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

EMPHASIS OF MATTER BY INDEPENDENT AUDITORS ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019

In compliance with Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited (“SGX-ST”), the Board of Directors (“Board”) of USP Group Limited (the “Company”, and together with its subsidiaries, the “Group”) wishes to announce that its independent auditors, RSM Chio Lim LLP (the “Auditors”), has included an emphasis of matter in respect of the existence of a material uncertainty which may cast doubt on the Group’s and the Company’s ability to continue as a going concern in the Independent Auditors’ Report on the financial statements of the Group for the financial year ended 31 March 2019 (the “FY2019 Audited Financial Statements”). The audit opinion in the Independent Auditors’ Report however remains unmodified.

A copy of the Independent Auditors’ Report and the extract of the relevant note of the FY2019 Audited Financial Statements is attached to this announcement for reference, as Appendix 1 and Appendix 2 respectively.

The Board is of the view that the Group is able to continue as a going concern, taking into account the following:

a) The group entered into a legally-binding term sheet with a third party purchaser to dispose its subsidiary, Biofuel Research Pte Ltd, for a cash consideration of $5,585,400 on 23 May 2019. The group has on 24 May 2019 and on 18 June 2019 received from the purchaser the payments of $100,000 and $1,400,000 being deposit and first tranche of purchase consideration respectively. The definitive sales and purchase agreement has been entered between the group and the purchaser on 7 August 2019 and management expects the disposal to be completed within 6 months from 7 August 2019 upon satisfactory fulfilment of all conditions precedent to the agreement including satisfactory completion of due diligence review by the purchaser and the approval of the disposal by shareholders of the company and by SGX-ST.

b) The group obtained written confirmations from the bank concerned on 27 June 2019 that the bank has agreed to accommodate the breach of loan covenants on a one-off basis for the reporting year ended 31 March 2019. As a result, management is of the view that the bank will not request for immediate repayment of the outstanding loan amounts even though there was a breach of loan covenants. Had it not been for the breach of the loan covenants and the resultant classification of non-current bank loans to current liabilities, the group's total current assets would have exceeded total current liabilities by $9,202,000;

c) Management is confident that the proceeds from sale of development property in Singapore will be obtained within 12 months from the reporting year ended 31 March 2019;

d) The group is able to generate sufficient cash flows from its operating activities to support its operating expenditure for the next 12 months from the reporting year ended 31 March 2019; and

e) Management is actively seeking additional external equity financing from new investors.

Based on the abovementioned, the Board is of the view it is appropriate the FY2019 Audited Financial Statements be prepared on a going concern basis.

Additionally, the Board is of the opinion that sufficient information has been disclosed for trading of the Company's shares to continue in an orderly manner, and confirms that all material disclosures has been provided for trading of the Company's shares to continue.

Shareholders of the Company are advised to read the FY2019 Audited Financial Statements in its 2019 annual report.

By Order of the Board
USP GROUP LIMITED

Nah Ee Ling
Executive Director
13 September 2019

APPENDIX 1

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"), which comprise the consolidated statement of financial position of the group and the statement of financial position of the company as at 31 March 2019, and the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the group, and statement of changes in equity of the company for the reporting year then ended, and notes to the financial statements, including a summary of the 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 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the group and the changes in equity of the company for the reporting 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 company 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 1 of the financial statements. The group's total current liabilities exceeded total current assets by $15,495,000 as at 31 March 2019. In addition, the group incurred a net loss of $22,970,000 for the reporting year ended 31 March 2019 and had negative cash and cash equivalents of $1,008,000 as at 31 March 2019. The ability of the group to continue as a going concern is dependent on the satisfactory conclusion of the considerations disclosed in Note 1.

These events or conditions, along with other matters set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. If the going concern assumption is inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the statements of financial position. In addition, the group may have to provide for further liabilities that may arise. 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 reporting year. 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.

(a) Plant and machinery not in use and related deposit

Please refer to Note 2A for relevant accounting policies on property, plant and equipment and impairment of non-financial assets and Note 2C for critical judgements, assumptions and estimation uncertainties on plant and equipment not in use and related deposit.

