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 2023 ("FY2023")

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 the financial year ended 30 June 2023 ("**FY2023**") (the "**Audited Financial Statements**") ("**Independent Auditor's Report**"). Unless otherwise defined, all capitalized terms used herein shall have the same meaning as ascribed to them in the Independent Auditor's Report and the Audited Financial Statements, which form part of the Company's Annual Report for FY2023, which is released on SGXNet on 13 October 2023.

A copy of the Independent Auditor's Report and an extract of the relevant Notes to the Audited Financial Statements are attached to this announcement for further information. Shareholders are advised to read this announcement together with the Independent Auditor's Report and the Audited Financial Statements in full. The Audited Financial Statements are presented in Hong Kong dollars ("**$**"), which is the functional currency of the Company.

The basis for the Disclaimer of Opinion is in relation to the following:

(i) conversion adjustments from generally accepted accounting principles in the People's Republic of China to international financial reporting standards;

(ii) impairment assessment of current and non-current assets relating to (a) property, plant and equipment and right-of-use asset, (b) the Expansion Project, (c) deferred tax assets, and (d) investment in subsidiaries;

(iii) validity and recoverability of trade and other receivables;

(iv) validity and accuracy of trade payables and other payables;

(v) accuracy of lease liabilities and right-of-use assets;

(vi) the appropriateness of record and disclosure of other income and other expenses;

(vii) adequate adjustment or disclosure of all significant subsequent events and transactions in the Audited Financial Statements;

(viii) adequate adjustment or disclosure relating to on-going litigations;

(ix) appropriateness of going concern assumption used in the preparation of the Audited Financial Statements; and

(x) whether the opening balances as at 1 July 2022 were fairly stated.

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 ("**Shareholder A**") to enable the Group to operate as a going concern and to meet its obligations as and when they fall due. Such financial support shall include not recalling for the aggregate balance owing to Shareholder A of $21,312,000 (which comprise borrowings of $4,018,000 (Note 13), liability component of the redeemable convertible bond of $15,178,000 (Note 14) and related interests of $1,516,000 and $600,000 respectively (Note 12) as at 30 June 2023), unless the Group has sufficient funds to pay other creditors in full. Subsequent to year, on 1 July 2023, the Group entered into an extension agreement with Shareholder A and agreed, *inter alia*, the extension of all loans and interests payable to Shareholder A to 1 July 2024.

(b) The Group is confident that Guiyang Tech will (i) be able to secure new contracts to achieve full capacity for Phase 1 in 2027 and (ii) increase average selling prices annually by 6% for all customers. Further, based on discussions with its major customers in the government sector, management is positive that the government related hosting projects will be renewed accordingly.

(c) The Group has obtained continuing financial support from a director to enable the Group to operate as a going concern and to meet its obligations as and when they fall due. Subsequent to the financial year, the Group received a working capital loan of $1,072,000 from the director.

(d) In relation to the Loan which was defaulted by Guiyang Tech (Note 13), management believed that the bank is willing to grant forbearance, upon settlement of quarterly interests owing to the bank, and remained confident that the bank will extend the repayment terms of the Loan by at least one year to March 2024.

(e) As disclosed in Note 5, 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 of the view that there will be no cash outflow required for lease payments for the next 12 months.

(f) Management has successfully negotiated for favorable payment terms with its former supplier providing bandwidth and utilities in the IDC premises and has agreed to further defer due date of the overdue amounts of $10,107,000 by another year to 31 July 2024.

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.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company. Shareholders and potential investors of the Company are advised to read this announcement and any further announcements by the Company carefully. Shareholders and potential investors of the Company 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 2023

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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 Mr Alex Tan, Chief Executive Officer, ZICO Capital Pte. Ltd. at 77 Robinson Road, #06-03 Robinson 77, Singapore 068896, telephone (65) 6636 4201.

