USP GROUP LIMITED
(Company Registration No.: 200409104W)
(Incorporated in the Republic of Singapore)
(the "**Company**")

RESPONSE TO SGX QUERIES ON THE COMPANY'S UNAUDITED FINANCIAL STATEMENTS FOR FINANCIAL YEAR ENDED 31 DECEMBER 2022

The Board of Directors (the "**Board**") 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 (the "**SGX-ST**") on 13 April 2023 in respect of the Company's unaudited full year financial statements for the financial year ended 31 December 2022 announced on 3 March 2023:

SGX-ST's Query (i)

Please explain the decrease in the Group's cash and cash equivalents from S$6,126,000 as at 31 March 2022 to S$4,112,000 as at 31 December 2022.

Company's Response (i)

(a) The decrease in the Group's cash and cash equivalent was mainly due to lower cash inflow from the Group's operating activities, as well as an increase in the purchase of inventories by S$1,689,000.

(b) Further, the sales for one of the Company's subsidiaries in Malaysia declined as a result of the monsoon season in early November 2022. This resulted in lower cash inflow.

SGX-ST's Query (ii)

The Group reported trade and other receivables under its current assets of SS$7,704,000 as at 31 December 2022, amounting to approximately **25.72%** of the Group's total revenue of S$29,958,000 for the 9-month period ended 31 December 2022.

In this regard, please provide details on the nature and breakdown of these trade and other receivables, the Group's plans to recover them as well as the Board's assessment on their recoverability.

Company's Response (ii)

(a) The breakdown of the trade and other receivables are set out as follows:

	S$'000
Trade receivables	*4,416*
Deposit	*2,068*
Prepayment	*487*
Other receivables	*733*
	7,704

(b) A significant portion of the trade receivables, of approximately S$3.5 million, mainly comes from the marine segment and is aged under 120 days. The Group is constantly monitoring the ageing of the trade receivables and payment trends by maintaining regular and appropriate contact with customers to build relationships and understand the market situation.

(c) Since 2019, a total of S$838,000 trade receivables remain uncollectible from 5 customers. The Management is in the midst of negotiating repayment plans with the said customers. The Management will make the necessary provision of impairment, if required, following the outcome of the negotiations.

(d) Additionally, a non-refundable down payment is required for placing of order of outboard engines.

(e) The deposits amount to S$1.2 million had been paid to the Group's supplier, Mercury Marine Singapore Pte Ltd, for the Group to make credit purchase. The remaining deposit of approximately S$800,000 is mainly attributable to the deposit paid upfront to the Group's lawyers.

(f) The Board has assessed the basis of recoverability as stated above and is of the opinion that the recoverability of the remaining trade receivable is reasonable.

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

The Group reported an increase in the "Intangible assets" financial statement line item from S$460,000 as at 31 March 2022 to S$484,000 as at 31 December 2022. In this regard:

Please provide details on the nature of the "Intangible assets" and what they relate to.

Company's Response (iii)(a)

The details of the intangible assets comprised of goodwill of the following:

(a) acquisitions of Biofuel Research Pte Ltd of S$460,000; and

(b) acquisitions of Supratechnic Pte Ltd of S$24,000.

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

Please elaborate on how the value of S$484,000 was determined, and address whether any valuation was conducted. If yes, please state the name of the valuer and the valuation determined by the valuer.

Company's Response (iii)(b)

A significant portion of the intangible assets of S$460,000 are subjected to valuation using the DCF method. Based on the outlook of Biofuel Research Pte Ltd, there is no indication for impairment. No valuers were involved in the valuation.

SGX-ST's Query (iii)(c)

Please explain the increase of its amount from S$460,000 as at 31 March 2022 to S$484,000 as at 31 December 2022.

Company's Responses (iii)(c)

The increase in intangible assets by S$24,000 arises from the acquisition of club membership at OneMarina.

