

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

**RESPONSES TO QUESTIONS RAISED BY SECURITIES INVESTORS ASSOCIATION (SINGAPORE)
IN RELATION TO THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31
MARCH 2021 ("FY2021")**

The Board of Directors (the "Board") of USP Group Limited (the "Company", and together with its subsidiaries, the "Group") refers to the Company's Annual Report for the financial year ended 31 March 2021 ("AR2021") released on 13 February 2022.

The Board wishes to announce the following in response to the questions raised by Securities Investors Association (Singapore) ("SIAS") as follows:

1. Q1

For the financial year ended 31 March 2021 ("FY2021"), the group reported revenue of \$34.1 million, a decrease of 13% from the previous financial year. The highlight of the group was Supratechnic (M) Sdn. Bhd. which increased revenue by \$2.7 million due to new government contracts.

The operational review can be found on pages 6-7 of the annual report while the group's financial review and financial highlights can be found on pages 8-9 and page 10 respectively.

For FY2021, loss for the year was \$(1.27) million (FY2020: \$(6.65) million). The group recognised a further \$(2.0) million in fair value loss on its investment property under Koon Cheng Development Pte. Ltd.

- (i) **Can management help shareholders understand the sentiments on the ground in Malaysia and Indonesia, especially as countries are experiencing a new wave of Omicron in this long drawn COVID-19 pandemic?**

Company's response

1. *The Group's operations in Malaysia and Indonesia were disrupted by the Covid-19 pandemic and its impact and duration remain unpredictable.*
2. *Affected by the ongoing Covid-19 pandemic, there was an increase of Group's operating expenses in Indonesia and Malaysia, as well as delay of receipt of payments and delivery of goods.*
3. *Despite so, the Group's Marine business in Malaysia continued to outperform itself. Please refer to Company response Q1(ii) below and pages 6 and 8 of the AR2021 for more information.*

- (ii) **What are the underlying reasons for the strong performance in the Marine business (Supratechnic) in Malaysia? Is the group able to leverage its expertise gained in Malaysia to improve the operations in Indonesia (Batam)?**

Company's response

1. (i) *The strong performance in the Group's Marine business in Malaysia is likely due to the government contracts secured by Supratechnic (Malaysia) Sdn. Bhd. ("Supra M"). It is also likely due to the strong leadership team in Supra M.*
- (ii) *When the current Management came on board, it took out necessary measure to revise the pricing of its products, enforce strict adherence to the terms and conditions of the distribution agreement, and to reduce the Supra M's operating expenses and conserve liquidity.*

- (iii) *Additionally, a quarterly and half-yearly bonus scheme tied to each sector or subsidiary's performance was introduced across the entire Group. The Supra M office had very positive reactions to this and was able to outperform itself. Accordingly, the Supra M's management and employees were amply rewarded, and a profit-sharing scheme was also put in place to encourage them further. Please refer to the Company's announcements dated 23 September 2020 and 23 December 2020 respectively for more information.*
 - (iv) *The Group will continue to focus on its operations in Malaysia and will keep the shareholders apprised of material developments where appropriate.*
2. (i) *In respect of the Group's subsidiary in Indonesia, PT Supratechnic Instrumentasi Indonesia ("PT Supra") it has been incurring losses due to various reasons including, inter alia, poor or lack of proper leadership in PT Supra and commission was paid out for non-profitable contracts. The Management had also discovered that an employee of PT Supra had misappropriated PT Supra's fund and appropriate action has been taken against the said employee. Please refer to the Company's announcement dated 28 September 2020 for more information.*
 - (ii) *In order to address this issue, the Management, led by the Group's CEO, Mr Tanoto Sau Ian ("Mr Tanoto"), conducted a visit to the offices of PT Supra to review its operations, and had decided that PT Supra team be led by Supratechnic Pte Ltd until further notice.*
 - (iii) *The Management has also taken out necessary measures to reduce the PT Supra's operating expenses and losses by consolidating the office in Jakarta to be only a service centre for existing customers and government tenders.*
 - (iv) *The Group has engaged an experienced local manager for its PT Supra Batam branch, and this will become the new focal point for Indonesian operations. The Company will make further announcement should there be material developments on expansion of its Batam branch as and where appropriate.*
3. *In view of the above, the Board is of the view that Supra M and PT Supra have different challenges and work environments and require different tactics and approach to resolve them. While the latter is on a stable and expansionary phase, the former is still in the process of finding its footing. The Management team in Singapore is closely monitoring the PT Supra Batam branch's operation and further arrangement will be made as and where appropriate.*
- (iii) **What led to the termination of the proposed disposal of Biofuel Research Pte Ltd? Can management provide shareholders with an operational update on Biofuel Research? What is the board's strategy to crystallize the value of Biofuel Research for the benefit of all shareholders?**

