

USP Group Limited

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

UNAUDITED QUARTERLY FINANCIAL STATEMENT ANNOUNCEMENT FOR THE PERIOD ENDED 30 SEPTEMBER 2017

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		
	30/09/2017 ("Q2 2018")	30/09/2016 ("Q2 2017")	Increase/ (Decrease)	30/09/2017 ("1H 2018")	30/09/2016 ("1H 2017")	Increase/ (Decrease)
	S\$'000	S\$'000	%	S\$'000	S\$'000	%
Revenue	11,887	9,029	31.65	21,092	19,318	9.18
Cost of Sales	(7,788)	(4,880)	59.59	(13,769)	(11,033)	24.80
Gross Profit	4,099	4,149	(1.21)	7,323	8,285	(11.61)
Other (expenses)/income, net	(355)	359	(198.89)	(82)	611	(113.42)
Selling and distribution expenses	(390)	(398)	(2.01)	(733)	(404)	81.44
General and administrative expenses	(3,405)	(3,159)	7.79	(6,891)	(6,979)	(1.26)
Finance costs	(409)	(401)	2.00	(790)	(813)	(2.83)
(Loss)/profit before tax	(460)	550	(183.64)	(1,173)	700	(267.57)
Income tax	-	(21)	(100.00)	-	(100)	(100.00)
(Loss)/profit after tax	(460)	529	(186.96)	(1,173)	600	(295.50)
Profit/(loss) for the period attributable to:						
Owners of the Company	(500)	239	(309.21)	(1,159)	192	(703.65)
Non-controlling interests	40	290	(86.21)	(14)	408	(103.43)
Total comprehensive profit/(loss) for the period	(460)	529	(186.96)	(1,173)	600	(295.50)
EBITDA	553	1,093	(49.41)	838	2,596	(67.72)

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	
	30/09/2017 ("Q2 2018")	30/09/2016 ("Q2 2017")	30/09/2017 ("1H 2018")	30/09/2016 ("1H 2017")
	S\$'000			
Depreciation	529	140	1,068	1,083
Amortization of intangible	77	-	153	-
Professional fees	254	171	493	356
Rental expenses	183	167	364	321
Staff costs	1,847	2,267	3,796	4,181
Interest expenses	409	401	790	813

Breakdown of other (expenses)/income, net

	Group			
	Unaudited			
	3 months ended		6 months ended	
	30/09/2017 ("Q2 2018")	30/09/2016 ("Q2 2017")	30/09/2017 ("1H 2018")	30/09/2016 ("1H 2017")
	S\$'000			
Fair value adjustments on marketable securities	(767)	(200)	(735)	(346)
Exchange gain/ (loss), net	64	145	125	(69)
Bad debt written off	(1)	-	(12)	-
Gain on disposal of property, plant and equipment	-	29	-	-
Dividend income	4	4	10	15
Others	345	381	530	1,011
	(355)	359	(82)	611

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
	30/09/2017	31/03/2017	30/09/2017	31/03/2017
Non-current assets				
Property, plant and equipment	37,906	38,760	206	215
Investment properties	35,201	35,762	-	-
Investment securities	-	194	-	-
Investments in subsidiaries	-	-	1,358	1,358
Intangible assets	1,987	2,140	-	-
Deferred tax asset	93	101	-	-
Other receivables	-	1,129	-	-
Total non-current assets	75,187	78,086	1,564	1,573
Current assets				
Development property	4,051	3,646	-	-
Inventories	14,334	9,353	-	-
Trade and other receivables	4,549	4,056	37,691	38,388
Other assets	8,154	5,602	102	137
Investment securities	1,049	1,590	855	1,590
Cash and short-term deposits	2,972	3,125	470	692
Total current assets	35,109	27,372	39,118	40,807
Current liabilities				
Trade payables	2,418	2,334	-	123
Other payables	2,487	1,811	624	347
Amount due to subsidiaries	-	-	849	-
Finance lease liabilities	152	187	-	-
Tax payable	285	320	-	-
Loan and borrowings	17,142	11,818	-	-
Total current liabilities	22,484	16,470	1,473	470
Net current assets	12,625	10,902	37,645	40,337
Non-current liabilities				
Deferred tax liabilities	2,112	2,120	-	-
Other payables	1,500	1,500	-	800
Loan and borrowings	30,724	30,940	-	-
Finance lease liabilities	357	346	-	-
Rental deposits	672	475	-	-
Total non-current liabilities	35,365	35,381	-	800
Net assets	52,447	53,607	39,209	41,111
Equity				
Share capital	50,913	50,713	50,913	50,713
Other reserves	1,912	2,099	(354)	(166)
Accumulated profits	(3,238)	(2,080)	(11,350)	(9,436)
Equity attributable to owners of the Company	49,587	50,732	39,209	41,111
Non-controlling interests	2,860	2,875	-	-
Total equity	52,447	53,607	39,209	41,111

