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

DISCLAIMER OF OPINION ON AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021 ("FY2021")

Pursuant to Rule 704(4) of the Listing Manual Section B: Rules of Catalist ("**Catalist Rules**") of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), the Board of Directors ("**Board**") of SinoCloud Group Limited (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce that the Company's independent auditor, Crowe Horwath First Trust LLP (the "**Independent Auditor**"), has issued a disclaimer of opinion on the Group's audited financial statements for FY2021 (the "**Audited Financial Statements**") ("**Independent Auditor's Report**"). The basis for the Disclaimer of Opinion is in relation to (i) impairment assessment of property, plant and equipment, right-of-use asset and prepayments; (ii) recoverability of deferred tax asset; and (iii) impairment assessment of investment in subsidiaries. In addition, without further modifying its opinion, the Independent Auditor has also highlighted in the Independent Auditor's Report a material uncertainty related to going concern.

A copy of the Independent Auditor's Report and an extract of Notes 2, 4, 5, 14, 16 and 17 to the Audited Financial Statements are attached to this announcement for further information. Unless otherwise defined, all capitalised terms used herein shall have the same meaning as ascribed to them in the Independent Auditor's Report.

Notwithstanding the above, the Audited Financial Statements have been prepared on a going concern basis due to reasons as disclosed in Note 2 to the Audited Financial Statements. The Board is of the opinion that the Group will be able to continue as a going concern, for 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 (Note 17) and related interests of $921,000 (Note 14)) 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, the substantial shareholder injected $2,350,000 in cash and extended a working capital loan of $3,000,000, 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.

(b) As disclosed in Note 5, the Company's sole operating subsidiary in the PRC, Guiyang Zhongdian Gaoxin Digital Technologies Limited ("**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. Management is confident that this rent-free period shall be extended for at least 12 months from the date of the Audited Financial Statements, given that Guiyang Tech has not received any notice from the landlord to date.

(c) Management has successfully negotiated for favourable payment terms with its key suppliers, in particular, those providing bandwidth and utilities in the IDC premises, and has agreed to extend its credit terms and to defer payments by at least 12 months from the reporting date.

(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 $133,475,000 as disclosed in Note 36.

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

The Board is of the view that sufficient information has been disclosed for trading of the Company's securities to continue in an orderly manner and confirmed that all material disclosures have been provided for trading of the Company's shares to continue.

The Independent Auditor's Report, together with the Audited Financial Statements, will form part of the Company's annual report for FY2021 ("**2021 Annual Report**") which shall be released separately on SGXNet on 13 October 2021. Shareholders of the Company ("**Shareholders**") are advised to read this announcement in conjunction with the 2021 Annual Report.

Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company. Shareholders and potential investors are advised to read this announcement and any further announcements by the Company carefully. Shareholders and potential investors should consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers if they have any doubt about the actions they should take.

By Order of the Board

Chan Andrew Wai Men
Executive Chairman
13 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.*

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.

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 30 June 2021

Crowe

Crowe Horwath First Trust LLP
9 Raffles Place
#19-20 Republic Plaza Tower 2
Singapore 048619
Main +65 6221 0338
www.crowe.sg

Report on the Audit of the Financial Statements

DISCLAIMER OF OPINION

We were engaged to audit the financial statements of SinoCloud Group Limited (the "**Company**") and its subsidiaries (the "**Group**"), set out on pages 66 to 163, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 30 June 2021, 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 for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

BASIS FOR DISCLAIMER OF OPINION

1. Impairment assessment of property, plant and equipment, right-of-use asset and prepayments

As at 30 June 2021, the Group's carrying amounts of property, plant and equipment of $193,218,000 (which includes construction in progress of $163,908,000), right-of-use asset of $29,592,000 and prepayments of $20,806,000 (net of impairment of $9,087,000) are attributable to the Company's sole operating subsidiary, Guiyang Zhongdian Gaoxin Digital Technologies Limited ("**Guiyang Tech**"), which operates an internet data centre in Guiyang, Guizhou Province in the PRC ("**IDC Centre**"). The construction in progress and prepayments relate to the expansion of hosting capacity of the IDC Centre including the construction of additional 1,500 racks ("**Phase II**"), and the construction of a call center to improve response time to customers and related software development (collectively, the "**Expansion Project**").