As of 31 March 2018, the group had two eco-fuel machines included in plant and equipment that amounted to $9,657,000 and a deposit of $4,462,000 for a third eco-fuel machine that had yet to be delivered. Collectively, these machines and related deposit represented 13% of the group's total assets as at 31 March 2018. The group did not commence any eco-fuel production since the acquisition of the machines in 2014.

During the reporting year ended 31 March 2019, management decided to abort the plan to produce eco-fuel in view of the continuing depressed market conditions for the product. As these machines are highly specialised with limited resale market values, management has written off the full carrying value of the machines and the deposit totalling $14,119,000. The remaining balance due for the purchase cost of third eco-fuel machine amounting to $1,356,000 has been waived by the vendor.

Our procedures included the following:

(i) performed physical sighting of the two eco-fuel machines previously delivered;
(ii) verified the deposit payment to the vendor for the third machine;
(iii) reviewed the relevant agreements to understand the terms and conditions for the purchase of the machines;
(iv) discussed with management and the board of directors the group's plan for the eco-fuel business and the rationale for aborting the business;
(v) reviewed the waiver letter from the vendor for the remaining unpaid balance and ascertained that the waiver letter was approved by an appropriate authorised personnel from the vendor; and
(vi) performed procedures to ascertain that the vendor was not a related party of the group at the relevant time of the transactions.

Key audit matters (cont'd)

(b) Valuation of inventories

Please refer to Note 2A for accounting policy on inventories and Note 2C for critical judgements, assumptions and estimation uncertainties on inventories.

The group has inventories, mainly comprising marine motors and accessories held for sale, amounting to $14,992,000, which represents 16% of the group's total assets as at 31 March 2019. Inventories are carried at lower of cost and net realisable value. Inventories may be written down to net realisable value if they are slow-moving, become obsolete or if their selling prices have declined.

Management has performed a review to assess the saleability of the inventories concerned taking into consideration changes in technology and customers' preferences. Management is of the view that no allowance for inventory obsolescence is required.

Our procedures included the following:
(i) evaluated the process undertaken by management to identify inventories that may have to be written down to net realisable value, including obsolete and slow-moving inventories;
(ii) assessed the appropriateness of management's estimation of the net realisable value of the inventories by verifying, on a sample-basis, to actual sales subsequent to the reporting year; and
(iii) for aged inventories with no recent sales activity, evaluated the reasonableness of management's basis where no impairment is required, including review of management's assessment of the estimated selling prices of those inventories.

(c) Impairment assessment of investment in subsidiaries and amount due from subsidiaries

Please refer to Note 2A for accounting policy on investment in subsidiaries and Note 2C for critical judgements, assumptions and estimation uncertainties on investment in subsidiaries and amount due from subsidiaries.

As at 31 March 2019, the company's investment in subsidiaries and receivables from subsidiaries amounted to approximately $1,358,000 and $37,919,000 respectively.

During the reporting year ended 31 March 2019, management performed an impairment assessment of the investment in subsidiaries and receivables from subsidiaries. Impairment losses of approximately $261,000 and $19,853,000 respectively for investment in subsidiaries and amount due from subsidiaries were recognised in the company's profit or loss.

Our procedures included the following:
(i) considered the process established by management to assess reasonableness of assumptions used for the determination of impairment allowance;
(ii) reviewed adequacy of impairment loss recognised by management for investment in subsidiaries and other receivables due from subsidiaries; and
(iii) assessed the adequacy of the disclosure in the financial statements with respect to the impairment assessment.

Independent Auditor's Report to the Members of
USP GROUP LIMITED

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report and statement by directors, 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 the financial reporting standards, 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.

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 auditor's 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:

(a) 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.

Independent Auditor's Report to the Members of
USP GROUP LIMITED

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

(b) 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.

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

(d) 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.

(e) 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.

(f) 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.

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 describe 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.

Independent Auditor's Report to the Members of
USP GROUP LIMITED

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 Chong Cheng Yuan.