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

Amount repayable in one year or less, or on demand

As at 30/09/2017		As at 31/03/2017	
Secured	Unsecured	Secured	Unsecured
S\$'000	S\$'000	S\$'000	S\$'000
17,294	-	12,005	-

Amount repayable after one year

As at 30/09/2017		As at 31/03/2017	
Secured	Unsecured	Secured	Unsecured
S\$'000	S\$'000	S\$'000	S\$'000
31,081	-	31,286	-

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	
	30/09/2017	30/09/2016	30/09/2017	30/09/2016
Operating activities:				
(Loss)/profit before tax	(460)	550	(1,173)	700
Adjustments for:				
Depreciation	529	140	1,068	1,083
Amortization of intangibles	77	-	153	-
Fair value loss on marketable securities	767	200	735	346
Interest income	(12)	(20)	(23)	(90)
Interest expenses	409	401	790	813
Loss on disposal of property, plant and equipment	-	(29)	-	-
Value of employee services received for issue of performance shares	-	-	-	-
Treasury shares reissued pursuant to employee share plan	-	100	-	188
Share-based compensation	-	454	200	454
Bad debts written off	1	-	12	-
Foreign currency translation	(87)	-	(223)	-
Unrealised exchange loss/(gain), net	33	(10)	35	(19)
Operating cash flows before working capital changes	1,257	1,786	1,574	3,475
(Increase)/decrease in receivables and prepaid operating expenses	(1,491)	1,071	(1,890)	1,484
(Increase)/decrease in Inventories	(4,144)	625	(4,981)	1,445
(Increase)/decrease in payables	301	(2053)	956	(2,691)
Cash flows (used in)/generated from operations	(4,077)	1,429	(4,341)	3,713
Interest income	12	20	23	90
Income tax paid	(45)	(31)	(35)	(383)
Interest paid, net	(409)	(401)	(790)	(813)
Translation adjustment	-	-	-	(139)
Net cash flows (used in)/generated from operating activities	(4,519)	1,017	(5,143)	2,468
Investing activities				
Purchase of property, plant and equipment	(114)	(132)	(214)	(605)
Subsequent expenditure on development property	(325)	(48)	(405)	(79)
Sales proceed of property, plant and equipment	-	315	-	490
Proceeds from disposal of investment property	526	-	526	-
Net cash flows generated from/(used in) investing activities	87	135	(93)	(194)

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)

	Group			
	S\$'000			
	Unaudited			
	3 months ended		6 months ended	
	30/09/2017	30/09/2016	30/09/2017	30/09/2016
Financing activities:				
Net proceeds from loan and borrowings	4,458	(2,264)	5,108	(3,105)
Repayment of finance lease liabilities, net	(17)	(125)	(25)	(201)
Net cash flows used in financing activities	4,441	(2,389)	5,083	(3,306)
Net increase/(decrease) in cash and cash equivalents	9	(1,237)	(153)	(1,032)
Cash and cash equivalents at beginning of period	2,963	6,527	3,125	6,322
Cash and cash equivalents at end of period	2,972	5,290	2,972	5,290

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	Discount on purchase of NCI's shares	Accumulated profits/(losses)	Foreign currency translation reserve	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	S\$'000	S\$'000
Current year – 2Q2018									
Balance at 1 July 2017	52,029	-	521	2,414	(3,799)	(83)	51,082	2,358	53,440
Audit adjustments	(1,116)	-	(875)	-	1,061	(14)	(944)	462	(482)
Loss for the period	-	-	-	-	(500)	-	(500)	40	(460)
Foreign currency translation movement	-	-	-	-	-	(51)	(51)	-	(51)
Employee share ownership plan	-	-	-	-	-	-	-	-	-
Balance at 30 September 2017	50,913	-	(354)	2,414	(3,238)	(148)	49,587	2,860	52,447
Previous year – 2Q2017									
Balance at 1 July 2016	49,975	-	1,586	2,413	323	(46)	54,251	2,833	57,084
Loss for the period	-	-	-	-	239	-	239	290	529
Foreign currency translation movement	-	-	-	-	-	(145)	(145)	(73)	(218)
Employee share ownership plan	454	-	100	-	-	-	554	-	554
Balance at 30 September 2016	50,429	-	1,686	2,413	562	(191)	54,899	3,050	57,949

- 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	Treasury shares	Accumulated losses	Total Equity
	S\$'000	S\$'000	S\$'000	S\$'000	S\$'000
Current 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)
Employee share ownership plan	-	-	-	-	-
Balance at 30 September 2017	50,913	(354)	-	(11,350)	39,209
Previous quarter – 2Q2017					
Balance at 1 July 2016	49,975	(270)	-	(10,495)	39,210
Audit adjustments		1,856		(147)	1,709
Loss for the period	-	-	-	(847)	(847)
Total comprehensive loss for the period					
Employee share ownership plan	454	100	-	-	554
Balance at 30 September 2016	50,429	1,686	-	(11,489)	40,626

- 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 2017.

