USP

USP Group Limited

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2 February 2018

Mr Richard Dyason
General Manager
Securities Investors Association (Singapore)
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Dear Richard

Thank you for meeting us together with Mr David Gerald at your office on 19 January 2018. At the meeting, we have explained our position regarding the queries which SIAS posed on your website regarding our 2017 Annual Report. Please find our responses to your questions as follows:-

Question 1:

Following up on the queries on the annual report for the year ended 31 March 2016, the company has made various non control investments over the years, including Huan Hsin Holding Limited, MSV Systems & Services Pte Ltd and SG Support Services Pte Ltd.

In addition, the group made an investment in Sky-Land (Oils & Fats) Pte Ltd ("SLOF") in July 2015 and had taken an impairment loss by the end of the financial year (March 2016). Less than eight months after the acquisition, management has decided to wind up SLOF as reported by the management in last year's annual report. In this year's annual report, it was disclosed that "During the year, the group acquired remaining 40% shares of Sky-land (Oils & Fats) Pte Ltd at a nominal value of $1" (page 73).

a) Can management explain the extent of its due diligence prior to making investments, especially for its non-control investments? In addition, what are the non-financial factors that were considered prior to the group making any investments?

Company's Reply:

The Group conducts extensive due diligence for all its investments. It makes no distinction whether it intends to acquire a controlling or non-controlling stake in the investment company. With respect to the non-financial factors that the Group has considered prior to making any investment, these factors were disclosed in the SGX announcements dated 30 March 2015 and 30 April 2015 for Huan Hsin Holding Limited and SG Support Services Pte Ltd.

With respect to SLOF, the acquired company was expected to be merged with USP Oil Pte Ltd ("USP Oil") to complement and expand the Group's Oil businesses. SLOF's business was subsequently subsumed into USP Oil and the company was renamed as USP-Tech Pte Ltd under the Group's general trading business.

Note: with respect to MSV System & Services Pte Ltd ("MSV"), the Group did not invest directly into the company. MSV was an associate company already held by the Supratechnic Group, which was altogether acquired by the USP Group in March 2016.

b) What guidance has the board given to management as the group tries to diversify into new business?

Company's Reply:

Our board consists of a broad mix of experienced individuals (2 of whom are ex-senior bankers) that can contribute/share their extensive experience and knowledge of corporate investments and mergers & acquisitions. These Directors are hence able to provide valuable and practical advice to the management in terms of the merits of new potential acquisitions and to advise in crafting of the strategic directions for the Group as a whole.

c) How does management ensure that the new businesses/potential business are properly managed and that the group has sufficient oversight of the operations, given that several investments are small non-control stakes?

Company's Reply:

As mentioned in our 2017 Annual Report, the Board is of the opinion that the Group's internal controls which addresses it's financial, operational and compliance risks were adequate to oversee its own operations and decisions with respect to its various investment decisions. The level of oversight for small non-controlling stakes of our investment companies is however more restrictive and limited. This reality is usually already factored into the initial investment decision. In particular, this applies to our investment in Huan Hsin, which is a listed company on the Singapore Exchange. USP's representatives regularly attend Huan Hsin's general meetings and has also written to the management of Huan Hsin on several occasions.

Except for Huan Hsin and SGSS (and as disclosed for MSV), the Group does not have any other investments which are non-controlling stakes.

d) Can the board/management explain the group's strategic direction in a holistic manner? Should the group hold back on further diversification and instead focus on the current businesses given that the current businesses are capital intensive and that the group's cash resources are limited?

Company's Reply:

Focusing on the Company's core businesses has always been the Board's top agenda but that said, the Company is also on the lookout to acquire businesses that can complement and synergize with our existing businesses to grow the Group.

e) SLOF: Please update shareholders on the plans for SLOF.