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

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 67 to 136, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 30 June 2023, 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 of the Group and the statement of financial position of the Company. 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. Conversion adjustments

The Company's sole operating subsidiary, Guiyang Zhongdian Gaoxin Digital Technologies Limited ("Guiyang Tech") operates an internet data centre in Guiyang, Guizhou Province in the People's Republic of China ("PRC"). As part of the Group's annual financial close process, the financial statements of Guiyang Tech are adjusted to reflect conversion from generally accepted accounting principles in the PRC to international financial reporting standards ("IFRS Conversion Adjustments"). Owing to the departure of the Group's finance personnel, management was unable to particularise and track these IFRS Conversion Adjustments (including any reversal effects of certain of such adjustments) to the consolidated financial statements of the financial year ended 30 June 2023 ("FY2023") and had instead aggregated the financial effects of these IFRS Conversion Adjustments into one (1) single adjustment ("Aggregated Opening Adjustment") in the opening consolidated financial statements as of 1 July 2022. The Aggregated Opening Adjustment has the effect of adjusting the Group's beginning accumulated losses by approximately $23,368,000 and correspondingly the opening balances of various other accounting captions (including the currency translation reserve account) amounting to the same sum in the consolidated statement of financial position as at 1 July 2022.

Due to the lack of audit trail, we were unable to determine the veracity and appropriateness of the Aggregated Opening Adjustment affecting the various other accounting captions, which is material and pervasive, including the reasonableness of any reversal effects of the IFRS Conversion Adjustments pertaining to prior financial years. Among others, we were unable to assess the accuracy of the net currency translation movements of $1,739,000 for FY2023 as reflected in the consolidated statement of profit or loss and other comprehensive income as well as the consolidated statement of changes in equity. Consequently, we were unable to determine the overall resultant financial impact on the consolidated financial statements for FY2023.

Basis for Disclaimer of Opinion (Continued)

2. Impairment assessment of current and non-current assets

a) Property, plant and equipment and right of use asset – Phase I

Due to significant operating losses incurred by Guiyang Tech and a low utilisation rate of less than 50% of its existing hosting capacity ("Phase 1"), management performed an impairment assessment on the carrying amounts of property, plant and equipment and right-of-use asset attributable to Phase 1 of $19,249,000 and $14,952,000 respectively as at 30 June 2023. Management engaged an external valuer to carry out an impairment assessment by estimating the recoverable amount of Guiyang Tech, based on value-in-use ("VIU") computation. As disclosed in Note 4 to the financial statements, the key assumptions used in the VIU computation include, *inter alia*, (i) the ability to secure new contracts of substantial sums and to achieve full capacity for Phase I in 2027; and (ii) the ability to increase average selling prices by 6% for all customers. Based on the outcome of management's assessment, no impairment charge was required for Phase I.

However, in view of the significant recurring losses and persistently low utilisation rate, we were unable to obtain sufficient appropriate audit evidence to corroborate the reasonableness of the key assumptions used in the determination of the recoverable amount of Guiyang Tech based on the current information made available to us. Consequently, we were unable to determine whether the Group's carrying amounts of property, plant and equipment and right-of-use asset as at 30 June 2023 were fairly stated.

b) Expansion Project

In the prior financial year, the Group terminated its expansion project which includes the construction of an additional 1,500 racks, a call centre to improve response time to customers and the development of related software ("Expansion Project"). Pursuant to the termination, management engaged an external valuer to ascertain the salvage value of the Expansion Project, based on the repossession value using the depreciated replacement cost approach. The assets of the Expansion Project, in the existing state, were valued at $20,671,000 (2022: $23,369,000) ("Salvage Value") as at 30 June 2023, taking into consideration the current cost of replacement of the building and its improvements, less deductions for physical deterioration, obsolescence and optimisation (see Note 4). Accordingly, the Expansion Project was written down to the Salvage Value and an impairment of $941,000 (2022: $140,736,000) was charged to the consolidated profit or loss in FY2023.

As stated in our audit report for FY2022 (as also briefly described in item 10(b) below), we were unable to understand the business rationale for the termination of the Expansion Project, given the lack of documentary evidence and of satisfactory explanations from management. Further, we were unable to obtain sufficient appropriate audit evidence to assess the reasonableness and appropriateness of using the depreciated replacement cost approach and the key inputs used to compute the Salvage Value, based on the limited information provided to us. We were unable to obtain independently verifiable supporting evidence, or perform alternative audit procedures, to corroborate management's representations, *inter alia*, that all liabilities relating to the termination of the Expansion Project had been adequately accounted for in the consolidated financial statements. There were also no alternative audit procedures that we could perform to assess the financial impact of the termination in respect of the Group's liabilities arising from committed contracts and potential contingent liabilities.