SGX-ST's Query (iv)

The Group reported an increase in the "Deferred tax asset" financial statement line item from S$373,000 as at 31 March 2022 to S$376,000 as at 31 December 2022.

In this regard, please provide details on the nature of the "Deferred tax asset", the circumstances leading to the "Deferred tax asset" and the likelihood of the Group utilising the "Deferred tax asset".

Company's Response (iv)

The Deferred tax asset mostly arises from the deductible temporary differences and will be utilized against taxable profit. These amounts can be split into two portions for Biofuel Research Pte Ltd and PT Supratechnic Instrumentasi Indonesia of S$214,000 and S$152,000 respectively. It is expected to be utilized partially for financial year ending 31 March 2023.

SGX-ST's Query (v)

Please explain the increase in the "Tax payable" by the Group from S$48,000 as at 31 March 2022 to S$94,000 as at 31 December 2022.

Company's Response (v)

The increase in "Tax Payable" was due to reclassification entry. As of 31 December 2022, tax refunds of S$45,000 categorized under "Tax payable" were reclassified to "Tax receivables".

SGX-ST's Query (vi)(a)

The Group reported an increase in its "Trade and other payables" under its current liabilities from S$5,741,000 as at 31 March 2022 to S$7,556,000 as at 31 December 2022. It also reported a decrease in "Other payables" under its non-current liabilities from S$318,000 as at 31 March 2022 to S$210,000 as at 31 December 2022.

At pg 10, it was disclosed that:

"Current liabilities increased by $1,588,000 due to the increase in trade and other payables by $1,215,000 due to the major purchases placed with suppliers for the outboard motor and labour cost incurred by the newly start-up subsidiary, Darts Engineering."

In this regard:

Please disclose a breakdown of the Group's trade and other payables under its current and non-current liabilities. For other payables, please disclose the aging and nature of these other payables and whether the counterparties are related parties. Please also provide the identity of the counterparties.

Company's Response (vi)(a)

(a) The breakdown of the Group's trade and other payables are set out as follows:

	S$'000
Trade payables	*4,079*
Deposit	*697*
Accrued liabilities	*1,521*
Other payables	*1,259*
	7,556

(b) In respect of other payable ageing as at 31 December 2022, other payables are aged within one year except for the amount owing to Singapore Business Federation, being less than S$10,000 in aggregate, and the deposit of S$600,000 is in relation to the proposed acquisition of 31 Shipyard Road, of which application has been rejected by JTC.

(c) The nature of other payables is set out as follows:

a. A significant portion of the other payables are attributed to the deposit of S$600,000 for the proposed acquisition of 31 Shipyard Road, as well as the contingent liabilities payable of S$600,000 to FC Legal LLC, as stated in our earlier announcement dated 14 February 2023.

b. The remaining amount mainly comprises of sundry payables for corporate secretary, lawyers, freight charges, repair and maintenance expenses, stationery expenses and VAT tax payable, and other consumable expenses incurred during the ordinary course of the Group's operation.

c. None of the counterparties are related parties.

SGX-ST's Query (vi)(b)

Please provide the reason(s) for (1) the trade and other payables under its current liabilities of S$7,556,000; and (2) the other payables under its non-current liabilities of S$210,000, when the Group recorded cash and cash equivalents of S$4,112,000 as at 31 December 2022.

Company's Response (vi)(b)

The Group manages trade and other payables in conjunction with other working capital items, such as trade receivables and inventories, to achieve an optimal working capital level for the Group. As most of the legal cases are headed to trial from financial year ending 31 March 2023, the Group has to set aside funding to pay the necessary costs to lawyers, this results in delays in payments to creditors.

SGX-ST's Query (vi)(c) Part (1)

Regarding "Darts Engineering":

Please elaborate on the business of "Darts Engineering", and provide more details including its date of incorporation, number of employees, management team, shareholding structure, the Company's rationale for incorporating it and whether the Company has any prior experience in this business. Which reportable segment would the business of "Darts Engineering" be classified under in the Group's financial statements?

