USP GROUP LIMITED

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF USP GROUP LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of USP Group Limited (the "Company") and its subsidiaries (the "Group") as set out on pages 10 to 91, which comprise the statements of financial position of the Group and of the Company as at 31 March 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 March 2021 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 3 to the financial statements with respect to the Group's and the Company's ability to continue as going concerns.

During the financial year ended 31 March 2021, the Group and the Company reported a net loss of $1,269,000 (2020: $6,650,000) and $4,601,000 (2020: $6,235,000) respectively. As at 31 March 2021, the Group's current liabilities exceeded its current assets by $4,050,000 (2020: $18,009,000).

As disclosed in Note 24 to the financial statements, the carrying amount of total borrowings of the Group in default as at 31 March 2021 were $12,701,000. These borrowing were classified as current liabilities on the consolidated statement of financial position as at 31 March 2021. In addition, details of the Group's contingent liabilities are disclosed in Note 29 to the financial statements.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF USP GROUP LIMITED (cont'd)

Report on the Audit of the Financial Statements (cont'd)

Material Uncertainty Related to Going Concern (cont'd)

The above factors indicate the existence of a material uncertainty that may cast significant doubt on the Group's and the Company's ability to continue as going concerns. The Group and Company's ability to continue as going concerns is dependent on the outcome of the Group's discussions on repayment arrangements with their banker and the Group's ability to continue to generate positive cash flows to meet the repayment requirements for the borrowings.

Management is of the view that it is appropriate for the financial statements of the Group and of the Company to be prepared on a going concern basis based on the reasons and factors disclosed in Note 3 to the financial statements. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty related to Going Concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

Valuation of inventories at the lower of costs and net realisable value

Refer to Notes 2(n), 3 and 17 to the financial statements.

The key audit matter:

The Group's inventories totalled $9,777,000 which accounted for approximately 14% of the Group's total assets as at 31 March 2021. As disclosed in Note 2(n) to the financial statements, inventories are stated at the lower of cost and net realisable value. Management reviews for slow-moving and obsolete inventories and for inventories where there are declines in net realisable value below cost, and writes down inventories for any such declines. Management estimates the net realisable value for inventories by taking into consideration the current economic condition, historical sales record, inventory ageing analysis, technical assessment and subsequent sales. Write-down of inventories to their net realisable values charged to the Group's profit or loss for the current financial year amounted to US$271,000 (2020: $141,000). The write-down to net realisable value for slow-moving and obsolete inventories is considered a key audit matter, as it requires management to exercise judgement in identifying slow-moving and obsolete inventories and making estimates of the net realisable value to determine the appropriate level of write-down required. Any significant changes in anticipated future selling prices and saleability may affect the carrying value of the inventories.

The procedures performed by us and the component auditors to address the key audit matter

We performed procedures to understand management's process over the monitoring and review of inventory obsolescence, the identification of slow moving inventories, and the policy in place to determine the level of write down required.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF USP GROUP LIMITED (cont'd)

Report on the Audit of the Financial Statements (cont'd)

Valuation of inventories at the lower of costs and net realisable value (cont'd)

The procedures performed by us and the component auditors to address the key audit matter (cont'd)

We evaluated management's assessment of slow moving and obsolete inventories by reviewing the age of inventory and comparing to historical sales record and subsequent sales.

We verified that inventories are recorded at the lower of cost and net realisable value by comparing, on a sample basis, the recorded unit cost of inventories against recent/subsequent selling prices and reviewing management's assessment and basis for inventories with no subsequent sales.

We have also assessed the adequacy and appropriateness of the disclosures made in the financial statements.

Emphasis of Matter

We draw attention to Note 29 to the financial statements which describes the contingent liabilities of the Group. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report 2021 but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF USP GROUP LIMITED (cont'd)

Report on the Audit of the Financial Statements (cont'd)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF USP GROUP LIMITED (cont'd)

Report on the Audit of the Financial Statements (cont'd)

Auditor's Responsibilities for the audit of the financial statements (cont'd)

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors, have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Foong Chooi Chin.

Baker Tilly TFW LLP
Public Accountants and
Chartered Accountants
Singapore

11 February 2022