Basis for Disclaimer of Opinion (Continued)

2. Impairment assessment of current and non-current assets (Continued)

c) Deferred tax assets

In the light of the matters highlighted above, we were unable to assess whether Guiyang Tech would be able to generate sufficient future profits against which its deductible temporary differences and unused tax losses can be utilised. Accordingly, we were also unable to determine whether the Group's deferred tax assets of $11,966,000 as at 30 June 2023 was fairly stated.

d) Investment in subsidiaries

As at 30 June 2023, the carrying amount of the Company's investment in subsidiaries, net of impairment, amounted to $28,057,000 which is entirely attributable to the investment in Guiyang Tech. Due to the factors discussed above, we were unable to determine the appropriateness of the basis of the impairment charge made by management during FY2023 amounting to $29,055,000 in the Company's financial statements, and whether further impairment charge was necessary to the carrying amount of the investment in subsidiaries.

3. Validity and recoverability of trade and other receivables

We have neither been able to obtain independently verifiable supporting evidence nor able to perform alternative audit procedures, due to the lack of subsequent receipts, to ascertain the validity and recoverability of Guiyang Tech's trade and other receivables amounting to $602,000 and $871,000 respectively as at 30 June 2023 (see Note 10).

Further, Guiyang Tech has a non-trade balance due from a related party of $5,076,000 (Note 10). We have not been able to obtain sufficient appropriate audit evidence to ascertain the validity and recoverability of the balance, due to the lack of independently verifiable supporting evidence. We were also unable to ascertain the veracity of the related party's unaudited financial statements provided to us for the purpose of assessing the financial position of the related party. Consequently, we were unable to determine whether any adjustments were necessary in respect of the Group's carrying amount of trade and other receivables to the extent of $6,549,000 as at 30 June 2023.

4. Validity and accuracy of trade payables and other payables

We were unable to obtain satisfactory explanations from management on the nature of and rationale for a cash receipt of RMB781,000 (equivalent to $844,000) from a supplier during FY2023, which was recorded as trade payable as at 30 June 2023, ostensibly relating to a purchase of a set of software in 2017. Further, we were also unable to perform alternative audit procedures to obtain information or explanations we considered necessary to assess (i) the validity of certain long overdue other payables aggregating $11,520,000, and (ii) the business rationale for certain advances amounting to $3,275,000 received from 3 corporate entities during FY2023, as disclosed in Note 12 to the financial statements.

Consequently, we were unable to satisfy ourselves as to the validity and accuracy of the Group's trade payables and other payables of $1,928,000 and $18,228,000 respectively as 30 June 2023.

Basis for Disclaimer of Opinion (Continued)

5. Lease liabilities and right-of-use assets

During the current financial year, management was of the view that it is unnecessary to and therefore did not perform reassessment of lease liabilities even though Guiyang Tech has been occupying premises on a rent-free basis since inception. We were unable to obtain independently verifiable supporting evidence, or perform alternative audit procedures, to corroborate management's judgement that a reassessment of lease liabilities is not required, given that Guiyang Tech has been, and is currently still, enjoying rent-free status up to the date of this report. If the rent-free period was extended for further 12 months from 30 June 2023, lease liabilities and right-of-use assets would have both been reduced by $3,729,000. Consequently, we were unable to determine whether the Group's lease liabilities and right-of-use assets amounting to $56,298,000 and $14,952,000 respectively as 30 June 2023 were fairly stated.

6. Other income and other expenses

During the financial year, Guiyang Tech recognised other income of $241,000 in relation to a reduction in value-added-tax ("VAT") payable for VAT fillings from December 2019 to July 2022. Based on the limited information made available to us, we were unable to determine the nature of and circumstances leading to the reduction in the VAT liability, and correspondingly the accuracy and completeness of the VAT payable recorded as at 30 June 2023 amounting to $7,226,000 as well as the occurrence of the other income recorded for FY2023. In addition, Guiyang Tech recognised other expenses of $833,000 relating to network security charges paid to a third party supplier ("Supplier") in the PRC. Based on an agreement dated January 2021 entered into between Guiyang Tech and the Supplier, and invoices received from the Supplier during FY2023, we were unable to substantiate the period over which the services were received, and whether the network security charges relate partially to prior year(s).

We were unable to conclude whether these transactions were appropriately recorded in the current financial year. Consequently, we were unable to determine the financial effects, if any, on the current and previous financial year(s) and whether adjustment and/or additional disclosures in the consolidated financial statement were necessary.

Furthermore, in view of the above concerns over the recording of liabilities, we were unable to determine the completeness of the liabilities recorded on the statements of financial position of the Group and of the Company as at 30 June 2023, and the corresponding effects on the profit or loss for FY2023 and/or accumulated losses as at 1 July 2022.