Company's response

1. *The proposed disposal of Biofuel Research Pte Ltd ("**Biofuel Research**") was terminated pursuant to the purchaser's decision. Please refer to the Company's announcement dated 27 June 2021 for more information.*
2. *Subsequent to the termination of the proposed disposal of Biofuel Research, the Management proceeded to explore various options to increase the supply of waste oil to ensure viability of Biofuel Research's operations.*
3. *Additionally, the Group's research and development ("**R&D**") team has commenced various projects under Biofuel Research, one of which includes the production of Black Soldier Fly ("**BSF**"). Please refer to the Company's announcement dated 10 August 2021, pages 1 and 7 of AR 2021 for more information.*
4. *The Company will make further announcement should there be further development on Biofuel Research's R&D projects.*

- (iv) **What is the occupancy rate of the industrial property at Woodlands Industrial Park E5 which consists of a dormitory and 2 industrial blocks of offices and shops?**

Company's response

Despite the market uncertainty caused by the Covid-19 pandemic, the occupancy rate of the Group's industrial property at Woodlands Industrial Park E5 has been consistently above 90%.

- (v) **Please provide an update of the group's financial position.**

Company's response

1. *For financial year 31 March 2021, an unmodified opinion was issued by the auditor, Baker Tilly TFW LLP with an emphasis on the Material Uncertainty Related to Going Concern. One of the contributing indicators to the material uncertainty related to going concern is the loan and trade financings that were defaulted by previous boards and managements. The current Board inherited these issues and has since carried out the following:*
 - (a) *The property at 16A Joo Koon Circle ("16A JKC") has been earmarked for disposal to reduce the Group's existing borrowings.*
 - (b) *Constructive repayments for the Group's bank loans and trade financing. In FY 2020, a total of S\$3,605,634 had been repaid to the United Overseas Bank ("UOB"). This figure amounts to approximately 10% of the outstanding bank loan of S\$36,488,299 in FY2020. In FY 2021, a total of S\$4,290,000 million have been made towards the Group's bank loan and trade financing.*
 - (c) *Please refer to Note 24 (d) on pages 96 and 97 of the AR2021 for the repayment of borrowings for FY2020 and FY2021.*
2. *The second indicator of the material uncertainty on going concern is related to the financial position of the Group of which the Group has incurred losses and is in net current liabilities position. Please refer to Note 3 at page 69 of AR2021 for more information.*
3. *Losses for FY2021 are mainly affected by the fair value loss (revaluation) on the industrial property at Woodlands Industrial Park E5 ("KCD property"), which suffered a drop of \$2 million and is expected to have continual impact in the future as it was grossly inflated by the previous management, of which the Group has commenced legal action against the relevant parties. If not for the fair value loss, the Group had registered a profit of \$730,000 for FY2021. Please refer to page 8 of the AR2021 for more information.*
4. *In spite of the challenges besetting the operating environment, the Group managed to reduce the losses as compared to previous year and the introduction of efficient business strategies and practice to the Group.*
5. *On the other hand, the net current liabilities position mainly comprised of the defaulted term loan by the previous board and management and the trade financings that were matured as some time as far back as 2019. The Group is currently in the midst of discussion with the banker on the repayment plan. Please refer to Note 3 on page 70 of the AR2021 for more information.*
6. *With all these indicators and events that leads to the material uncertainty on going concern of the Group, the Management has prepared a two-year cashflow projection as required by SSA570 Going Concern. The cashflow projection has been provided and reviewed by the independent auditor. New investment and realistic expansionary plans of the Group are also included in the cashflow projection. Further elaboration on the Group's ability to continue as a going concern is provided in Company's response at Q1(vi) below.*
7. *The Group has also ventured into new businesses including Black Soldier Flies ("BSF") farming, marine, oil and gas services, manpower services and property-related services. Please refer to page 7 of the AR2021 for more information.*
8. *The Group is currently involved in several lawsuits. Please refer to Note 29 at pages 99 to 102 of the AR2021 for more information.*

