1(a)(ii) Notes to Group Consolidated Statement of Comprehensive Income

(Loss)/profit from ordinary activities is stated after charging/(crediting):

	Group			
	Unaudited			
	3 months ended		9 months ended	
	31/12/2018 ("Q3 2019")	31/12/2017 ("Q3 2018")	31/12/2018 ("Q3 2019")	31/12/2017 ("Q3 2018")
	S$'000			
Amortization of intangible	16	76	50	229
Depreciation	731	532	2,122	1,600
Professional fees	113	802	493	1,295
Rental expenses	212	189	634	553
Staff costs	1,561	1,793	4,713	5,589
Gain on disposal of unquoted investment securities	-	(1,164)	-	(1,164)

Breakdown of other (expenses)/income, net

	Group			
	Unaudited			
	3 months ended		9 months ended	
	31/12/2018 ("Q3 2019")	31/12/2017 ("Q3 2018")	31/12/2018 ("Q3 2019")	31/12/2017 ("Q3 2018")
	S$'000			
Fair value adjustments on marketable securities (1)	195	811	(259)	76
Exchange (loss)/gain, net	(135)	100	(431)	225
Bad debt written off	-	(4)	(2)	(16)
Gain on disposal of property, plant and equipment	62	-	62	-
Property, plant and equipment written off	-	(77)	-	(77)
Dividend income	-	-	-	10
Interest Income	13	-	37	-
Others	128	230	276	760
	263	**1,060**	**(317)**	**978**

(1) Fair value adjustments on marketable securities refer to the adjustment in value of 64,809,400 share in Huan Hsin Holdings Ltd as at 31 December 2018.

1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

	Group		Company	
	S$'000		S$'000	
	Unaudited	Audited	Unaudited	Audited
	31/12/2018	31/03/2018	31/12/2018	31/03/2018
Non-current assets				
Property, plant and equipment	36,690	38,793	171	198
Investment properties	35,129	35,138	-	-
Investments in subsidiaries	-	-	1,358	1,358
Intangible assets	1,784	1,834	-	-
Deferred tax asset	550	533	-	-
Total non-current assets	**74,153**	**76,298**	**1,529**	**1,556**
Current assets				
Development property	4,448	4,483	-	-
Inventories	11,356	13,862	-	-
Trade and other receivables	6,984	5,550	38,100	38,301
Other assets	7,242	6,720	-	24
Investment securities	919	1,178	919	1,178
Cash and short-term deposits	3,346	3,103	332	330
Total current assets	**34,295**	**34,896**	**39,351**	**39,833**
Current liabilities				
Trade payables	3,413	2,864	-	-
Other payables	3,849	4,188	2,033	2,205
Finance lease liabilities	100	120	-	-
Tax payable	350	163	-	-
Loan and borrowings	14,865	16,487	-	-
Total current liabilities	**22,577**	**23,822**	**2,033**	**2,205**
Net current assets	**11,718**	**11,074**	**37,318**	**37,628**
Non-current liabilities				
Deferred tax liabilities	2,065	2,065	-	-
Other payables	677	383	-	-
Loan and borrowings	30,492	30,811	-	-
Finance lease liabilities	188	253	-	-
Total non-current liabilities	**33,422**	**33,512**	**-**	**-**
Net assets	**52,449**	**53,860**	**38,847**	**39,184**
Equity				
Share capital	50,913	50,913	50,913	50,913
Other reserves	1,840	1,886	(454)	(454)
Accumulated profits	(3,271)	(2,033)	(11,612)	(11,275)
Equity attributable to owners of the Company	**49,482**	**50,766**	**38,847**	**39,184**
Non-controlling interests	2,967	3,094	-	-
Total equity	**52,449**	**53,860**	**38,847**	**39,184**

1(b)(ii) Aggregate amount of group's borrowings and debt securities.

Amount repayable in one year or less, or on demand

As at 31/12/2018		As at 31/03/2018	
Secured	**Unsecured**	**Secured**	**Unsecured**
S$'000	**S$'000**	**S$'000**	**S$'000**
14,865	-	16,487	-

Amount repayable after one year

As at 31/12/2018		As at 31/03/2018	
Secured	**Unsecured**	**Secured**	**Unsecured**
S$'000	**S$'000**	**S$'000**	**S$'000**
30,492	-	30,811	-

Details of any collateral

Borrowings are secured by properties, shares of the subsidiaries, corporate guarantees of the Company, personal guarantees given by a director of the Group and fixed deposits pledged to the banks.

