USP Group Limited

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

UNAUDITED QUARTERLY FINANCIAL STATEMENT ANNOUNCEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2018

PART I - INFORMATION REQUIRED FOR ANNOUNCEMENT OF 2ND 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			6 months ended		
	30/09/2018 ("Q2 2019")	30/09/2017 ("Q2 2018")	Increase/ (Decrease)	30/09/2018 ("1H 2019")	30/09/2017 ("1H 2018")	Increase/ (Decrease)
	S$'000	S$'000	%	S$'000	S$'000	%
Revenue	12,984	11,930	8.83	23,325	21,236	9.84
Cost of Sales	(8,540)	(7,686)	11.11	(14,671)	(13,565)	8.15
Gross Profit	**4,444**	**4,244**	4.71	**8,654**	**7,671**	12.81
Other expenses, net (see Note 1(a)(ii))	(716)	(398)	79.90	(580)	(226)	NM
Selling and distribution expenses	(426)	(390)	9.23	(702)	(733)	(4.23)
General and administrative expenses (see Note 1(a)(ii))	(3,866)	(3,507)	10.24	(7,296)	(7,095)	2.83
Finance costs	(503)	(409)	22.98	(1,004)	(790)	27.09
Loss before tax	**(1,067)**	**(460)**	131.96	**(928)**	**(1,173)**	(20.89)
Income tax	-	-	NM	-	-	NM
Loss after tax	**(1,067)**	**(460)**	131.96	**(928)**	**(1,173)**	(20.89)
Loss for the period attributable to:						
Owners of the Company	(1,007)	(500)	101.4	(858)	(1,159)	(25.97)
Non-controlling interests	(60)	40	(250.0)	(70)	(14)	NM
Total comprehensive loss for the period	**(1,067)**	**(460)**	131.96	**(928)**	**(1,173)**	(20.89)
EBITDA	**152**	**553**	72.51	**1,501**	**838**	79.12

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		6 months ended	
	30/09/2018 ("Q2 2019")	30/09/2017 ("Q2 2018")	30/09/2018 ("1H 2019")	30/09/2017 ("1H 2018")
	S$'000			
Amortization of intangible	17	77	34	153
Depreciation	699	529	1,391	1,068
Penalties(1)	550	-	551	1
Professional fees	216	254	380	493
Rental expenses	210	183	422	364
Staff costs	1,361	1,847	3,152	3,796

Breakdown of other (expenses)/income, net

	Group			
	Unaudited			
	3 months ended		6 months ended	
	30/09/2018 ("Q2 2019")	30/09/2017 ("Q2 2018")	30/09/2018 ("1H 2019")	30/09/2017 ("1H 2018")
	S$'000			
Fair value adjustments on marketable securities (2)	(454)	(767)	(454)	(735)
Exchange loss, net	(316)	64	(296)	125
Bad debt written off	(2)	(1)	(2)	(12)
Loss on disposal of property, plant and equipment	-	-	(1)	-
Dividend income	-	4	-	10
Interest Income	13	12	24	23
Others	43	290	149	363
	(716)	**(398)**	**(580)**	**(226)**

(1) Penalties refer to the additional buyer's stamp duties (ABSD) incurred by the Group due to the delay launch of its development project.

(2) Fair value adjustments on marketable securities refer to the adjustment in value of 64,809,400 share in Huan Hsin Holdings Ltd as at 30 September 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
	30/09/2018	31/03/2018	30/09/2018	31/03/2018
Non-current assets				
Property, plant and equipment	37,533	38,793	180	198
Investment properties	35,132	35,138	-	-
Investments in subsidiaries	-	-	1,358	1,358
Intangible assets	1,800	1,834	-	-
Deferred tax asset	550	533	-	-
Total non-current assets	**75,015**	**76,298**	**1,538**	**1,556**
Current assets				
Development property	4,388	4,483	-	-
Inventories	9,715	13,862	-	-
Trade and other receivables	8,340	5,550	38,343	38,301
Other assets	5,636	6,720	18	24
Investment securities	724	1,178	725	1,178
Cash and short-term deposits	3,010	3,103	360	330
Total current assets	**31,813**	**34,896**	**39,446**	**39,833**
Current liabilities				
Trade payables	2,765	2,864	-	-
Other payables	3,652	3,507	2,102	2,205
Other liabilities	681	681	-	-
Finance lease liabilities	120	120	-	-
Tax payable	275	163	-	-
Loan and borrowings	12,996	16,487	-	-
Total current liabilities	**20,489**	**23,822**	**2,102**	**2,205**
Net current assets	**11,324**	**11,074**	**37,344**	**37,628**
Non-current liabilities				
Deferred tax liabilities	2,065	2,065	-	-
Other payables	360	383	-	-
Loan and borrowings	30,948	30,811	-	-
Finance lease liabilities	193	253	-	-
Total non-current liabilities	**33,566**	**33,512**	**-**	**-**
Net assets	**52,773**	**53,860**	**38,882**	**39,184**
Equity				
Share capital	50,913	50,913	50,913	50,913
Other reserves	1,727	1,886	(454)	(454)
Accumulated profits	(2,891)	(2,033)	(11,577)	(11,275)
Equity attributable to owners of the Company	**49,749**	**50,766**	**38,882**	**39,184**
Non-controlling interests	3,024	3,094	-	-
Total equity	**52,773**	**53,860**	**38,882**	**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 30/09/2018		As at 31/03/2018	
Secured	**Unsecured**	**Secured**	**Unsecured**
S$'000	**S$'000**	**S$'000**	**S$'000**
12,996	-	16,487	-