9. *On top of the breach of covenant and default, the external auditors have highlighted a material uncertainty in relation to going concern. The interest payable of S\$492,000 on the Group's borrowings were due but remain unpaid as at 31 March 2021. The carrying amount of total borrowings in default as at 31 March 2021 was S\$12.7 million. Please refer to Note 24 (c) at page 95 of the AR2021 for more information.*

(vi) **Is the company able to continue as a going concern and can it reasonably assess its financial position and inform the market accordingly? (See also question 3)**

Company's response

1. *Yes. It can continue as a going concern. Please refer to pages 69 to 71 of AR2021 in relation to the Management's assessment on the Company's ability to continue as a going concern.*
2. *The Management has been actively taking steps to improve its cashflow and ensure that it has sufficient liquidity to sustain its operation. There are also plans to pare down the Group's existing borrowings. The Group had been able to repay its existing borrowings a total of \$3,605,634 and \$4,290,000 for FY2020 and FY2021 respectively.*
3. *Further, the Group has produced profits of \$730,000 for FY2021 until the set-back by revaluation loss of \$2 million on KCD property. All these had been achieved in the first year of the operations by the current Management. The Board is confident that the Group will produce even better results in due course.*
4. *The Board believes that the successful implementation of the Group's strategy is also dependent on its ability to retain talented and motivated employees, and to continue having a strong employer brand to attract new talents.*
5. *Nonetheless, the Board and the Management will continue discuss, review and evaluate all the strategies on a regular basis.*

(vii) **Does management have sufficient bandwidth to oversee the new businesses? What is the experience of management and of the board in these new businesses, such as black soldier flies farming and manpower services?**

Company's response

1. *The Group ventures into the new businesses only on the basis that it has capable key staff to assist the Group and that the Company can adequately finance the new businesses with minimal financial impact on the Company.*
2. *Black Soldier Flies ("BSF") is a necessary component of the Group's research collaboration with PUB in the treatment of its waste-water, endeavoring to achieve a waste-to-resource objective. This is in line with one of our government's initiatives to convert waste-to-food for the nation's food supply initiative. Apart from successfully starting such an organic farm to produce feed for fowls and fishes, Biofuel Research Pte Ltd is also working with Nanyang Polytechnic to explore the extraction of valuable minerals such as Melanin, Chitosan and Ommochromes, from the BSF. These anti-oxidative minerals can be used for a variety of purposes including cosmetics and medicines.*
3. *In respect of the Group's manpower services, the Group's new subsidiary, Threone Recruitment Pte Ltd ("31R"), is a fully licensed manpower recruitment company. It operates the business of recruitment and deployment of foreign migrant workers. Backed by new talents who joined the Group, these specialists are time-tested veterans who bring with them a huge wealth of experience and relevant network. 31R supports the needs of the Group, in particular Darts Engineering Pte Ltd. It is also presently competing effectively in the open market for new contracts in the supply and deployment of migrant workers*
4. *As for the Group's marine, oil and gas support services, the formation of Darts Engineering Pte Ltd ("Darts") has vastly expanded the Group's engineering capability in the Marine, Oil and Gas industries. Its key activities include:*

- a. industrial plant engineering design and process;
- b. building and repairing of ships tankers and other ocean-going vessels;
- c. Installation of industrial machinery and equipment, mechanical engineering works; and
- d. Scaffolding works.

5. Within the short span of time since its incorporation, Darts has already received pre-qualifications by major vendors as their approved contractor. Dart is also in the midst of being appointed as an In-house Contractor for a major SGX mainboard listed company leading in these fields and industry. The Company will keep shareholders apprised of significant developments as and where appropriate.

(viii) **What was the level of due diligence carried out by the board in these new ventures?**

Company's response

The Board and the Management have conducted key due diligence assessment before venturing into these new ventures. The depth and width of the due diligence carried out varies with the investment amount and apparent risk factor of each project. The key due diligence assessment includes screening of individuals and talents involved in the businesses, their respective experience in the said business, analysis and evaluation of risk exposure, and financial impact to the Company.