1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group			
	S$'000			
	Unaudited			
	3 months ended		9 months ended	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
Operating activities:				
Profit/(loss) before tax	(354)	973	(1,283)	(201)
Adjustments for:				
Depreciation	731	532	2,122	1,600
Amortization of intangibles	16	76	50	229
Fair value loss on marketable securities	(195)	(811)	259	(76)
Gain on disposal of property, plant and equipment	(62)	-	(62)	-
Property, plant and equipment written off	-	77	-	77
Interest income	(13)	(10)	(37)	(33)
Interest expenses	515	414	1,519	1,204
Loss on sale of marketable securities	-	90	-	90
Gain on sale of investment in unquoted investment securities	-	(1,164)	0	(1,164)
Unrealised exchange loss, net	145	16	145	51
Bad debts written off	1	4	3	16
Foreign currency translation	(34)	(66)	(207)	(88)
Operating cash flows before working capital changes	**750**	**131**	**2,509**	**1,705**
Increase in receivables and prepaid operating expenses	(279)	297	(1,920)	(1,593)
(Increase)/decrease in Inventories	(1,643)	(581)	2,506	(5,562)
Increase in payables	467	1,776	524	2,732
Cash flows generated from/(used in) operations	**(705)**	**1,623**	**3,619**	**(2,718)**
Interest income	13	10	37	33
Income tax refund/(paid)	(25)	(9)	86	(44)
Net cash flows generated from/(used in) operating activities	**(717)**	**1,624**	**3,742**	**(2,729)**
Investing activities				
Purchase of property, plant and equipment	(32)	(2,519)	(160)	(2,733)
Subsequent expenditure on development property	208	(196)	-	(601)
Proceeds from disposal of property, plant and equipment	-	69	208	69
Proceeds from disposal of investment property	-	-	-	526
Proceeds from disposal of investment in unquoted investment securities	-	1,359	-	1,359
Proceeds from disposal of marketable securities	-	333	-	333
Net cash flows generated from/(used in) investing activities	**176**	**(954)**	**48**	**(1,047)**
Financing activities:				
Net proceeds/(repayment) of loan, borrowings and trust receipts	1,418	(215)	(1,942)	4,893
Interest paid, net	(515)	(414)	(1,519)	(1,204)
Repayment of finance lease liabilities, net	(26)	(101)	(86)	(126)
Share buy back	-	(29)	-	(29)
Net cash flows (used in)/generated from financing activities	**877**	**(759)**	**(3,547)**	**3,534**
Net (decrease)/increase in cash and cash equivalents	336	(89)	243	(242)
Cash and cash equivalents at beginning of period	3,010	2,972	3,103	3,125
Cash and cash equivalents as per statement of financial position	**3,346**	**2,883**	**3,346**	**2,883**

1(c) A statement of cash flows (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year. (Cont'd)

Cash and cash equivalents comprise:

	Group	
	S$'000	
	Unaudited	Unaudited
	31/12/2018	31/12/2017
Cash on hand and at bank	866	974
Fixed deposits	2,480	1,909
Cash and cash equivalents as per statement of financial position	**3,346**	**2,883**
Less: Fixed deposits pledged	(2,480)	(1,909)
Less: Bank overdraft	(1,729)	(1,788)
Cash and cash equivalents at end of period	**(863)**	**(814)**

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Group	Share capital	Treasury shares	Other reserves	Accumulated profits/ (losses)	Equity attributable to owners of the Company	Non-controlling interests	Total Equity
	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000	S$'000
Balance at 1 October 2018	**50,913**	**(99)**	**1,826**	**(2,891)**	**49,749**	**3,024**	**52,773**
Loss for the period	-	-	-	(380)	(380)	(57)	(437)
Foreign currency translation movement	-	-	115	-	115	-	115
Balance at 31 December 2018	**50,913**	**(99)**	**1,941**	**(3,271)**	**49,484**	**2,967**	**52,451**
Balance at 1 October 2017	**50,913**	**-**	**1,912**	**(3,238)**	**49,587**	**2,860**	**52,447**
Profit for the period	-	-	-	806	806	167	973
Share buy back	-	(29)	-	-	(29)	-	(29)
Foreign currency translation movement	-	-	(38)	-	(38)	-	(38)
Balance at 31 December 2017	**50,913**	**(29)**	**1,874**	**(2,432)**	**50,326**	**3,027**	**53,353**

