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 13 October 2021 in relation to the Company's Annual Report for the financial year ended 30 June 2021 ("**FY2021**"). The Board wishes to inform that Singapore Exchange Regulation Pte Ltd ("**SGX**") had raised some queries on the Company's audited consolidated financial statements for FY2021 ("**Audited FS**") and the Independent Auditors' Report thereon, 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 Audited FS and the Independent Auditors' Report.

SGX Query 1 – Impairment assessment of property, plant and equipment, right-of-use asset and prepayments

The Management assessed that no impairment charges was required on the Group's property, plant and equipment, right-of-use asset and prepayments which amounted to approximately HK$243.6 million. However, in view of the current financial performance and uncertainty in obtaining funding for the completion of the IDC Centre Expansion Project, the Auditors were unable to obtain sufficient appropriate audit evidence to assess the reasonableness of the key assumptions used in the determination of the recoverable amount of these assets based on the current information available to them, and unable to determine if any adjustments were necessary

- *Please provide the Management's reasons on why no impairment was required on the Group's property, plant and equipment, right-of-use asset and prepayments which amounted to approximately HK$243.6 million. How material is this to the Group's financials?*

- *Why were the Auditors unable to obtain sufficient appropriate audit evidence to assess if impairment is required?*

Company's Response

According to IAS 36 Impairment of Assets, assets are required to be impaired when the recoverable amount is less than the carrying amount, where the recoverable amount represents the higher of value in use ("**VIU**") or fair value less cost of disposal. In FY2021, Guiyang Tech secured various hosting service contracts with some of the government bureaus of the People's Republic of China ("**PRC**"). Accordingly, the Board is of the view that Guiyang Tech has made a breakthrough to enter into the huge government hosting services market in the PRC, and expects Guiyang Tech to secure more service contracts from these government bureaus going forward. The aforementioned expectation was reflected in the discounted cash flow projection ("**DCF**") prepared by the management of the Group ("**Management**") to derive the VIU of Internet Data Centre ("**IDC**") operated by Guiyang Tech. In the DCF, the Management estimated that the VIU of IDC operated by Guiyang Tech amounted to approximately RMB203.2 million (equivalent to approximately HK$244.0 million), which was higher than the carrying amount of the Group's property, plant and equipment ("**PPE**"), right-of-use asset and prepayments which amounted to approximately HK$243.6 million as at 30

June 2021. In view of the aforesaid, the Management concluded that no impairment was required of the Group's PPE, right-of-use asset and prepayments.

The carrying amount of the Group's PPE, right-of-use asset and prepayments which colllectively amounted to approximately HK$243.6 million as at 30 June 2021, accounted for approximately 92.1% and 199.0% of the Group's total asset value and net asset value respectively, as at 30 June 2021.

The revenue forecast used in the DCF is based on the Management's expectation, experience and judgement (using current information available to the Management). In particular, the underlying assumptions used in the DCF involved estimation of (i) volume of hosting services rendered by Guiyang Tech, and (ii) selling prices of such services, over a period of 10 years from 30 June 2021. Such estimations are based on historical project records with projected growth rates marked to the GDP (gross domestic product) in the PRC and the Management's estimation of the growth rate in the IDC market in the PRC. However, the Management presently could not provide sufficient documentary evidence from third party sources to the auditors of the Company ("**Auditors**") on the aforesaid revenue forecast and underlying assumptions used in the DCF. As a result, the Auditors were unable to obtain sufficient appropriate audit evidence to assess the reasonableness of the key assumptions used in the determination of the recoverable amount of the Group's PPE, right-of-use asset and prepayments, and consequently, the Auditors were unable to determine whether any adjustments were necessary in respect of the carrying amounts of these assets as at 30 June 2021.

SGX Query 2 – Recoverability of deferred tax asset

The Auditors were also unable to determine whether any adjustments were necessary in respect of the Group's deferred tax asset of HK$11,966,000 relating to Guiyang Tech as at 30 June 2021, as the utilisation of deductible temporary differences and unused tax losses is subject to the availability of future taxable profits, which is largely dependent upon the realisation of the assumptions as disclosed in item 1 (Impairment assessment of property, plant and equipment, right-of-use asset and prepayments).

- *Please provide the Management's assessment on the recoverability of the Group's deferred tax asset, and the basis for such an assessment.*

- *Why were the Auditors unable to obtain sufficient audit evidence to assess if adjustments were required for the Group's deferred tax asset.*

Company's Response

Deferred tax asset is recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences and unutilised tax losses can be utilised. In the DCF prepared by the Management to derive the VIU of IDC operated by Guiyang Tech, the Management expected that the Expansion Project, when completed, could generate future taxable profits which could be utilised to offset against the deductible temporary differences and unutilised tax losses.

However, as stated in the response to SGX Query 1 above, the Management presently could not present sufficient evidence to the Auditors to support the assumptions used in the DCF. As the Auditors were unable to obtain sufficient appropriate audit evidence from third party sources to assess the reasonableness of the key assumptions used in the determination of the carrying amount of the Group's deferred tax asset, the Auditors were unable to determine whether any adjustments were necessary in respect of the carrying amounts of the asset as at 30 June 2021.

SGX Query 3 – Impairment assessment of investment in subsidiaries

As at 30 June 2021, the carrying amount of the Company's investment in subsidiaries, net of impairment, amounted to HK$57,112,000 which is entirely attributable to the investment in Guiyang Tech. However, the Auditors were also unable to determine whether any adjustment to the carrying amount of the investment in subsidiaries was necessary.