During the current financial year, Guiyang Tech sustained significant operating losses of $9,550,000 and reported revenue of $9,680,000 with a 71% decline (2020: 38% decline reported) as compared to the immediate preceding year. 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. In addition, as disclosed in Note 4 to the financial statements, management has further deferred the completion of the Expansion Project by another 2 years and Phase II is projected to generate revenue only in 2024 as compared to 2022 as projected in the prior financial year. The low utilisation rate and prolonged delay in the Expansion Project are expected to negatively impact the recoverable amount of these assets.

Crowe Horwath First Trust LLP (UEN: T08LL1312H) is an accounting limited liability partnership registered in Singapore under the Limited Liability Partnership Act (Chapter 163A).

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 30 June 2021

***BASIS FOR DISCLAIMER OF OPINION* (Continued)**

1. Impairment assessment of property, plant and equipment, right-of-use asset and prepayments (Continued)

Accordingly, the management engaged an external valuer to carry out an impairment assessment of these non-current assets attributable to Guiyang Tech by estimating the recoverable amount of these assets based on value-in-use ("**VIU**") computation. The key assumptions used in the VIU computation were disclosed in Note 4 to the financial statements, which includes, *inter-alia,* the following:

a) the expected completion of the Expansion Project in 2023, which is dependent on the Group's ability to secure necessary funding of $133,475,000 to complete the construction of the Expansion Project; and

b) the achievement of the expected utilisation rate of its existing and expanded hosting capacity arising from new contracts secured and the realisation of postponed orders from existing contracts.

Based on the outcome of management's assessment, no impairment charge was required on these assets. However, in view of the current financial performance and uncertainty in obtaining funding for the completion of the Expansion Project, we 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 us. Consequently, we were unable to determine whether any adjustments were necessary in respect of the Group's carrying amounts of property, plant and equipment, right-of-use asset and prepayments as at 30 June 2021, including whether certain construction in progress and related prepayments are required to be written off due to the prolonged delay in the progress of the Expansion Project.

In addition, as postponement of the Expansion Project is the Group's unilateral decision, we were unable to determine if any provisions on additional liabilities including onerous contracts were necessary, arising from the impact of postponement on the execution and completion of the related construction and supply contracts.

2. Recoverability of deferred tax asset

Following item 1 above, we were also unable to determine whether any adjustments were necessary in respect of the Group's deferred tax asset of $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 above.

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 $57,112,000 which is entirely attributable to the investment in Guiyang Tech. Due to the factors as discussed in item 1 above, we were also unable to determine whether any adjustment to the carrying amount of the investment in subsidiaries was necessary.

We considered the impact of the above items to be material and pervasive to the overall financial statements of the Group.

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 30 June 2021

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

Without further modifying our opinion, we draw attention to Note 2 to the financial statements. The Group incurred a net loss after tax of $17,098,000 and negative operating cash flows of $939,000 for the financial year ended 30 June 2021, and as at that date, the Group were in net current liabilities of $23,491,000. The Group's cash and bank balances available for use amounted to $461,000 while its current liabilities amounted to $53,209,000.

The above conditions, along with the factors discussed in the *Basis for Disclaimer of Opinion*, indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group and the Company to continue as going concerns. Notwithstanding these conditions, the Group has prepared the financial statements on a going concern basis due to the reasons as disclosed in Note 2 to the financial statements, which includes the extension of payment terms with all major suppliers of Guiyang Tech and the continuing financial support from a substantial shareholder, which includes cash injection of $2,350,000 and a working capital loan of $3,000,000 subsequent to the year end.

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 International Financial Reporting Standards (IFRSs), 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.

INDEPENDENT AUDITOR'S REPORT

For the financial year ended 30 June 2021

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our responsibility is to conduct an audit of the financial statements in accordance with International Standards on Auditing ("**ISAs**") and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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 had fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

The engagement partner on the audit resulting in this independent auditor's report is Adeline Ng Cheah Chen.