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

Company	Share capital	Other reserves	Accumulated losses	Total Equity
	S$'000	S$'000	S$'000	S$'000
Current quarter – 3Q2019				
Balance at 1 October 2018	**50,913**	**(454)**	**(11,577)**	**38,882**
Loss for the period	-	-	(35)	(35)
Balance at 31 December 2018	**50,913**	**(454)**	**(11,612)**	**38,847**
Previous quarter – 3Q2018				
Balance at 1 October 2017	**50,913**	**(354)**	**(11,350)**	**39,209**
Loss for the period	-	-	**300**	**300**
Share buy back	-	**(29)**	-	(29)
Balance at 31 December 2017	**50,913**	**(383)**	**(11,050)**	**39,480**

1(d)(ii) **Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State the number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

Ordinary Shares

The Company did not issue any shares for the 3 months ended 31 December 2018. (31 December 2017: Nil)

Performance Shares

There were no performance shares granted but not vested as at 31 December 2018 (31 December 2017: Nil)

Treasury Shares

As of 31 December 2018, the Company has 634,600 treasury shares (31 December 2017: 263,700) accounting for 0.698% of the total number of shares outstanding as of the end of the reported period.

None of the Company's subsidiaries hold any shares in the Company at the end of the period under review.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

	31/12/2018	31/03/2018
Total number of issued ordinary shares excluding treasury shares	90,287,403	90,287,403

1(d)(iv) A statement showing all sales, transfers, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

There has been no movement in the Company's treasury shares during the period.

1(d)(v) A statement showing all sales, transfers, disposal, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.

Not applicable.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

These figures have neither been audited nor reviewed by the Company's auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

The accounting policies and methods of computation used are consistent with those used in the most recently audited annual financial statements except for the adoption of the new or amended Financial Reporting Standards (FRS) and Interpretations to FRS (INT FRS) that are mandatory for financial years beginning on or after 1 October 2018.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

Please refer to item 4 above. The adoption of the new or revised Singapore Financial Reporting Standards (FRS) and Interpretations (INT FRS) had no material effect on the Group's accounting policies and had no significant impact on the Group's financial statements.

6. Profits/ (losses) per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

	Group	
	31/12/2018	**31/12/2017**
(Losses)/profits per ordinary share from the group, after deducting any provision for preference dividends (in SGD cents):		
(a) Based on weighted average number of ordinary shares on issue; and	(0.48)	1.07
Weighted average number of ordinary shares for basic profits/ (losses) per share computation	90,287,403	90,658,303
(b) On a fully diluted basis	(0.48)	1.07
Weighted average number of ordinary shares adjusted for the effect for dilution	90,287,403	90,658,303

7. Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the:
(a) current financial period reported on; and
(b) immediately preceding financial year.

	Group		Company	
	31/12/2018	**31/03/2018**	**31/12/2018**	**31/03/2018**
Net asset value per ordinary share based on issued share capital at the end of the respective periods (in SGD cents):	54.81	56.23	43.03	43.40
No. of ordinary shares used in computing net asset value	90,287,403	90,287,403	90,287,403	90,287,403

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:
(a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.

REVIEW OF PERFORMANCE (2Q2019 VS 2Q2018)

Revenue

Consolidated revenue in third quarter grew by 15.1% to S$11.0 million as against the same corresponding period last year. The increase was driven by stronger performance of our Marine sector which grew 22.7% when compared to the corresponding period last year. This is partially offset by lower revenue from our recycling of waste oil sector which dropped from S$0.5 million last quarter to S$0.3 million this quarter mainly due to our lower selling price as the global palm oil commodity price has fallen during the period.

Other income

Other income decreased mainly due to a smaller revaluation gain on quoted securities in this quarter of S$0.2 million as compared to a gain of S$0.8 million in the previous corresponding period.

Selling and Distribution

Selling and distribution expenses increased by S$0.1 million due to the increase in logistics overheads from the increase in sales activities.

General and Administrative

G&A expenses dipped by 13.8% from S$3.9 million in 3Q2018 to S$3.4 million in the current reported period. This is largely due to the legal suit with an associate company, MSV Systems and Services Pte Ltd ("MSV") in 3Q 2018 which was subsequently settled in November 2017.

Finance Costs

Finance cost increase to S$0.5 million in 3Q2019 (3Q2018: S$0.4 million) from higher effective borrowing rates and borrowings.