Performance Shares

There were no performance shares granted but not vested as at 30 September 2017 (30 September 2016: 1,670,800)

The Company does not have any treasury shares at the end of the period under review.

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.

	30/09/2017	31/03/2017
Total number of issued ordinary shares excluding treasury shares	90,922,003	89,896,363

- 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 2017.

- 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	
	30/09/2017	30/09/2016
(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	(0.51)	0.65
Weighted average number of ordinary shares for basic profits/ (losses) per share computation	90,922,003	81,488,245
(b) On a fully diluted basis	(0.51)	0.65
Weighted average number of ordinary shares adjusted for the effect for dilution	90,922,003	81,488,245

- 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	
	30/09/2017	31/03/2017	30/09/2017	31/03/2017
Net asset value per ordinary share based on issued share capital at the end of the respective periods (in SGD cents):	54.54	56.43	43.12	45.73
No. of ordinary shares used in computing net asset value	90,922,003	89,896,363	90,922,003	89,896,363

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 (2Q2018 VS 2Q2017)

Revenue

Consolidated revenue of Group in second quarter grew by 32% over same period in FY 2017. Consolidated revenue for second quarter of FY 2018 increased by 29% over the last quarter (Q1 2018); with the major revenue contributor from its marine business under Supratechnic Pte Ltd and its subsidiaries ("Supratechnic Group").

The increased in Supratechnic Group revenue reflects greater product acceptance by consumers in Indonesia and East Malaysia, our new markets. Our customers gain greater accessibility to our products and parts as more dealers and sub dealers join our distribution network as we open more service centres and branch operations in our territories.

The Group's performance in the second quarter reflected our successful market expansion and penetration of our marine products in the new markets of Indonesia and East Malaysia. All business subsidiaries posted improvement in net profit compared to the first quarter FY 2018.

Other (expenses)/income, net

The key expense arose mainly from the fair value adjustments on the company's marketable securities. For the reported period, there was a recorded fair value loss of \$0.7 million as compared to the corresponding period of \$0.2 million.

Operating Expenses

Selling and distribution expenses remained relatively constant when compared to 2Q2017. General and administrative expenses increased by 8% to approximately S\$3.4 million (Q2 2017: S\$3.1million) due to the incremental depreciation on the investment properties previously recognized in 1Q2017 and subsequently reversed in 2Q2017.

Loss After Tax

Net losses narrowed by 35% to \$0.46 million from \$0.71 million from the first quarter FY 2018. EBITDA increased by 95% to \$0.55 million from \$0.28 million of first quarter FY2018.

REVIEW OF FINANCIAL POSITION AND CASH FLOW STATEMENT

Current Assets

Cash and bank deposit at end second quarter 2018 totaled \$2.97 million (2017: \$3.12 million). Inventories increased to \$14.3 million (2017: \$9.4 million) being stock build up in anticipation of market demand of products distributed by Supratechnic Group. Correspondingly, net cash flow used in operating activities for second quarter 2018 totaled \$4.5 million, primarily due to increase of inventories and receivables.

Investment securities decreased to \$0.85 million due to additional impairment for Huan Hsin based on the decrease in Huan Hsin share price from \$0.019 to \$0.008 as of 30 September 2017.

Current Liabilities

Overall liabilities increased by \$6.0 million largely due to the increase in loan and borrowings consisting of \$5.1 million in bills payable.

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.**

Oil-blending business

The global oil market has shown encouraging signs of recovery in recent months and our oil business has also shown signs of revenue improvement. However, the Company is holding back any expansion plans due to the uncertainty in oil prices as a substantial amount of capital expenditure is expected to be committed for such expansion plans.

Property Development business

As previously announced, we are still in the process of applying with the relevant agencies to strata title our Woodlands property.

Our project at 71 Blandford is estimated to obtain TOP by December 2017.

We will provide the key development updates when available.

Marine business

The Group's marine business, represented by Supratechnic Group reported an increase of 32% in revenue of \$9.6 million for the current quarter as compared to \$7.3 million for the last corresponding quarter. This showed that the Supratechnic Group is successful in launching the "Mercury" brand of products and gaining wider market acceptance. Supratechnic Group is reviewing its expansion plans and is on target to open more branches in Indonesia and Malaysia.

MSV Systems & Services Pte Ltd ("MSV")

The Group has entered into a settlement agreement with Mr Tan Teck Huat ("Tan") to sell its 40% stake in MSV to Tan for USD 1 million. Please refer to the SGXNET announcement reference: SG171110OTHRMFY7 issued on 10 November 2017 for more details.

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 2017 to be false or misleading in any material aspect.

BY ORDER OF THE BOARD

Li Hua
Executive Chairman/CEO
14 November 2017