SINOCLOUD GROUP LIMITED
(Incorporated in Bermuda on 13 August 2003)
(Registration No. 34050)

RESPONSE TO QUERIES FROM SGX

The board of directors (the "**Board**" or "**Directors**") of SinoCloud Group Limited (the "**Company**", and together with its subsidiaries, the "**Group**") refers to the Company's announcement dated 11 May 2021 in relation to the unaudited financial results for the third quarter ended 31 March 2021 ("**3QFY2021**") (the "**Announcement**"). The Board wishes to inform that Singapore Exchange Regulation Pte Ltd ("**SGX**") had raised some queries on the Announcement and the Company would like to announce its responses below.

Unless otherwise defined, all capitalised terms in the Company's response shall have the same meaning as ascribed to them in the Announcement.

SGX Query 1

The Company reported trade and other receivables amounting to approximately HK$25.1 million, while the Group's revenue for 3QFY2021 is only HK$2.9 million for the 3 months ended 31 March 2021.

It was disclosed that the trade and other receivables as at 31 March 2021 comprised trade receivables of HK$3.1 million, and other receivables and prepayment of HK$22.8 million.

(a) Trade receivables increased by HK$2.2 million, from HK$0.5 million as at 30 June 2020 to HK$3.1 million as at 31 March 2021. The increase was mainly due to revenue generated by GYZD during 9MFY2021 which remained uncollected as at 31 March 2021.

(b) Other receivables and prepayment comprising mainly prepayment for software development for the IDC business, increased by HK$2.1 million, from HK$20.3 million as at 30 June 2020 to HK$22.4 million as at 31 March 2021, due to increase in prepaid expenses in the IDC business.

Please disclose:

(i) The terms of the transactions for the IDC business (including the contract sum) and terms of payment;

(ii) the ageing profile of the Group's trade and other receivables/trade receivables in bands of 3 months;

(iii) whether these outstanding amounts are owing to related parties. If yes, to provide details and quantify;

(iv) whether these debtors are related to any directors, key executives, substantial shareholders or their respective associates;

(v) whether these customers are still in operation; and

(vi) the Board's assessment on the recoverability of the Group's trade and other receivables, and the basis for such an assessment.

Company's Response

(i) The terms of the transactions for the IDC business are generally on prepaid basis (either annually, quarterly or monthly), prior to commencement of IDC services rendered to customers. As at 31 March 2021, contracts secured which the relevant services have yet to be performed by GYZD amounted to an aggregate contract value of HK$5.4 million.

(ii) There was inadvertent error in the value of trade receivables as at 31 March 2021 (as disclosed in the section titled "Current Assets – (i) Trade and other receivables" on page 15 of the Announcement). Trade receivables as at 31 March 2021 should have been HK$2.7 million, instead of HK$3.1 million, as at 31 March 2021.

The ageing profile of the Group's trade receivables as at 31 March 2021 of HK$2.7 million is as follows:

	HK$'000
Current and not due	-
Trade receivables past due:	
Less than 3 months	625
3 months or more, but less than 6 months	-
6 months or more, but less than 9 months	13
9 months or more, but less than 12 months	-
12 months or more, but less than 15 months	2,067
15 months or more, but less than 18 months	3
18 months or more, but less than 21 months	-
21 months or more, but less than 24 months	5

Other receivables and prepayments as at 31 March 2021 of HK$22.4 million comprise the following:

	HK$'000
Prepayment for the IDC business[(1)]	20,837
Other prepayments and and deposit[(2)]	1,546

Notes:

(1) Relates to prepayments for leasehold improvements, server equipment, software development and construction projects. No aging is available as such amounts are unrecoverable by the Group, and shall be recognised as assets or expensed off as and when the Group realises such development.

(2) Relates to prepayments for guarantee of tender for IDC business, utility and/or rental deposits, staff advance. Such prepayments are current and not due.

(iii) None of the trade and other receivables as at 31 March 2021 is owing from related parties of the Group; and none of the debtors of the Group as at 31 March 2021 is related to the Directors, key executives, substantial shareholders or their respective associates.

(iv) See response to part (iii) above.

(v) These customers are still in operation.

(vi) The Group's approach in assessing the recoverability of trade and other receivables includes analysing historical payment trends, significant changes in business environments, on-going business relationship and reputation of the debtors. Based on the above, the Board is of the opinion that the Group's trade and other receivables are recoverable.