Amount repayable after one year

As at 30/09/2018		As at 31/03/2018	
Secured	**Unsecured**	**Secured**	**Unsecured**
S$'000	**S$'000**	**S$'000**	**S$'000**
30,948	-	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		6 months ended	
	30/09/2018	30/09/2017	30/09/2018	30/09/2017
Operating activities:				
Loss before tax	(1,067)	(460)	(928)	(1,173)
Adjustments for:				
Depreciation	699	529	1,391	1,068
Amortization of intangibles	17	77	34	153
Fair value loss on marketable securities	454	767	454	735
Loss on disposal of property, plant and equipment	-	-	1	-
Interest income	(13)	(12)	(24)	(23)
Interest expenses	503	409	1,004	790
Share-based compensation	-	-	-	200
Bad debts written off	2	1	2	12
Foreign currency translation	(136)	(54)	(173)	(188)
Operating cash flows before working capital changes	**459**	**1,257**	**1,761**	**1,574**
Increase in receivables and prepaid operating expenses	(2,117)	(1,491)	(1,736)	(1,890)
Decrease/(Increase) in Inventories	2,050	(4,144)	4,147	(4,981)
Decrease in payables	1,057	301	57	956
Cash flows generated from/(used in) operations	**1,449**	**(4,077)**	**4,229**	**(4,341)**
Interest income	13	12	24	23
Income tax paid	108	(45)	111	(35)
Net cash flows generated from/(used in) operating activities	**1,570**	**(4,110)**	**4,364**	**(4,353)**
Investing activities				
Purchase of property, plant and equipment	(53)	(114)	(128)	(214)
Subsequent expenditure on development property	210	(325)	95	(405)
Proceeds from disposal of investment property	-	526	-	526
Net cash flows generated from/(used in) investing activities	**157**	**87**	**(33)**	**(93)**
Financing activities:				
Net proceeds from loan and borrowings	(1,264)	4,458	(3,360)	5,108
Interest paid, net	(503)	(409)	(1,004)	(790)
Repayment of finance lease liabilities, net	(40)	(17)	(60)	(25)
Net cash flows (used in)/generated from financing activities	**(1,807)**	**4,032**	**(4,424)**	**4,293**
Net (decrease)/increase in cash and cash equivalents	(80)	9	(93)	(153)
Cash and cash equivalents at beginning of period	3,090	2,963	3,103	3,125
Cash and cash equivalents as per statement of financial position	**3,010**	**2,972**	**3,010**	**2,972**

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
	30/09/2018	30/09/2017
Cash on hand and at bank	783	1,107
Fixed deposits	2,227	1,865
Cash and cash equivalents as per statement of financial position	**3,010**	**2,972**
Less: Fixed deposits pledged	(2,227)	(1,865)
Less: Bank overdraft	(1,862)	(887)
Cash and cash equivalents at end of period	**(1,079)**	**220**

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 July 2018	**50,913**	**(99)**	**1,957**	**(1,884)**	**50,887**	**3,084**	**53,971**
Loss for the period	-	-	-	(1,007)	(1,007)	(60)	(1,067)
Foreign currency translation movement	-	-	(131)	-	(131)	-	(131)
Balance at 30 September 2018	**50,913**	**(99)**	**1,826**	**(2,891)**	**49,749**	**3,024**	**52,773**
Balance at 1 July 2017	**52,029**	**-**	**2,852**	**(3,799)**	**51,082**	**2,358**	**53,440**
Audit adjustments	(1,116)		(889)	1,061	(944)	462	(482)
Loss for the period	-	-	-	(500)	(500)	40	(460)
Foreign currency translation movement	-	-	(51)	-	(51)	-	(51)
Balance at 30 September 2017	**50,913**	**-**	**1,912**	**(3,238)**	**49,587**	**2,860**	**52,447**