Company's Response (vi)(c) Part (1)

*(a) Darts Engineering Pte Ltd ("**Darts Engineering**") was incorporated on 21 July 2021 consisting of with a small management team and four (4) employees.*

(b) Dart Engineering, which possesses expertise in marine-related contract engineering services, was initially incorporated to expand the marine business of the Group.

(c) The incumbent management team of Darts Engineering possess the relevant experience in the business.

(d) The reportable segment of the business of Darts Engineering is currently under "Others" as the amount contributed to the Group is not significant.

SGX-ST's Query (vi)(c) Part (2)

Please explain what the "major purchases" specifically relate to, their rationale and how the goods purchased will be used in the business operations of "Darts Engineering".

Company's Response (vi)(c) Part (2)

The major purchases of Darts Engineering, amounting to S$2,280,000, refer to the purchase of outboard engines by Supratechnic Malaysia Sdn Bhd. The items are mostly outboard engines and spare parts which will be sold to the distributor.

SGX-ST's Query (vi)(c) Part (3)

With regard to the "suppliers" in question, please disclose their identities and address whether they are related parties of the Group. How long have these suppliers been supplying goods to the Group?

Company's Response (vi)(c) Part (3)

The suppliers refer to Mercury Marine Singapore Pte Ltd which has been supplying goods to the Group since 2017 pursuant to the distributorship agreement. Please refer to the Company's announcement dated 11 April 2022.

SGX-ST's Query (vi)(d)

Please provide the reason(s) for the increase of in the Group's trade and other payables under its current liabilities by S$1,588,000, other than the increase of S$1,215,000 which is attributable to "Darts Engineering".

Company's Response (vi)(d)

Only a sum of S$356,000 was attributable to Darts engineering. The increase in the Group's trade and other payables was mainly due to the allocation of funds to pay off deposits required for the Group's legal cases, which were fixed for trial in October 2022.

SGX-ST's Query (vii)(a)

At pg 4, we note the following:

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

Amount repayable in one year or less, or on demand

As at 31/12/2023		As at 31/03/2022	
Secured	Unsecured	Secured	Unsecured
S$'000	S$'000	S$'000	S$'000
15,722	-	15,031	-

Amount repayable after one year

As at 31/12/2023		As at 31/03/2022	
Secured	Unsecured	Secured	Unsecured
S$'000	S$'000	S$'000	S$'000
16,262	-	17,255	-

Details of any collateral

Borrowings are secured by fixed charges on properties, shares in the subsidiaries, corporate guarantees of the Company, personal guarantees given by a former director of the Group, fixed deposits pledged to the banks and in respect of certain subsidiaries, the borrowings are also secured by a debenture with floating charge over their assets, past, present and future.

Please confirm that the Group's secured borrowings of approximately S$15,722,000 (which is repayable in one year or less, or on demand) is with reference to 31 December 2022 instead of 31 December 2023. Please confirm that the Group's secured borrowings of approximately S$16,262,000 (which is repayable after one year) is with reference to 31 December 2022 instead of 31 December 2023.

Company's Response (vii)(a)

Yes, the Board confirms that the Group's secured borrowings are with reference to 31 December 2022.

SGX-ST's Query (vii)(b)

Taking into account its cash and cash equivalents of S$4,112,000 as at 31 December 2022, how does the Group intend to repay the aggregate sum of S$31,984,000?

Company's Response (vii)(b)

The Group intends to pare down a substantial portion of the outstanding term loan amounting to S$30,196,00 by disposing three of its properties with an estimated consideration of S$28,950,000. The remaining balance will be settled via separate arrangements with the principal banker. Additionally, trade facilities of S$1,788,000 under the Malaysia subsidiary will be settled via collection from customers.