Crowe Horwath First Trust LLP
Public Accountants and
Chartered Accountants
Singapore

13 October 2021

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2021
(Amounts in thousands of Hong Kong dollar ("$'000"))

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. GENERAL INFORMATION

SinoCloud Group Limited (the "**Company**") is a limited liability company domiciled and incorporated in Bermuda and is listed on the Catalist Market of the Singapore Exchange Securities Trading Limited. The address of the Company's registered office is Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are shown in Note 7 to the financial statements.

The financial statements for the financial year ended 30 June 2021 were authorised for issue in accordance with a resolution of the Board of Directors on 13 October 2021.

2. FUNDAMENTAL ACCOUNTING CONCEPT

The Group reported revenue of $9,680,000 (2020: $33,253,000) for the financial year ended 30 June 2021, representing a decline of 71% (2020: 38% decline) as compared to the immediate preceding year. Consequently, the Group incurred a net loss of $17,098,000 (2020: $191,217,000) and negative operating cash flow of $939,000 (2020: positive operating cash flow of $1,577,000) for the financial year ended 30 June 2021, and as of that date, the Group was in net current liabilities of $23,491,000 (2020: $31,626,000). As of 30 June 2021, the Group's cash and bank balances available for use amounted to $461,000 (2020: $303,000) while its current liabilities amounted to $53,209,000 (2020: $52,756,000).

These facts and circumstances indicate the existence of material uncertainties that may cast significant doubts on the ability of the Group and of the Company to continue as a going concern. The accompanying financial statements have been prepared on a going concern basis as management has assessed that the Group and the Company are able to continue as going concerns, given the net asset positions of $122,424,000 and $37,615,000 respectively,
due to the following key considerations and assumptions:

(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 $23,574,000 (which includes the liability component of redeemable convertible bond of $22,653,000 (Note 17) and related interests of $921,000 (Note 14)) 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, the substantial shareholder injected $2,350,000 million in cash and extended a working capital loan of $3,000,000, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2021
(Amounts in thousands of Hong Kong dollar ("$'000"))

2. FUNDAMENTAL ACCOUNTING CONCEPT (Continued)

(b) As disclosed in Note 5, the Company's sole operating subsidiary in the PRC, Guiyang Zhongdian Gaoxin Digital Technologies Limited ("**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. Management is confident that this rent-free period shall be extended for at least 12 months from the date of this report, given that Guiyang Tech has not received any notice from the landlord to date.

(c) Management has successfully negotiated for favourable payment terms with its key suppliers, in particular, those providing bandwidth and utilities in the IDC premises, and has agreed to extend its credit terms and to defer payments by at least 12 months from the reporting date.

(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 $133,475,000 as disclosed in Note 36.

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

If the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the Company 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 and the Company may have to reclassify non-current assets and liabilities as current assets and liabilities respectively, and to provide for further liabilities which may arise. No such adjustments have been made to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2021
(Amounts in thousands of Hong Kong dollar ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates, assumptions and judgements (Continued)

(i) Critical accounting estimates and assumptions (Continued)

(d) Fair value of derivative asset

Where the fair values of financial instruments recorded on the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are derived from observable market data where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The carrying amounts and further details are disclosed in Notes 13 and 17.

4. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold improvements	Software platform	Plant and machineries	Motor vehicles	Furniture, fixtures, computer and other equipment	Construction in progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost							
As at 1 July 2019	20,499	7,061	59,630	636	769	144,324	232,919
Additions	–	–	–	–	1,253	10,596	11,849
Currency translation differences	(773)	(266)	(2,249)	(24)	(42)	(5,554)	(8,908)
As at 30 June 2020	19,726	6,795	57,381	612	1,980	149,366	235,860
As at 1 July 2020	19,726	6,795	57,381	612	1,980	149,366	235,860
Additions	–	–	–	–	54	–	54
Currency translation differences	1,920	661	5,586	60	194	14,542	22,963
As at 30 June 2021	21,646	7,456	62,967	672	2,228	163,908	258,877

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2021
(Amounts in thousands of Hong Kong dollar ("$'000"))