- *Please provide the Management's reasons on why no impairment was required on the Company's investment in Guiyang Tech.*

Company's Response

The Management expected that the Expansion Project, when completed in stages in 2023 and 2024 (estimated), could generate future taxable profits and increase the net asset value ("**NAV**") of Guiyang Tech. Hence, the Board believes that the NAV of Guiyang Tech could exceed the Company's investment in Guiyang Tech, and consequently, no further impairment of the Company's investment in subsidiaries (being, Guiyang Tech) was required. However, because of the conclusion drawn by the Auditor as duly set out in the Company's response to SGX Query 1 above, the Auditor made the same conclusion, that they are unable to determine whether any adjustments were necessary in respect of the carrying amounts of the Company's investment in subsidiaries as at 30 June 2021.

SGX Query 4

In FY2021, Guiyang Tech sustained significant operating losses of HK$9,550,000 and reported revenue of HK$9,680,000 with a 71% decline in revenue from FY2020. The utilisation rate of the existing hosting capacity is less than 50% since commencement and certain secured contracts have been delayed in terms of capacity requirement and timing. The Expansion Project for the IDC Centre was estimated to be completed in 2023, which is dependent on the Group's ability to secure necessary funding of HK$133,475,000 to complete the construction of the Expansion Project.

- *Please provide the Company's plans to secure funds of approximately HK$133.5 million to complete the construction of the Expansion Project by 2023.*

- *In the event the Company is unable to secure sufficient funds to complete the construction, will there be any impact in fulfilling secured contracts?*

Company's Response

The Group plans to secure funds by way of equity financing via private placement, debt financing via issuance of convertible bonds, and bank borrowings in the PRC. Notwithstanding the aforementioned plans on fund raising to finance the construction of the Expansion Project, even if such plans do not materialise for whatever reasons, Guiyang Tech's business will not be adversely affected as it currently hosts 660 racks which are currently under-utilised, and such unutilised capacity could be deployed to generate cash flow for the Group as the Management continues to seek out new customers for its IDC business.

SGX Query 5

In view of the above matters as well as the Auditors' concerns on the Group's ability to operate as a going concern, please elaborate on the Board's and Sponsor's opinion, including bases, on the Group's ability to operate as a going concern.

Company's Response

As mentioned in Note 2 to the Audited FS and the Company's announcement dated 13 October 2021 in relation to the disclaimer of opinion issued by the Auditors on the Audited FS for FY2021 ("**Announcement on Auditors' Opinion**"), the Board has assessed that the Group and the Company are able to continue as going concerns, given their respective net asset positions of HK$122,424,000 and HK$37,615,000, due to the following reasons:

a) The Group has obtained continuing financial support from a substantial shareholder to enable the Group to operate as a going concern and to meet its obligations as and when they fall due. Such financial support includes not recalling the balance owing to the substantial shareholder of HK$23,574,000 (which includes the liability component of redeemable convertible bond of $22,653,000 and related interests of HK$921,000) as at 30 June 2021 unless the Group has sufficient funds for working capital and to pay other creditors in full. Subsequent to year end of 30 June 2021, the substantial shareholder injected HK$2,350,000 in cash (by way of a loan at 6% per annum, repayable after 2 years), and extended a working capital loan of HK$3,000,000 to the Group, to be disbursed in 3 tranches in December 2021, March 2022 and June 2022. Such funds when received, will be adequate for the Group's working capital purposes for the next 12 months from the reporting date of 30 June 2021.

b) As disclosed in Note 5 to the Audited FS, the Company's sole operating subsidiary in the PRC (being, Guiyang Tech) is entitled to a rent-free period of its 20-year lease of the IDC premises since 2014, until the receipt of notice from the landlord. The Board is confident that this rent-free period shall be extended for at least 12 months from the date of the Audited FS, given that Guiyang Tech has not received any notice from the landlord to date.

c) The management of Guiyang Tech has successfully negotiated for favourable payment terms with its key suppliers, in particular, those providing bandwidth and utilities in the IDC premises, and the key suppliers had agreed to extend credit terms and to defer payments by at least 12 months from the reporting date of 30 June 2021.

d) The Group has also managed to postpone its Expansion Project and negotiated for a suspension of 2 years with its main contractors, hence postponing the associated capital commitment of HK$133,475,000 (as disclosed in Note 36 to the Audited FS).

e) The Group is confident of deferring payment of the current portion of Loan 4 from a PRC bank of HK$2,402,000 (Note 16 to the Audited FS), of which 50% is due in September 2021 and the remaining 50% payable in March 2022. The Management expects to repay the entire amount of Loan 4 (totaling HK$4,792,000) in full at maturity in March 2023. Subsequent to year end, on 8 August 2021, a related party, the guarantor of Loan 4, has agreed to undertake the repayment of the current portion of Loan 4 amounting to HK$2,402,000, should the relevant bank requests for contractual installment from Guiyang Tech within the next 12 months from 30 June 2021.

Having considered (i) the abovementioned reasons and considerations provided by the Management, and (ii) the net positions of HK$122.4 million and HK$37.6 million of the Group and the Company, respectively, the Sponsor concurs with the Board's view that the Group and the Company are able to operate as a going concern for the next 12 months from the reporting date of 30 June 2021.

SGX Query 6

Please also provide the Board of Directors' opinion as to whether trading of the Company's shares should be suspended pursuant to Listing Rule 1303(3) (Going Concern) and the basis for such opinion.

Company's Response

As set out in the Announcement on Auditors' Opinion and reiterated in the Company's response for SGX Query 5 above, setting out the bases of its opinion, the Board is of the view that (i) the Company and the Group are able to operate as going concern in the next 12 months from the reporting date of 30 June 2021; and (ii) sufficient information and all material disclosures have been disclosed to enable trading of the Company's shares to continue in an orderly manner. Accordingly, the Board is of the view that no suspension of trading of the Company's shares is required.

By Order of the Board

Chan Andrew Wai Men
Executive Chairman
18 October 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.*

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.