SGX Query 2

We note that majority (71%) of the Group's current liabilities comprise trade and other payables at HK$39.0 million.

It was disclosed that the trade and other payables comprised (a) trade payables of HK$10.7 million; (b) accruals and other payables of HK$26.8 million; (c) amount due to directors of HK$0.2 million; and (d) amount due to related parties of HK$1.3 million.

Please disclose the aging and nature of the trade and other payables and whether the counterparties are related parties.

Company's Response

(i) Below is the breakdown showing the nature of trade and other payables amounting to HK$39.0 million as at 31 March 2021:

	HK$'million
Trade payables	
- Accrual for subcontracting fees for IDC projects in the PRC	7.4
- Accrual for current portion of lease liabilities of internet data centre in the PRC(1)	3.3
	10.7
Accruals	
- Bandwidth and energy saving service for IDC operations in the PRC	15.5
Other payables	
- PRC value added tax(2)	6.8
- Office overhead and related expenses in PRC	3.0
- Office overhead and related expenses in Hong Kong	0.3
- Interest payable for loan and convertible bond issued to controlling shareholder of the Company	1.2
	11.3
Amount due to directors	0.2
Amount due to related parties	1.3
Total	**39.0**

Notes:

(1) The accrual is made on the basis of rent-free period which ended on 30 June 2020. The condition of right-to-receive rent from the landlord has yet to be fulfilled, and the Group accrued for such expense in respect of right-of-use of the leased assets for accounting treatment only. The maximum contractual operating lease liabilities under IFRS 16 has to be re-assessed as at the forthcoming financial year ending 30 June 2021.

(2) Value added tax ("**VAT**") payable in the PRC amounted to HK$6.8 million, out of which approximately HK$0.1 million is required to be settled, while the remaining balance of HK$6.7 million arose from accounting adjustments (i.e. International Financial Reporting Standard ("**IFRS**") adjustments against PRC GAAP as the accounts of GYZD have been prepared based on PRC GAAP). Such VAT will only be required to be paid when sales revenue is collected by GYZD, along with the issuance of the respective VAT receipts.

Baring unforeseen circumstances, save for interest payable for loan and convertible bond issued to the controlling shareholder of the Company, amount due to directors and amount due to related parties, the rest of the counterparties are not related parties.

(ii) Below is the aging of trade and other payables amounting to HK$39.0 million as at 31 March 2021:

	Current	**1 to 30 days**	**31 to 60 days**	**More than 60 days**	**Total**
	HK$'M	**HK$'M**	**HK$'M**	**HK$'M**	**HK$'M**
TRADE PAYABLES					
Subcontracting fees for IDC projects				7.4	7.4
Lease liabilities of IDC[(1)]	Not applicable				3.3
ACCRUALS					
Accruals for bandwidth and energy saving service for IDC operations in the PRC	Not applicable				15.5
OTHER PAYABLES					
PRC value added tax	0.1	0.1	0.1	6.5	6.8
Office overhead and related expenses in PRC	0.2	0.2	0.2	2.6	3.0
Office overhead and related expenses in Hong Kong	0.1	0.1	0.1	-	0.3
Interest payable for loan and convertible bond issued to controlling shareholder of the Company[(2)]	Not applicable				1.2
OTHERS					
Amount due to directors[(2)]	0.1	0.1	-	-	0.2
Amount due to related parties[(2)]	-	-	-	1.3	1.3
Total					**39.0**

Notes:

(1) The IDC premises in the PRC is entitled to a rental-free period since 2014 until receipt of notice from the landlord on the commencement of the rental charges. The Group recognises right-of-use assets and corresponding lease liabilities according to IFRS 16, based on management's best estimates which are revised half-yearly. As at the financial period ended 31 March 2021, the management has yet to receive notice from the landlord.

(2) As stated therein, the counter-parties of the respective payables are related parties of the Company.

SGX Query 3

The Group's current liabilities of HK$54.9 million, negative working capital of HK$24.2 million, cash and bank balance of only HK$2.0 million, and the Company incurred losses of HK$5.1 million for the 3 months ended 31 March 2021.

(i) Please disclose the pro-active actions which management plans to take to ensure that the Group's financial position remains strong.

(ii) Please provide updates since the Group's position in 2QFY2021 on whether the Company has plans and continued financial support to reduce its current liabilities.