Basis for Disclaimer of Opinion (Continued)

7. Subsequent events

Up to the date of this report, we are unable to complete the subsequent events review procedures we consider necessary for the Group. Consequently, we were unable to ascertain whether all significant subsequent events and transactions have been adequately adjusted or disclosed in these financial statements.

8. On-going litigation

As disclosed in Note 36 to the financial statements, in May 2022, Guiyang Tech, a key management personnel and shareholder ("Shareholder B") and 8 other companies, all of whom were involved as borrowers and/or guarantors with a common legal representative and shareholder ("Individual Z"), (collectively, "Defendants") in some financial and security arrangements, were sued by a microfinance company in the PRC (the "Plaintiff") for default of loans owed by the Defendants. In September 2022, the court ruled in favour of the Plaintiff, and the Defendants were liable to repay at least RMB63,593,000, equivalent to $68,750,000 (which includes principal and interests accrued). As a result, a bank account of Guiyang Tech with a balance of RMB53,000 (equivalent to $57,000) had been frozen. Management assessed that no provision for liabilities was required in the Group's financial statements as at 30 June 2023 as Guiyang Tech was only one of the guarantors.

Further, in June 2023, two subsidiaries of the Company, together with its substantial shareholder ("Shareholder A"), were sued by a third-party shareholder ("Investor") in the PRC, claiming for an aggregate sum of $9,857,000 ("Compensation Sum") arising from disputes over the Investor's share investment in the Company. Shareholder A's assets were subsequently frozen to the extent of the same amount, pending the court's hearing. Management has appointed a PRC legal counsel and applied for an extension of the hearing date. As at the date of this report, the hearing date has not been fixed and accordingly, management concluded that the Group was unable to estimate and measure reliably the aggregate amount of the probable outflows and no provision for liabilities was recorded in the Group's financial statements as at 30 June 2023.

We were unable to ascertain the relationship between Individual Z and Shareholder B. We were also unable to obtain satisfactory explanations on the business rationale for entering into such guarantee agreements by Guiyang Tech and whether these agreements were properly authorised. Further, we were unable to obtain sufficient documentary evidence, nor were we able to perform alternative audit procedures, to corroborate management's representations and to satisfy ourselves that no provisions for liabilities were required for these actual or pending litigation and claims made against the Group. We were also unable to determine the completeness of the Group's litigation and claims (whether on-going, pending, impending or potential), and whether any corresponding provisions for liabilities and/or contingent liabilities would be required as at 30 June 2023. Consequently, we were unable to determine the financial effects, if any, on the current and previous financial year(s) and whether any adjustment and/or additional disclosures in the consolidated financial statement were necessary.

Basis for Disclaimer of Opinion (Continued)

9. Going concern assumption

As disclosed in Note 2 to the financial statements, the Group and the Company reported significant losses of $20,832,000 and $34,756,000 respectively and negative operating cash flows of $2,941,000 and $1,708,000 respectively for the financial year ended 30 June 2023. As at that date, the Group was in net liabilities position of $46,615,000 and the Group and the Company was in net current liabilities positions of $57,232,000 and $20,752,000 respectively. As of 30 June 2023, the Group's cash and bank balances available for use amounted to $1,330,000, while its current liabilities stood at $66,943,000, inclusive of a technically defaulted bank loan of $3,783,000 ("Loan"), which was guaranteed by Shareholder B and his controlled entity, as disclosed in Note 13 to the financial statements. As detailed above, the Group's sole operating subsidiary, Guiyang Tech, had terminated its Expansion Project in FY2022 and the utilisation rate of its existing hosting capacity is less than 50%. These conditions indicate the existence of multiple material uncertainties which may cast significant doubts on the abilities of the Group and the Company to continue as going concerns.

Notwithstanding the above, the Board of Directors have prepared the financial statement on a going concern basis based on the assumptions as disclosed in Note 2 to the financial statements, which include, *inter alia*, the continuing financial support from Shareholder A to enable the Group to operate as a going concern and to meet its obligations as and when they fall due. Such financial support shall include not recalling the aggregate balance owing to Shareholder A of $21,312,000 (comprising borrowings of $4,018,000, redeemable convertible bond of $15,178,000 and related interests payable of $2,116,000) as at 30 June 2023, unless the Group has sufficient funds to pay other creditors in full. Further, management is also confident of obtaining forbearance from the bank to extend the repayment of the Loan to March 2024.