(ix) **How will the group be able to fund these new ventures given the current financial position?**

Company's response

The new ventures are currently being funded internally with the Group's positive cashflow and without any bank loans. The Board and the Management will continue to monitor and review the operation of these new ventures to ensure that the new ventures have sufficient cashflow to operate.

2. Q2

The annual general meeting is scheduled to be held on 28 February 2022. Shareholders are asked to approve the payment of \$241,527.12 as directors' fees for the financial year ended 31 March 2022. In the resolution, it was stated that the amount includes fees of past directors.

The company had only disclosed the fees to the directors as "Below \$250,000" (See table below).

(i) **Please disclose the breakdown of fees for each of the director, including past directors. This would provide greater clarity for shareholders to make informed decisions when voting on the resolution. For instance, a director was only on the board from 20 February 2020 to 30 September 2020.**

Company's response

Please refer to the Company's announcement dated 23 February 2022.

(ii) **Can the remuneration committee (RC) help shareholders understand the basis of awarding the executive director bonuses amounting to 39% of his annual remuneration given that the group continued to report losses?**

Company's response

In determining the 39% bonus awarded to Mr Tanoto, the RC had evaluated and considered the following performance and contributions by Mr Tanoto:

1. *When Mr. Tanoto came on board on 20 Feb 2020, the Company did not have positive cashflow, loan and trade financings were defaulted by the previous board and management. The Company has been placed under SGX financial watchlist.*

2. In the face of these difficulties and despite the ongoing Covid-19 pandemic, the Group, under Mr Tanoto's leadership, managed to overcome these grave difficulties of the Group and turned it around, using carefully calibrated measures and strategies. Some of the key measures carried out by Mr. Tanoto included:

- a. Implementation of carefully calibrated cost-cutting measures across the Group (Please refer to the Company's announcement dated 1 June 2020 for more information).
- b. Implementation of profit-sharing plan for relevant subsidiaries in hopes of encouraging and motivating the staff.
 - i. In view of the profit-sharing plan, the Supra M outperformed itself under its leadership while Supra Singapore and PT Supra substantially pared down previous losses. An extract of the financial information of the subsidiaries are as follows:

Profit/(Loss)	2021	2020
Supratechnic (M) Sdn Bhd	300,796	31,008
Supratechnic (S) Pte Ltd	(1,730,600)	(3,724,295)
PT Supratechnic	(221,487)	(1,531,667)

- ii. For the period of 1 July 2020 to 31 December 2020, the Supra M had received an average of 4.5 months bonus over a 6-month periods, based on its performance and merits whilst SII Singapore had received a 1.5-month bonus out of the same assessment period.
 - iii. The remaining subsidiaries have also received bonuses in September 2020 and December 2020. Please refer to the Company's announcements dated 23 September 2020 and 23 December 2020 for more information.
 - iv. Under Mr Tanoto's leadership, the Group's four (4) major areas of businesses have been stabilized.
 - v. Since Q1 of FY2021, the Group had been consistently generating positive operating profits. The Company will keep the shareholders apprised of any significant developments as and where appropriate.
3. Under Mr Tanoto's leadership, the Group has positive cash flow for FY2021. The existing borrowings were pared down by about \$2.38 million. The company incurred a loss of only \$1.27 million, largely due to fair value loss of \$2 million for one of its properties.
4. Further, the Group's performance has slowly recovered from FY2020 to FY2021 ever since Mr. Tanoto's appointment as the Group's CEO as illustrated by the exponential growth in EBITA and minimisation of losses as illustrated below:

(ALL AMOUNTS IN S\$'000)

Profit and Loss Statement	FY2017	FY2018	FY2019	FY2020	FY2021
Revenue	36,660	41,974	43,114	39,303	34,077
Gross Profit	15,879	15,318	15,252	13,628	11,840
EBITDA before exceptional item	3,169	1,910	2,120	1,594	4,650
(Loss) / profit for the year	(5,590)	125	(23,182)	(6,650)	(1,269)

5. *Mr Tanoto had also led Supra Singapore in its recent successful application to become a Certified On-the-Job Training Centre (“COJTC”) with ITE (Please refer to the Company’s announcement dated 20 December 2021 for more information).*

6. *With minimal financial impact on the Company, Mr Tanoto led the Group to venture into new business opportunities. The Group is in the midst of securing several major projects and further announcements of significant developments will be made as and when appropriate.*

(iii) **What were the performance indicators and how did the RC measure these KPIs?**

Company’s response

The Company’s internal performance indicators are not made public but please refer to Company’s response at (ii) above which outlines all the achievements of Mr Tanoto.