Company's Response

(i) On 3 March 2021, the Company announced that it had, on 2 March 2021, entered into a non-binding memorandum of understanding with Mr Koo Sin Mo, Stephen ("**Vendor**") in relation to a proposed acquisition by the Company from the Vendor of his 52.4% equity interest in Univision Engineering Limited ("**Univision**") (the "**Proposed Acquisition**"). Please refer to the aforesaid announcement for further details on the Proposed Acquisition. The Company is actively seeking fundraising exercises to strengthen the Group's financial position, and seeking equity funding for the Proposed Acquisition, as well as exploring opportunities to develop synergistic projects with Univision which should bring strong financial growth to the Group.

(ii) The Group's current liabilities decreased by HK$7.5 million, from HK$62.4 million as at 31 December 2020 (being 2QFY2021), to HK$54.9 million as at 31 March 2021 (being 3QFY2021). Similar to the position in 2QFY2021 (as further explained in the Company's announcement on 17 February 2021 in response to SGX queries on the unaudited financial statements for second quarter ended 31 December 2020), the Group's current liabilities included amounts which the Company does not expect to be made payable by the Group within the next 12 months.

Out of the current liabilities amounting to HK$59.4 million, the management of the Company does not expect the following items amounting to an aggregate of HK$43.1 million (72.6% of total current liabilities) to be made payable by the Group within the next 12 months from 31 March 2021, reasons as set out below:

(a) Under Trade and Other Payables

(i) Trade payables – accrual for current portion of lease liabilities of IDC in the PRC of HK$3.3 million. The IDC premises in the PRC is entitled to a rental-free period since 2014 until receipt of notice from the landlord on the commencement of the rental charges. The Group recognises right-of-use assets and corresponding lease liabilities according to IFRS 16, based on management's best estimates which are revised half-yearly. As of 30 June 2020, the management has yet to receive notice from the landlord and expects the rent-free period to continue until 31 March 2021 onwards. The management will reassess the lease liabilities during the second half of the financial year ending 30 June 2021.

(ii) Accruals for bandwidth and energy saving service for IDC operations in the PRC of HK$15.5 million. GYZD has yet to receive the supplier invoice for the aforesaid service and the management expects that the payment for such sevice fee can be extended by the service provider.

(iii) PRC value added tax of HK$6.8 million arose largely due to IFRS adjustments, out of which approximately HK$0.1 million is required to be settled, while the remaining balance of HK$6.7 million arose from accounting adjustments (i.e. IFRS adjustments against PRC GAAP as the accounts of GYZD have been prepared based on PRC GAAP). Such VAT will only be required to be paid when sales revenue is collected by GYZD, along with the issuance of the respective VAT receipts.

(iv) Interest payable for loan and convertible bond issued to controlling shareholder of the Company (being Mr Lam Cho Ying Terence Joe ("**Mr. Lam**") amounting to HK$1.2 million. The management intends to negotiate with Mr. Lam on extension for payment of such interest

payable, and expects to receive continued financial support from Mr. Lam.

(v) Amount due to related parties of HK$1.3 million has no fixed repayment date. The management intends to negotiate with the related parties on extension for payment of such amount payable, and expects to receive continued financial support from the related parties.

(b) Contract liabilities of HK$4.9 million relate to advance payment received by GYZD in respect of a government contract secured by GYZD. The amount will be recorded as revenue once the performance of contract is completed.

(c) Income tax payable of HK$7.8 million arose from IFRS adjustment against PRC GAAP (as the accounts of GYZD have been prepared based on PRC GAAP). No such tax is required to be settled as GYZD is loss making (based on accounts of GYZD prepared based on PRC GAAP) in 2020.

(d) In respect of the borrowings of HK$4.8 million as at 31 March 2021, the Group obtained a new bank borrowings of HK$4.8 million after the old bank borrowings expiry (where HK$2.4 million is repayable within 12 months from 31 March 2021, another HK$2.4 million is repayable within 18 to 24 months from 31 March 2021) carrying an interest rate of 7.2% per annum.

Further to the above, the Company is actively seeking equity placement to replace the Group's liabilities and strengthen its financial position.

By Order of the Board

Luk Siu Fung, Mark
Executive Director and Chief Executive Officer
23 May 2021

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*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, ZICO Capital Pte. Ltd. (the "**Sponsor**"), in accordance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual Section B: Rules of Catalist.*

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement including the correctness of any of the statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Ms. Alice Ng, Director of Continuing Sponsorship, ZICO Capital Pte. Ltd. at 8 Robinson Road, #09-00 ASO Building, Singapore 048544, telephone (65) 6636 4201.