As at the date of this report, we have not been able to obtain sufficient audit evidence regarding the financial ability of Shareholder A to provide the purported financial support to the Group and the Company to repay their debts as and when they fall due, particularly in light of the on-going litigation surrounding Shareholder A as described in item (8) above. In addition, we were unable to assess Shareholder B's financial ability to fulfil his obligations as guarantor of the Loan should the bank enforce the guarantee. Further, we were also unable to obtain sufficient appropriate evidence with regard to other assumptions, including management's representations, as described in Note 2 to the financial statements. In view of the foregoing, we were unable to satisfy ourselves as to the appropriateness of the going concern basis of accounting used in the preparation of these financial statements.

Basis for Disclaimer of Opinion (Continued)

10. Opening balances

Our independent auditor's report on the consolidated financial statements of the Group and the statement of financial position of the Company for FY2022 contained a disclaimer of opinion on those financial statements due to the following matters:

a. Insufficient appropriate audit evidence to conclude that no impairment charge was required for non-current assets attributable to Phase 1, which includes property, plant and equipment and right-of-use assets amounting to an aggregate carrying amount of $64,744,000 as at the end of FY2022;

b. Lack of satisfactory explanation and documentary evidence to understand management's business rationale to terminate the Expansion Project and insufficient appropriate audit evidence to ascertain if the write-down of the Expansion Project to its salvage value, resulting in an impairment charge and write-off of prepayments of $140,737,000 and $20,665,000 respectively, was appropriate. Further, we were unable to assess the financial impact of the termination in respect of the Group's liabilities arising from committed contracts and potential contingent liabilities;

c. Insufficient appropriate audit evidence to determine whether certain long outstanding non-trade payables included in the Group's trade and other payables balance of $30,306,000 relate to Phase 1 or the Expansion Project;

d. Insufficient appropriate audit evidence to conclude on the recoverability of the Group's deferred tax asset of $11,966,000, which relates to Guiyang Tech, as the utilisation of deductible temporary differences and unused tax losses is subject to the availability of future taxable profits;

e. Inability to determine whether any adjustment is required to the carrying amount of the Company's investment in subsidiaries, net of impairment, of $57,112,000 which is entirely attributable to the investment in Guiyang Tech;

f. Lack of satisfactory explanations from management on the business rationale and commercial substance of 3 separate transactions, resulting in other expenses recognised amounting to $2,114,000 for a set of equipment delivered in year 2018, other income from reversal of impairment charge in relation to prepayment of equipment of $8,898,000 and a waiver of debt from a bandwidth supplier of $551,000;

g. Inability to obtain independently verifiable supporting evidence to ascertain the recoverability of a balance due from a related party of $4,099,000;

h. Limitation of scope to complete subsequent events review procedures;

Basis for Disclaimer of Opinion (Continued)

10. Opening balances (Continued)

i. Insufficient appropriate audit evidence to satisfy ourselves on completeness of liabilities recorded as there were no provision made despite various on-going litigations and enforcement proceedings relating to claims made against Guiyang Tech, together with a key management personnel and 4 other parties; and

j. Inability to satisfy ourselves as to the appropriateness of the going concern basis of accounting used in the Group's and the Company's financial statements.

In view of the above matters remaining unresolved, we were unable to determine whether the opening balances as at 1 July 2022 were fairly stated. Since the opening balances as at 1 July 2022 entered into the determination of the financial performance, changes in equity and cash flows of the Group for FY2023, we were unable to determine whether adjustments might have been necessary in respect of the Group's financial statements and the Company's statement of financial position for FY2023. Our opinion for the current financial year's financial statements was also modified because of the comparability of current year's figures with the corresponding figures.

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 TO THE MEMBERS OF SINOCLOUD GROUP LIMITED (Continued)

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 2023

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 Company's sole operating subsidiary in the PRC, Guiyang Zhongdian Gaoxin Digital Technologies Limited ("Guiyang Tech") is principally engaged in providing internet data centre services ("IDC"). The details of other subsidiaries are shown in Note 6 to the financial statements.

The financial statements for the financial year ended 30 June 2023 were authorised for issue in accordance with a resolution of the Board of Directors on 13 October 2023.