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group	Leasehold improvements	Software platform	Plant and machineries	Motor vehicles	Furniture, fixtures, computer and other equipment	Construction in progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Accumulated depreciation							
As at 1 July 2019	15,134	2,334	30,537	302	474	–	48,781
Depreciation during the financial year	3,322	686	3,256	59	310	–	7,633
Currency translation differences	(605)	(95)	(1,186)	(12)	(22)	–	(1,920)
As at 30 June 2020	17,851	2,925	32,607	349	762	–	54,494
As at 1 July 2020	17,851	2,925	32,607	349	762	–	54,494
Depreciation during the financial year	1,119	729	3,445	62	377	–	5,732
Currency translation differences	1,763	301	3,251	35	83	–	5,433
As at 30 June 2021	20,733	3,955	39,303	446	1,222	–	65,659
Net carrying amount As at 30 June 2021	913	3,501	23,664	226	1,006	163,908	193,218
As at 30 June 2020	1,875	3,870	24,774	263	1,218	149,366	181,366

Property, plant and equipment is mainly attributable to Guiyang Tech which is operating IDC business and considered to be a single Cash-Generating Unit ('CGU'). Construction in progress represents Phase II and call centre, expected to complete by year 2023, collectively known as the "Expansion Project".

Impairment assessment

The Group reported revenue of $9,680,000 for the financial year ended 30 June 2021, representing a decline of 71% (2020: 38% decline) as compared to the immediate preceding year. In addition, the utilisation rate of Guiyang Tech's existing hosting capacity is less than 50% since commencement and certain secured contracts have been delayed in terms of capacity requirement and timing. Management has further deferred the completion of the Expansion Project by another 2 years and Phase II is projected to generate revenue only in 2024 as compared to 2022 as projected in the prior financial year.

Accordingly, as at reporting date, the Group performed an impairment test for Guiyang Tech's non-current assets, which includes property, plant equipment (including construction-in-progress) of $193,218,000, right-of-use asset of $29,592,000 (Note 5) and prepayments related to the Expansion Project of $20,257,000 (Note 10). As at 30 June 2021, the total carrying amount, subject to impairment test, amounted to $243,067,000 ("Assets"). Management concluded that no impairment is required as the total recoverable amount of the Assets, based on the value-in-use ("**VIU**") computation, was higher than the toal carrying amount of the Assets as at 30 June 2021.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2021
(Amounts in thousands of Hong Kong dollar ("$'000"))

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

Impairment assessment

The key assumption used in the VIU computation are as follow:

	Group	
	2021	2020
Average utilisation rate		
– Year 1 to 2 (2020: Year 1 to 2)	61%	48%
– Year 3 to 6 (2020: Year 3 to 9)	94%	57%
– Year 6 onwards (2020: Year 10 onwards)	100%	100%
Post-tax discount rate	16.7%	17.0%

Utilisation rate

The utilisation rate is forecasted based on expected utilisation of hosting capacity, which is derived from management's expectations to complete the Expansion Project, secure new contracts from certain state-owned enterprises in the PRC, realise postponed orders from existing contracts and the overall economic environment of the IDC sector in PRC.

- Year 1 to 2: Sales are expected to increase, arising from the increasing demand in the IDC sector from state-owned enterprises in the PRC.
- Year 3 to 6: The utilisation rate is projected to increase to an average of 94% based on management's assessment of the economic recovery from COVID-19, increase in hosting capacity upon the completion of Phase II and Call Centre in 2023. Management expects secured contracts with state-owned enterprises in the PRC to commence and existing sales contracts with its major customers to be successfully renewed.
- Year 6 onwards: Management expects to reach full utilisation of hosting capacity due to the stable customer base.

Post-tax discount rate

Discount rate represents the post-tax weighted average cost of capital (WACC) considering market participants' view on the CGU regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2021
(Amounts in thousands of Hong Kong dollar ("$'000"))

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

Sensitivity analysis

Management performed sensitivity analysis of the utilisation rate and discount rate as follow:

2021	Changes in rate	Effect on the value in use increase/ (decrease)
		$'000
Utilisation rate	+10%	25,073
	–10%	(25,073)
Post-tax discount rate	+1%	(14,995)
	–1%	16,333

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NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2021
(Amounts in thousands of Hong Kong dollar ("$'000"))