(iv) **Is the group’s remuneration practice in line with Principle 7 of the Code of Corporate Governance 2018 which states that the level and structure of remuneration of the board and key management personnel should be appropriate and proportionate to the sustained performance and value creation of the company?**

Company’s response

Yes.

3. Q3

Based on the company’s announcement dated 18 July 2021 titled “Corrigendum to Application for Extension of Time”, the company announced that it was applying for an extension of time to comply with Rules 705(1), 705(2) and 707(1) of the listing manual to (i) announce the company’s full year audited financial results for the financial year ended 31 March 2021 **by 11 January 2022**; (ii) to hold its Annual General Meeting (“AGM”) for FY2021 from the current deadline of 31 July 2021 to **28 January 2022**; and (iii) announce the company’s 1st quarter (“Q1FY2022”) and 2nd quarter (“Q2FY2022”) results for the financial year ended 31 March 2022 by **18 January 2022** (emphasis added).

(i) **Did the company apply for another waiver with SGX and ACRA and obtain a further extension of time to announce the audited financial results after 11 January 2022 and to hold the AGM after 28 January 2022?**

Company’s response

Yes. The Company had applied for another waiver with SGX on 22 November 2021 to obtain a further extension of time to announce the audited financial results after 11 January 2022 and to hold the AGM after 28 January 2022. Please refer to the Company’s announcement dated 25 November 2021.

(ii) **If so, did the company announce it on SGXNet?**

Company’s response

Please refer to the Company’s response at (i) above and the Company’s announcement dated 25 November 2021.

(iii) **If not, is the company in breach of SGX rules and/or the Companies Act? What were the efforts by the directors, especially independent directors, to ensure that the company meets its reporting and statutory obligations?**

Company’s response

Please refer to the Company’s response at (i) above and the Company’s announcement dated 25 November 2021.

(iv) **Can the company clarify if it has provided shareholders with regular and timely updates of its quarterly and half-yearly financial results since the last announcement on 29 May**

2021 (which was for the unaudited full-year results for the financial year ended 31 March 2021)?

Company's response

Due to the termination of proposed disposal of Biofuel Research, Biofuel Research, which was classified as discontinued operations, would have to be reclassified to continuing operations. In view of the said reclassification, the Group has been advised to announce its Q1FY2022 and Q2FY2022 results after only the release of FY2021 annual report to ensure all FY2021 reclassifications and adjustments were accounted for. The Company will keep the shareholders apprised of any significant development as and where appropriate.

- (v) **Similarly, has the company obtained any waiver from SGX? Is the company in compliance with the SGX listing rules, especially Chapter 7 (Continuing obligations)?**

Company's response

Please refer to the Company's response (iv) above.

- (vi) **Have the directors considered if it is necessary for the company to suspend the trading of the shares as the company has not informed the market of its financial position, in the interest of maintaining a fair, orderly and transparent market?**

Company's response

Please refer to the Company's response in (iv) above. The Company will keep the shareholders apprised of its Q1FY2022 and Q2FY2022 in due course.

- (vii) **Has the company complied with Rule 1313(2) of the Listing Manual to provide the market with a quarterly update on its efforts and the progress made in meeting the exit criteria of the watch-list, including its financial situation, its future direction, or other material development? If not, why not?**

Company's response

Please refer to the Company's response in (vi) above.

- (viii) **Can the independent directors help shareholders understand if they are familiar with SGX Rules? If so, what are the efforts by the directors to discharge their duties?**

Company's response

Please refer to pages 19 to 36 of the AR2021 for more information.

By Order of the Board
USP GROUP LIMITED

Tanoto Sau Ian
CEO and Managing
Director
25 February 2022