Company's Reply:

SLOF has changed its name to USP-Tech Pte Ltd with effect from 10 October 2017 and has changed its principal activity to general wholesale trade. The Company is currently reviewing its business plans for USP-Tech and will update shareholders whenever there is any material development.

f) Pursant to the acquisition of SG Support Service Pte. Ltd., the company has stated in its announcement (dated 30 April 2015) that the vendors has agreed that he will not sell, transfer or otherwise dispose of or mortgage, pledge, charge or otherwise create any lien, security interest or any other encumbrance in the following schedule: a. after the 1st year, not more than 14.2 million Consideration Shares are freely tradeable; b. after the 2nd year, not more than 28.4 million Consideration Shares are freely tradeable; and c. after the 3rd year, all the Consideration Shares are freely tradeable.

Has the company ensured that the vendors have observed the moratorium? What efforts have the company taken to track and monitor the agreement that it has entered with the vendors?

Company's Reply:

As previously announced, the Company has entered into a final settlement agreement with SG Support Service Pte Ltd on 22 March 2017 and the terms of settlement between both parties are confidential. As far as the Company is aware, there has been no breach to the moratorium.

<u>Question 2</u>:

In the Report on Corporate Governance (page 17), it was disclosed that "management has yet to appoint an Internal Auditor as of the date of this report but intends to do so in the FYE March 2018".

In the Annual report for the year ended 31 March 2016, the company had stated that:

"The Group will look to engage an internal auditor to assess the effectiveness of the internal control processes of the Group in the next financial year".

In the Annual report for the year ended 31 March 2015, the company had also made the following statement:

"The Group will look to engage an internal auditor to assess the effectiveness of the internal control processes of the Group for the financial year ending March 2016".

a) Can management and the Audit and risk management committee (ARMC) explain the delay in the appointment of an internal auditor?

On page 18 (Audit and risk management committee), the ARMC disclosed the following:

"The ARMC also monitors proposed changes in accounting policies; reviews the internal audit functions and adequacy of the Group's internal controls; reviews interested person transactions; and discusses accounting implications of major transactions including significant financial reporting issues and judgments so as to ensure the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance".

b) Can the ARMC explain how it had carried out the review of the internal audit functions?

c) Would the ARMC be spearheading the process of shortlisting and appointing a suitable internal auditor? When would the company expect an internal auditor be appointed?

d) If and when an internal auditor is appointed, would the internal auditor report directly to the ARMC?

Company's Reply:

The Company is currently in the process of appointing an internal auditor for FYE 31 Mar 2018. The selection process has been delayed and protracted given the need to find the right candidate. The job responsibilities and function of the Internal Auditor will encompass many of the ARMC review requirements. Once this new appointment is confirmed, he/she will report directly to the head of ARMC.

<u>Question 3</u>:

On 11 April 2016, the company completed a share consolidation of every ten ordinary shares into one consolidated share to facilitate its compliance with the continuing listing requirement imposed by SGX-ST for issuers listed on the SGX Mainboard to have a minimum trading price per share of S$0.20.

As noted in the Chairman's Message, the company was "placed in the Minimal Trading Price (MTP) watchlist on 1 June 2017 by the Singapore Exchange" (page 3).

Question 3: (Cont'd)

Based on the announcement by the company dated 4 June 2017, the company was informed by the Exchange that the company would be placed on the watch-list due to the Minimum Trading Price Entry Criteria with effect from 5 June 2017.

a) Can the company confirm that it was placed on the watch-list due to the MTP Entry Criteria with effect from 5 June 2017?

The company will have to meet the requirements of Rule 1314(2) of the Listing Manual within 36 months from 5 June 2017, failing which the Exchange would delist the company or suspend trading in the company's shares with a view to delisting the company.

The company has to now achieve (a) a volume-weighted average price of at least S$0.20 AND (b) an average daily market capitalisation of S$40 million or more over the last 6 months.

b) Given that the company has a market capitalisation of less than $9 million, can the board/management let shareholders know what are the options available to the company?

c) Given the company's current market capitalisation, has the board considered a transfer to the Catalist board?

Company's Reply:

Yes, the Company was placed on the MTP Watchlist with effect from 5 June 2017. The Board is currently exploring its options and will update our shareholders when there are material developments.

Your faithfully

Li Hua
CEO

cc. Ms Siew Wun Mui, Vice President, SGX Listing Compliance