5. RIGHT-OF-USE ASSET

	Property
	$'000
Cost	
As at 30 June 2019	–
Initial adoption of IFRS 16	39,680
As at 1 July 2019	39,680
Decrease arising from reassessment of lease liabilities	(3,676)
Currency translation differences	(1,497)
As at 30 June 2020	34,507
As at 1 July 2020	34,507
Decrease arising from reassessment of lease liabilities	(2,975)
Currency translation differences	3,359
As at 30 June 2021	34,891
Accumulated depreciation	
As at 1 July 2019	–
Depreciation during the financial year	2,572
Currency translation differences	(26)
As at 30 June 2020	2,546
As at 1 July 2020	2,546
Depreciation during the financial year	2,451
Currency translation differences	302
As at 30 June 2021	5,299
Net carrying amount	
As at 30 June 2021	29,592
As at 30 June 2020	31,961

The right-of-use asset represents a leasehold property located at Guizhou province of the PRC. In May 2014, a subsidiary, Guiyang Zhongdian Gaoxin Digital Technologies Limited ("**Guiyang Tech**") entered into operating lease agreement with the landlord, a state-owned enterprise, to lease the internet data centre ("**IDC**") premises for 20 years. As set out in the lease agreement, Guiyang Tech is entitled to a rental-free period since 2014 until receipt of notice from the landlord. The Group estimates future lease payments to the landlord, based on management's best estimates which are revised half-yearly. As at date of this report, the Group has not received payment notice from the landlord.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2021
(Amounts in thousands of Hong Kong dollar ("$'000"))

5. RIGHT-OF-USE ASSET (Continued)

The Group is restricted from sub-leasing, operating the premises for other purposes. There are no other restrictions or covenants imposed by the lease contracts.

The corresponding lease liabilities is disclosed in Note 18.

6. INTANGIBLE ASSETS

Group	Goodwill	Customer contract	Total
	$'000	$'000	$'000
Cost			
As at 1 July 2019, 30 June 2020 and 30 June 2021	124,779	36,338	161,117
Accumulated amortisation			
As at 1 July 2019	–	33,237	33,237
Charge for the financial year	–	3,101	3,101
As at 30 June 2020 and 30 June 2021	–	36,338	36,338
Accumulated impairment loss			
As at 1 July 2019	–	–	–
Impairment loss	124,779	–	124,779
As at 30 June 2020 and 30 June 2021	124,779	–	124,779
Net carrying amount			
As at 30 June 2020 and 30 June 2021	–	–	–

Goodwill on acquisition

Goodwill arose from the acquisition of the Group's subsidiary, Guiyang Tech in October 2015, and is allocated to the Group's IDC business as a cash-generating unit ("**CGU**").

In the prior financial year, goodwill was fully impaired and an impairment loss of $124,779,000 was recognised in the consolidated statement of profit or loss, based on fair value less costs of disposal, which was determined based on discounted cash flow projections approved by management.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2021
(Amounts in thousands of Hong Kong dollar ("$'000"))

14. TRADE AND OTHER PAYABLES

	Group		Company	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Current				
Trade payables	8,365	7,628	–	–
Other payables [(i)]	13,023	13,184	1,241	1,940
Accruals	16,726	9,794	646	883
Amount due to directors (non-trade) [(ii)]	165	1,156	–	–
Amount due to related parties (non–trade) [(iii)]	1,200	4,333	–	–
Amount due to a subsidiary	–	–	–	16,045
	39,479	36,095	1,887	18,868
Non-current				
Amount due to a director (non-trade) [(iv)]	–	2,405	–	–
	39,479	38,500	1,887	18,868

(i) Other payables consist of construction costs for the IDC Centre amounting to approximately $1,570,000 (2020: $1,431,000), interest payable on Bond 2 of $921,000 (2020: $Nil), interest payable on loans of $250,000 (2020: $2,127,000) and salary payable to employees of $81,000 (2020: $235,000).

(ii) Amount due to directors (non-trade) pertains to remuneration due to directors/former directors of the Company. These non-trade balances are interest-free, unsecured and repayable on demand.

(iii) Amount due to related parties (non-trade) pertains to balances due to a key management personnel of Guiyang Tech (2020: key management personnel of the Group) and companies controlled by this key management personnel. These balances are interest-free, unsecured and repayable on demand.