RSM Chio Lim LLP
Public Accountants and
Chartered Accountants
Singapore

10 September 2019
Engagement partner – effective from year ended 31 March 2017

APPENDIX 2

1. General

USP Group Limited (the "company") is incorporated in Singapore with limited liability. It is listed on the Singapore Exchange Securities Trading Limited ("SGX-ST").

The financial statements are presented in Singapore Dollar ("$") and they cover the company and its subsidiaries (collectively, the "group").

The board of directors approved and authorised these financial statements for issue on the date of the statement by directors.

The principal activities of the company are those of an investment holding company. The principal activities of the company's subsidiaries are disclosed in Note 17 to the financial statements below.

The registered office of the company is located at 38 Beach Road, South Beach Tower, #29 - 11, Singapore 189767. The principal place of business is located at 16A Joo Koon Circle, Singapore 629048.

Basis for going concern

As at 31 March 2019, the group's total current liabilities exceeded total current assets by approximately $15,495,000. In addition, the group incurred a net loss of approximately $22,997,000 for the reporting year ended 31 March 2019 and had negative cash and cash equivalents of $1,008,000 as at 31 March 2019.

As disclosed in Note 29 to the financial statements, certain subsidiaries have breached their loan covenants as the company, who is the corporate guarantor of the subsidiaries' loans, did not fulfil the requirement to maintain a minimum consolidated tangible net worth of $40 million. As a result, non-current bank loans have been classified to current liabilities in accordance with the requirements of SFRS(I) 1-1 *Presentation of Financial Statements*.

The above-mentioned conditions indicate the existence of material uncertainties that may cast significant doubt about the group's ability to continue as a going concern. Nevertheless, management is of the opinion that the use of the going concern basis in the preparation of the financial statements is appropriate, after taking into consideration the following:

a) As disclosed in Note 13, the group entered into a legally-binding term sheet with a third party purchaser to dispose its subsidiary, Biofuel Research Pte Ltd, for a cash consideration of $5,585,400 on 23 May 2019. The group has on 24 May 2019 and on 18 June 2019 received from the purchaser the payments of $100,000 and $1,400,000 being deposit and first tranche of purchase consideration respectively. The definitive sales and purchase agreement has been entered between the group and the purchaser on 7 August 2019 and management expects the disposal to be completed within 6 months from 7 August 2019 upon satisfactory fulfilment of all conditions precedent to the agreement including satisfactory completion of due diligence review by the purchaser and the approval of the disposal by shareholders of the company and by SGX-ST.

1. **General (cont'd)**

Basis for going concern (cont'd)

b) The group obtained written confirmations from the bank concerned on 27 June 2019 that the bank has agreed to accommodate the breach of loan covenants on a one-off basis for the reporting year ended 31 March 2019. As a result, management is of the view that the bank will not request for immediate repayment of the outstanding loan amounts even though there was a breach of loan covenants. Had it not been for the breach of the loan covenants and the resultant classification of non-current bank loans to current liabilities, the group's total current assets would have exceeded total current liabilities by $9,202,000;

c) Management is confident that the proceeds from sale of development property in Singapore will be obtained within 12 months from the reporting year ended 31 March 2019;

d) The group is able to generate sufficient cash flows from its operating activities to support its operating expenditure for the next 12 months from the reporting year ended 31 March 2019; and

e) Management is actively seeking additional external equity financing from new investors.

If the group is unable to continue in operational existence for the foreseeable future, the group may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the statements of financial position. In addition, the group may need to reclassify non-current assets and may have to provide for further liabilities that may arise. No such adjustments have been made to these financial statements.

Statement of compliance with financial reporting standards

These financial statements have been prepared in accordance with the Singapore Financial Reporting Standards (International) ("SFRS(I)s") and the related Interpretations to SFRS(I) ("SFRS (I) INT") as issued by the Singapore Accounting Standards Council. They are in compliance with the provisions of the Companies Act, Chapter 50 and with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

Accounting convention

The financial statements are prepared on a going concern basis under the historical cost convention except where a financial reporting standard requires an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements.