USP GROUP LIMITED
(Incorporated in Singapore)
(Company Registration No.: 200409104W)

Response to SGX's Query on the Company's announcement dated 23 September 2019

The Board of Directors ("**Directors**") of USP Group Limited (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce the following in response to the queries raised by Singapore Exchange Securities Trading Limited (the "SGX-ST") to the Company in relation to the 23 September 2019 Announcement.

SGX-ST's Queries

(i) If the "machines are being disposed as scrap metal", to whom are these machines being disposed to? If the purchaser is an entity, please provide the names of its director(s) and shareholder(s). What is the amount of sale proceeds?

Company's Response (i)

The Company is still in the process of seeking quotes. The Company will release the details once it has successfully disposed of the machines. Indicative quotes received so far from independent 3rd parties have been very low and will not materially affect the write-down. As such, the Company has decided to write-off the full amounts.

SGX-ST's Queries

(ii) We refer to the following statement: "Option to purchase has been exercised on 5 September 2019." Has this been announced? If not, why? What are the conditions precedent for the sale? Is shareholders' approval required under the Listing Rules for the sale?

Company's Response (ii)

The Option to purchase exercised refer to Group's semi-detached property development project in 71 Blandford Drive. The terms and conditions are consistent with the normal sale of private properties except for one key condition whereby the sale and purchase are conditional upon the Purchaser securing a housing loan from a financial institution for the purchase. In the event the Purchaser application for a housing loan is unsuccessful or the disbursement of the loan is not approved, the Purchaser shall be entitled to rescind this Agreement and the Company shall refund to the Purchaser, on demand, all monies paid by the Purchaser, subjection to conditions. The disposal is in connection with the ordinary course of the Group's property business and is of a revenue nature. As a result, the Company is of the view that shareholders' approval is not required under the Listing Rules for the sale.

SGX-ST's Queries

(iii) We refer to the following statements: "The vendor was Giantway Management Limited" (the "**Vendor**") and "Both the sole director and shareholder is Mr Wong Peng Wai".

We also refer to the Company's announcement dated 3 January 2019 concerning the appointment of Mr Wong Peng Wai as a non-executive independent director of the Company with effect from 2 January 2019. The announcement provides that he has no relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries. The directors of the Company at the time of that announcement were Mr Goh Chong Theng, Ms Nah Ee Ling, Mr Yip Mun Foong, Mdm Weng Huixin and Mr Wong Peng Wai.

SGX-ST's Queries (iii)(a)

(a) Given the Company's purchase of three eco-fuel machines from a company owned by Mr Wong Peng Wai, why did the Company omit to disclose that relationship?

Company's Response (iii)(a)

The contracts to buy 3 eco-machines were entered into in March and December 2014 and the last payment to the Vendor was in 6 June 2016. Since then, the Company had not had any business dealings with the Vendor nor Mr Wong except for the waiver letter in November 2018 where the Vendor and the Company agreed to waive any outstanding liabilities due to each other whereby the remaining balance due for the purchase cost of third eco-fuel machine amounting to $1,356,000 has been waived off by the Vendor. As the appointment of Mr Wong Peng Wai to the Board was on 2 January 2019, Mr Wong was deemed independent by the board as at the relevant period as neither he nor the Vendor had transactions and/or payments with the Company in the last 30 months prior to his appointment. Concurrent with his board appointment, he also entered into a monthly consultant fee of S$10,000 to advise on the Group's marine business on 2 January 2019.

SGX-ST's Queries (iii)(b)

(b) Please provide the basis of the Nominating Committee and the Board's assessment on whether Mr Wong Peng Wai meets the requirements of an "independent" director.

Company's Response (iii)(b)

As mentioned in (iii)(a),Mr Wong appointment to the Board was only on 2 January 2019 and according to the board as at the relevant period, he met the guidelines of independence in the Listing Manual.

SGX-ST's Queries (iv)(a)

(iv) We refer to the Independent Auditor's Report for the Company's financial year ended 31 March 2019, which provides that:

"As of 31 March 2018, the group had two eco-fuel machines included in plant and equipment that amounted to $9,657,000 and a deposit of $4,462,000 for a third eco-fuel machine that had yet to be delivered. Collectively, these machines and related deposit represented 13% of the group's total assets as at 31 March 2018. The group did not commence any eco-fuel production since the acquisition of the machines in 2014.

During the reporting year ended 31 March 2019, management decided to abort the plan to produce eco-fuel in view of the continuing depressed market conditions for the product. As these machines are highly specialised with limited resale market values, management has written off the full carrying value of the machines and the deposit totalling $14,119,000. The remaining balance due for the purchase cost of third eco-fuel machine amounting to $1,356,000 has been waived by the Vendor".

(a) If the Company had not commenced any eco-fuel production, what was its basis for purchasing a third eco-fuel machine from the Vendor?

Company's Response (iv)(a)

The third machine was contracted together with the second machine in December 2014. The purchase contract for the 2nd and 3rd machine was signed only after the delivery of the 1st machine. Due to the fluctuating oil prices in 2015, the Company only took receipt of the 2nd machine and deferred the receipt of the 3rd machine as it was not prepared to start production due to the fluctuating oil prices. Deposits were paid since 2014 and paid according to the milestones stated in the purchase contract.

SGX-ST's Queries (iv)(b)

(b) When did the Company place the deposit of $4,462,000, and what were the Board's considerations in placing a deposit amounting to approximately 76.7% of its purchase cost?

Company's Response (iv)(b)

The deposits were made over three tranches from December 2014 to February 2015 and made according to the milestones stated in the purchase contract. The Company was supposed to take delivery in 2015 but delayed it several times. The delay in delivery was solely due to the Company's decision to defer further payments as it was not feasible to start production with the depressed oil prices then.

SGX-ST's Queries (iv)(c)

(c) The Company made the decision to "abort the plan to produce eco-fuel" and wrote off the deposit of $4,462,000. What efforts did the Board make to recover the deposit? Was Mr Wong Peng Wai involved in the Board's deliberations and decision-making?

Company's Response (iv)(c)

The decision to abort the plan to produce eco-fuel was made in October/November 2018 when the oil prices started falling again despite recovering in June 2018. The Company assessed that it was not feasible to take delivery of the third machine as it would have to incur additional costs and payments. The Company then informed the Vendor that it will not take delivery of the third machine and requested the Vendor to waive off any outstanding amounts. The waiver letter was signed in November 2018. Mr Wong did not participate in any of the Board's deliberations and above decisions.

Given the recent developments after the 2019 AGM held on 30 September 2019, the board is now reconstituted to a 2-member board following non-re-election of certain directors and appointment of one new non-Executive director. The new board is currently looking into this matter while also at the same time re-constituting the board to meet the relevant requirements as announced on 2 October 2019.

BY ORDER OF THE BOARD

For and on behalf of
USP Group Limited
8 October 2019