(iv) Amount due to a director of the Company (non-trade) was interest-free, unsecured and repayable after 30 June 2020.The Group has fully repaid this balance in August 2020.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2021
(Amounts in thousands of Hong Kong dollar ("$'000"))

14. TRADE AND OTHER PAYABLES (Continued)

Reconciliation of liabilities arising from financing activities

2021	As at 1 July 2020	Financing cash flows	Waiver of liabilities	Non-cash changes: Others*	As at 30 June 2021
	$'000	$'000	$'000	$'000	$'000
Amount due to directors (non-trade)					
– current	1,156	(271)	(720)	–	165
– non-current	2,405	–	–	(2,405)	–
Amount due to related parties					
– current	4,333	(3,133)	–	–	1,200
	7,894	(3,404)	(720)	(2,405)	1,365

2020	As at 1 July 2019	Financing cash flows	Non-cash changes: Others	As at 30 June 2020
	$'000	$'000	$'000	$'000
Amount due to directors (non-trade)				
– current	4,209	(253)	(2,800)	1,156
– non-current	–	625	1,780	2,405
Amount due to related parties				
– current	245	3,068	1,020	4,333
	4,454	3,440	–	7,894

* Settlement of amount owing to directors amounting to $2,405,000 via set-off with the proceeds from issuance of Bond 2 (Note 17).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2021
(Amounts in thousands of Hong Kong dollar ("$'000"))

15. PROVISION FOR WARRANTY

	Group	
	2021 $'000	2020 $'000
At beginning of the financial year	807	838
Reversal (Note 30)	(866)	–
Currency translation differences	59	(31)
At end of the financial year	–	807

The provision for warranty on sale of equipment was reversed upon the lapse of warranty period of 3 years.

16. BORROWINGS

	Interest rate	Due within 1 year	Due after 1 year but less than 5 years	Total
		$'000	$'000	$'000
Group				
2021				
Loan 4 (Unsecured) – Fixed rate	7.20%	2,402	2,390	4,792
2020				
Loan 1 (Unsecured) – Fixed rate	8.28%	4,914	–	4,914
Loan 2 (Unsecured) – Fixed rate	15.00%	–	10,887	10,887
Loan 3(i) (Unsecured) – Fixed rate	15.00%	–	10,073	10,073
Loan 3(ii) (Unsecured) – Fixed rate	12.00%	3,094	–	3,094
		8,008	20,960	28,968
Company				
2020				
Loan 3(ii) (Unsecured) – Fixed rate	12.00%	3,094	–	3,094

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2021
(Amounts in thousands of Hong Kong dollar ("$'000"))

16. BORROWINGS (Continued)

Loan 1
This loan is obtained by Guiyang Tech from a PRC bank to finance its working capital and is guaranteed by a related party. The loan had been fully repaid during current financial year.

Loan 2
The loan is due to a company controlled by a substantial shareholder of the Company ("Shareholder A"). The loan is unsecured and the loan had been restructured to Bond 2 (Note 17).

Loan 3
Loan 3(i) is due to Shareholder A and Loan 3(ii) is due to another shareholder ("Shareholder B"). Both loans are unsecured, not convertible.

Loan 3(i) was due on 30 November 2021 and was restructured to Bond 2 (Note 17).

Loan 3(ii) was due on 27 May 2020 but the balance was fully repaid and settled in August 2020 without any penalty. Upon repayment in August 2020, Shareholder B has also granted the Company with a waiver of outstanding interests of the bond issued in year 2017 ("Bond 1") and Loan 3(ii) included in other payables amounting to $245,000 and $277,000 respectively.