SGX-ST's Query (vii)(c)

In relation to "personal guarantees provided by a former director of the Group", please name the former director, provide details and the reasons for the loan(s) in question, and explain the circumstances leading to the said personal guarantees being provided by him. Was this approved by the Board and Audit Committee, and if so, when?

Company's Response (vii)(c)

The name of the former director is Li Hua. The purpose of raising the loans and the approval date by the previous board are set out as follows

S/N	*Subsidiary*	*Loan balance (S$'000)*	*Additional Notes*
1	*USPP Woodland PL*	*16,533*	*Board approval: 24 December 2015* *Use of proceeds: To fund the investment in Koon Cheng Development Pte Ltd*
2	*USPI Investment PL*	*4,349*	*Board approval: 2 March 2016* *Use of proceeds: Finance the acquisition of Supratechnic Pte Ltd*
3	*Scientific and Industrial Instrumentation PL*	*893*	*Board approval: 8 May 2017* *Use of proceeds: Finance the working capital of the Company*
4	*Supratechnic PL*	*7,027*	*Board approval: 23 November 2016* *Use of proceeds: Finance the working capital of the Company*

SGX-ST's Query (viii)(a)

We refer to the following at pg 10:

"*Long term borrowings decreased by $1,380,000 were due to the reclassification of loan's instalment due within next 6 months to current liabilities and the total repayment of principal is approximately $1,380,000.* ***As at 31 December 2022, the Group had outstanding bank loan and trade financing of $4,349,000 (31 March 2022: $4,349,000) and $7,027,353 (31 March 2022: $7,669,000) respectively that were defaulted since 2019*** *and classified as current liabilities."* (emphasis added)

Please provide details on the said "outstanding bank loan and trade financing of S$4,349,000)" and explain why the Group has been in default since 2019.

Company's Response (viii)(a)

The loan was previously entered to finance the cost of investment for Supratechnic Pte Ltd and its subsidiaries, with 5 years term loan repayable over 60 monthly instalments, and a final bullet payment of approximately S$4 million towards the end of the loan repayment schedule on 31 March 2021. This has been the legacy issue of the Group. Please refer to the Company's announcement dated 10 May 2022 for more information.

SGX-ST's Query (viii)(b)

What are the implications and consequences on the Group arising from the said default, and what were the action steps (including steps to repay the outstanding amount, if any) taken by the Board and management to address it?

Company's Response (viii)(b)

The implication for the said default has led to higher financing charges, and the principal banker has the right to dispose of the property secured under the loan. In order to address this issue, the Board and management had made the decision to dispose the Group's properties to pare down the outstanding loan amount. The Company will make the necessary announcement in due course.

SGX-ST's Query (viii)(c)

What are the risks of triggering cross defaults?

Company's Response (viii)(c)

The risk of triggering cross defaults would be the principal banker's exercise of rights to exercise its power of sale to dispose of the Group's assets.

SGX-ST's Query (viii)(d)

Taking into consideration, amongst others, the aggregate borrowings and defaulted bank loans and trade financing, please provide the Board of Directors' assessment of the ability of (i) the Company; and (ii) the Group, to operate as a going concern and the basis for such an assessment.

Company's Response (viii)(d)

As mentioned in the Company's Response (vii)(b), the Group plans to dispose three (3) of its properties to pare down the bank loans and reduce the financing burden, as well as to optimize and restructure its business operation site by parking all subsidiaries under one premise. This will also allow the Group to save costs on operational expenses. Additionally, the Group is currently expanding its marine business in Indonesia and kick starting the black soldier fly production which will increase the Group's cash inflow. Apart from that, the Group has also made an earlier announcement with regards to Boards' assessment of the ability of Company and Group to operate as a going concern Please refer to the Company's announcement dated 5 May 2022 for more information.

By Order of the Board
USP GROUP LIMITED

Tanoto Sau Ian
CEO, Executive Director and Managing Director
19 April 2023