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 – 2Q2019				
Balance at 1 July 2018	**50,913**	**(454)**	**(10,875)**	**39,584**
Loss for the period	-	-	(702)	(1,341)
Balance at 30 September 2018	**50,913**	**(454)**	**(11,577)**	**38,882**
Previous quarter – 2Q2018				
Balance at 1 July 2017	**52,029**	**56**	**(10,009)**	**42,076**
Audit adjustments	**(1,116)**	**(410)**	**-**	**(1,526)**
Loss for the period	-	-	(1,341)	(1,341)
Balance at 30 September 2017	**50,913**	**(354)**	**(11,350)**	**39,209**

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 30 September 2018. (30 September 2017: Nil)

Performance Shares

There were no performance shares granted but not vested as at 30 September 2018 (30 September 2017: Nil)

Treasury Shares

As of 30 September 2018, the Company has 634,600 treasury shares (30 September 2017: Nil) 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.

	30/09/2018	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 July 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	
	30/09/2018	**30/09/2017**
(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	(1.12)	(0.55)
Weighted average number of ordinary shares for basic profits/ (losses) per share computation	90,287,403	90,922,003
(b) On a fully diluted basis	(1.12)	(0.55)
Weighted average number of ordinary shares adjusted for the effect for dilution	90,287,403	90,922,003

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	
	30/09/2018	31/03/2018	**30/09/2018**	**31/03/2018**
Net asset value per ordinary share based on issued share capital at the end of the respective periods (in SGD cents):	55.10	56.23	43.06	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 second quarter grew by 8.8% to S$13.0 million as against the same corresponding period last year. The increase was driven by stronger performance of our Marine sector which grew 27.5% compared to 1Q 2019 and 14.8% 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$0.6 million last quarter to S$0.5 million in this quarter mainly due to our lower selling price as the global palm oil commodity price has dived.

Other Expenses

Other expenses increased mainly due to the net foreign exchange loss on the strengthening of the USD as most of our purchases for the marine business are denominated in USD.

Selling and Distribution

Selling and distribution expenses increased by 9% due to the increase in logistics overheads from the increase in sales activities.

General and Administrative

G&A expenses jumped by 10% from S$3.5 million in 2Q2018 to S$3.9 million in the current reported period. This is largely due to the additional buyer's stamp duties ("ABSD") imposed on our 71 Blandford Drive property development project. Had it not for this penalty, the G&A for the current quarter will be SS3.3 million, a dipped of 5% as compared to 2Q2018.

Finance Costs

Finance cost increase to S$0.50 million in 2Q2019 (2Q2018: S$0.41 million) from higher effective borrowing rates and borrowings.

Loss After Tax

Loss after tax increase to S$1.1 million in 2Q2019 (2Q2018: S$0.5 million) largely due to the one-off ABSD imposed on 71 Blandford Drive project. Adjusted EBITDA will be S$1.2 million, a slight decrease compared to 1Q2019 of S$1.3 million, if the effects of the one-off ABSD penalty and fair value loss of Huan Hsin quoted securities are excluded.

REVIEW OF FINANCIAL POSITION AND CASH FLOW STATEMENT

Current Assets

Inventories decreased by S$4.2 million from S$13.9 million to S$9.7 million largely due to the increase in Marine sales. Correspondingly, trade and other receivables increased by S$2.7 million from S$5.6 million to S$8.3 million in the same period.

Investment securities depreciated to $0.7 million due to the recognition of fair value loss on Huan Hsin securities from the drop in market price of S$0.018 at 31 March 2018 to S$0.011 at 30 September 2018.

Current Liabilities

Overall liabilities decreased by $3.3 million largely due to repayment of loan and borrowings.

Cash Flow

During the period, the Group generated S$1.6 million from operating activities while S$1.8 million was used for loan repayment and interest payment.

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 1H2019, our Marine business will continue to be our revenue driver for the second half. The Group is placing more focus on its forex management and working with its bankers to mitigate any further fluctuations. There is 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 2H2019 with the increased in production output. 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.

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.

No dividend has been declared or recommended for the financial period ended 30 September 2017.

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 30 September 2018 to be false or misleading in any material aspect.

BY ORDER OF THE BOARD

Li Hua
Executive Chairman/CEO
13 November 2018