Loan 4
This loan was obtained by Guiyang Tech from a PRC bank to finance its working capital and is guaranteed by by a key management personnel of Guiyang Tech and his controlled entity. The loan is repayable on a half-yearly basis, commencing in September 2021 and is expected to be fully settled in March 2023.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2021
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16. BORROWINGS (Continued)

Reconciliation of liabilities arising from financing activities

2021	As at 1 July 2020	Financing cash flows	Non-cash changes: Foreign exchange movement	Non-cash changes: Reclassification from loans to Bond 2	As at 30 June 2021
	$'000	$'000	$'000	$'000	$'000
Loans					
– current	8,008	(5,606)	–	–	2,402
– non-current	20,960	2,226	464	(21,260)	2,390
	28,968	(3,380)	464	(21,260)	4,792

2020	As at 1 July 2019	Financing cash flows	Non-cash changes: Foreign exchange movement	Non-cash changes: Reclassification from Bond 1 to loans	Non-cash changes: Others *	As at 30 June 2020
	$'000	$'000	$'000	$'000	$'000	$'000
Redeemable convertible bonds [1]						
– current	13,220	–	–	(13,220)	–	–
Loans						
– current	–	–	–	3,094	4,914	8,008
– non-current	14,973	966	(191)	10,126	(4,914)	20,960
	28,193	966	(191)	–	–	28,968

* "Others" relates to the reclassification of non-current portion of the liabilities due to the passage of time based on the maturity dates.

[1] In November 2017, the Company issued Bond 1 at 12% interest per annum, denominated in Singapore dollar, at S$2,256,000 ("Nominal Value") to 2 individuals. In accordance with the terms of the agreement, the redemption price of Bond 1 is agreed, using fixed exchange rate between Hong Kong dollar and Singapore dollar. Consequently, the Nominal Value and redemption price are both agreed at $13,200,000 at inception. Upon maturity of Bond 1, the Company and the 2 individuals (Shareholder A and B) mutually agreed to restructure Bond 1 into HKD denominated loans (Loan 3(i) and Loan 3(ii)) with zero transaction costs on 26 November 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2021
(Amounts in thousands of Hong Kong dollar ("$'000"))

17. REDEEMABLE CONVERTIBLE BOND

	Group and Company	
	2021	2020
	$'000	$'000
Liability component on initial recognition	28,539	–
Redemption during the year (Note A)	(7,000)	–
Liability component subsequent to redemption	21,539	–
Accumulated amortisation of interest expense	2,035	–
Accrued coupon interest included in other payables	(921)	–
Liability component as at financial year end	22,653	–

On 7 October 2020, the Company issued a redeemable convertible bond ("Bond 2") to Shareholder A at 6% interest per annum (effective interest rate: 10.24% per annum), denominated in Hong Kong dollars, amounting to $31,060,000 ("Nominal Value"). Interest is repayable quarterly or on a deferred basis up to the maturity date. Bond 2 is repayable two years from the issue date at the Nominal Value, together with interests, or conversion into shares of the Company at the holder's option at any time after three months from the issue date until the maturity date at an agreed conversion rate of S$0.0011 per ordinary share (equivalent to $0.00616 at a fixed exchange rate). The Company has the right, at any time within the period commencing from the issuance of Bond 2 to maturity, to redeem Bond 2 at 100% of the Nominal Value, together with interests accumulated to date.

Note A

During the year, the Company exercised its redemption right and completed a partial redemption of $7,000,000 subsequent to the issuance of Bond 2.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2021
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17. REDEEMABLE CONVERTIBLE BOND (Continued)

Reconciliation of cash inflow from issuance of Bond 2:

	At inception $'000
Nominal Value of Bond 2	31,060
Repayment by way of set-off of the following liabilities:	
- Loan 2 (Note 16)	(11,187)
- Loan 3(i) (Note 16)	(10,073)
- Amount due to a director (Note 14)	(2,405)
- Accumulated interests payable of the Group's loans	(2,395)
Cash inflow arising from issuance of Bond 2	5,000
Represented by:	
Liability component on initial recognition, at fair value	28,539
Derivative financial instrument on initial recognition, at fair value	(4,743)
Equity conversion option on initial recognition (residual) (Note 25)	7,264
Nominal Value of Bond 2	31,060

At inception, the fair value of the liability component is determined using a market interest rate for an equivalent non-convertible bond. Management carried out an independent valuation of the redemption feature at inception. The residual amount, representing the value of the equity conversion component is recognised accordingly.

18. LEASE LIABILITIES

	Group	
	2021 $'000	2020 $'000
Lease liabilities		
– Non-current	63,818	57,006