Loss After Tax

Loss after tax was S$0.4 million in 3Q2019 as compared to a profit for 3Q2018 S$1.0 million largely due to a smaller gain on revaluation of quoted securities and absence of the exceptional gain on disposal of MSV amounting to S$1.16 million which took place in the previous corresponding period. As a result, EBITDA dipped from S$2.0 million in 3Q 2018 to S$0.9 million in 3Q2019. For the 3 months ended December 2017, had the revaluation gain on the quoted securities and one-off gain on the disposal of MSV and its related costs been excluded, the adjusted EBITDA is S$0.7 million as compared to the current reported period of S$0.71 million; i.e. the current period would have exhibited a slight increase.

REVIEW OF FINANCIAL POSITION AND CASH FLOW STATEMENT

Current Assets

Inventories decreased by S$2.5 million from S$13.9 million to S$11.4 million largely due to the increase in Marine sales and stronger inventory management. Correspondingly, trade and other receivables increased by S$1.4 million from S$5.6 million to S$7.0 million in the same period.

Investment securities depreciated to $0.9 million due to the recognition of fair value loss on its holdings in quoted securities.

Current Liabilities

Overall liabilities decreased by $1.2 million largely due to repayment of loan and borrowings.

Cash Flow

During the current reported period, the Group spent S$1.6 million to replenish its inventory which is reflected in the net drawdown on S$1.4 million of loan and borrowings

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Not applicable.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

Distributorship

Based on the momentum for past 3 quarters of 2019, our Marine business will continue to be our revenue driver. The Group is placing more focus on its forex management and working with its bankers to mitigate any further impacts due to the fluctuations in the USD compared with SGD. There is also a worldwide supply crunch of engines from our key principal, Mercury Marine due to the popularity of its new V6 and V8 engines launched this year. The Group is working closely with its principal to replenish its inventory. Meanwhile, the Marine business will also continue to explore new markets and opportunities, investing in R&D for other marine products to increase our product range.

Recycling of waste oil

The recycling business is expected to improve going into Q4 2019 with the recovering palm oil prices. Despite the decrease in revenue, Biofuel is expected to continue generating positive cashflow for the Group.

Property Investments

71 Blandford Drive project is currently in the process of building up from an existing two storey semi-detached unit to a two and a half storey semi-detached so that the Group can command a better selling price. However, this is expected to be dampened by the current soft residential property market as a result of the cooling measures introduced by the government recently. Meanwhile, its property investment in Koon Cheng Development Pte Ltd has continued to exhibit high occupancy and good cashflow.

Investment in Huan Hsin

Huan Hsin was delisted on 18 January 2019 as per their announcement on 21 January 2019. As such, the Group will be making the necessary impairment on investment once the notice for the exit offer is received from Huan Hsin subsequently. Huan Hsin has intention to apply to SGX for an extension of time to make an exit offer.

The Group has written to Huan Hsin's Board to seek clarification on the status of the delisting and the exit offer. In our last letter on 25 January 2019, the Group has requested for a meeting with their Lead Independent Director. As of the date of this announcement, the Group has not received any response from Huan Hsin on our request.

Settlement of civil suit against former directors of Scientific & Industrial Instrumentation Pte Ltd ("SII")

As announced on 29 January 2019, the Group has entered into a settlement agreement against the former directors of SII, a local company, two other persons and former employees. As a result of the settlement, SII and Supratechnic Sdn Bhd will become wholly owned subsidiaries of the Group. The Board is of the view that the settlement is in the interests of the Group and will allow management to better channel their efforts into the current businesses.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

No dividend has been declared.

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

None.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

12. If no dividend has been declared/recommended, a statement to that effect and the reason(s) for the decision.

No dividend has been declared or recommended for the financial period ended 31 December 2018 as the Group has incurred a loss for the period 9 months ended 31 December 2018.

13. If the Group has obtained a general mandate from shareholders for Interested Person Transactions ("IPT"), the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

The Company does not have any IPT mandate.

14. Confirmation that the Issuer has procured undertakings from all its Directors and Executive Officers (In the format set out in Appendix 7.7) under Rule 720(1).

The Company has received undertakings from all its directors and executive officers in the format as set out in Appendix 7.7 under Rule 720(1) of the Listing Manual of the SGX-ST.

15. Negative Assurance Confirmation

We confirm that to the best of our knowledge, nothing has come to the attention of the Board of Directors of USP Group Limited which may render these interim financial results for the quarter ended 31 December 2018 to be false or misleading in any material aspect.

BY ORDER OF THE BOARD

Nah Ee Ling
Executive Director
10 February 2019