2. FUNDAMENTAL ACCOUNTING CONCEPT

The Group and the Company reported a net loss of $20,832,000 and $34,756,000 (2022: $166,373,000 and $9,251,000) respectively and negative operating cash flows of $2,941,000 and $1,708,000 (2022: $6,179,000 and $2,819,000) respectively for the financial year ended 30 June 2023. As at that date, the Group was in net liabilities position of $46,615,000 (2022: $41,219,000) and the Group and the Company were in net current liabilities of $57,232,000 and $20,752,000 (2022: $56,577,000 and $28,748,000 respectively). As of 30 June 2023, the Group's cash and bank balances available for use amounted to $1,330,000 (2022: $150,000) while its current liabilities amounted to $66,943,000 (2022: $67,612,000). In addition, as disclosed in Note 13, the Group has defaulted on a working capital loan ("Loan") of $3,783,000 as of 30 June 2023 and the date of this report.

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 due to the following key considerations and assumptions:

(a) The Group has obtained continuing financial support from a substantial shareholder ("Shareholder A") to enable the Group to operate as a going concern and to meet its obligations as and when they fall due. Such financial support shall include not recalling for the aggregate balance owing to Shareholder A of $21,312,000 (which comprise borrowings of $4,018,000 (Note 13), liability component of the redeemable convertible bond of $15,178,000 (Note 14) and related interests of $1,516,000 and $600,000 respectively (Note 12) as at 30 June 2023), unless the Group has sufficient funds to pay other creditors in full. Subsequent to year, on 1 July 2023, the Group entered into an extension agreement with Shareholder A and agreed, *inter alia*, the extension of all loans and interests payable to Shareholder A to 1 July 2024.

(b) The Group is confident that Guiyang Tech will (i) be able to secure new contracts to achieve full capacity for Phase 1 in 2027 and (ii) increase average selling prices annually by 6% for all customers. Further, based on discussions with its major customers in the government sector, management is positive that the government related hosting projects will be renewed accordingly.

2. FUNDAMENTAL ACCOUNTING CONCEPT (Continued)

(c) The Group has obtained continuing financial support from a director to enable the Group to operate as a going concern and to meet its obligations as and when they fall due. Subsequent to the financial year, the Group received a working capital loan of $1,072,000 from the director.

(d) In relation to the Loan which was defaulted by Guiyang Tech (Note 13), management believed that the bank is willing to grant forbearance, upon settlement of quarterly interests owing to the bank, and remained confident that the bank will extend the repayment terms of the Loan by at least one year to March 2024.

(e) As disclosed in Note 5, 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 of the view that there will be no cash outflow required for lease payments for the next 12 months.

(f) Management has successfully negotiated for favorable payment terms with its former supplier providing bandwidth and utilities in the IDC premises and has agreed to further defer due date of the overdue amounts of $10,107,000 by another year to 31 July 2024.

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.

Basis of preparation

The financial statements are prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below and are drawn up in accordance with the International Financial Reporting Standards (“IFRSs”). The financial statements are presented in Hong Kong dollar (“$”) and all values are rounded to the nearest thousands ($’000) as indicated. The preparation of the financial statements in conformity with IFRSs requires management to exercise its judgement in the process of applying the Group’s accounting policies. It also requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management’s best knowledge of current events and actions, actual results may ultimately differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements and areas involving a higher degree of judgement or complexity, are disclosed in this Note.

Adoption of new and revised standards

On 1 July 2022, the Group adopted the new or amended IFRS and Interpretations of IFRS (“IFRIC”) that are mandatory for application from that date. Changes to the Group’s accounting policies have been made as required, in accordance with the transitional provisions in the respective IFRS and IFRIC. The adoption of these new or amended IFRS and IFRIC did not result in substantial changes to the Group’s and Company’s accounting policies and had no material effect on the amounts reported for the current or prior financial years.

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 2021	21,646	7,456	62,967	672	2,228	163,908	258,877
Additions	-	-	-	-	748	-	748
Currency translation differences	(552)	(190)	(1,591)	(17)	(78)	(4,138)	(6,566)
As at 30 June 2022	21,094	7,266	61,376	655	2,898	159,770	253,059
As at 1 July 2022	21,094	7,266	61,376	655	2,898	159,770	253,059
Additions	-	-	-	-	123	-	123
Currency translation differences	(1,615)	(556)	(4,700)	(51)	(221)	(12,236)	(19,379)
As at 30 June 2023	19,479	6,710	56,676	604	2,800	147,534	233,803
Accumulated depreciation							
As at 1 July 2021	20,733	3,955	39,303	446	1,222	-	65,659
Depreciation during the financial year	708	750	3,569	64	465	-	5,556
Currency translation differences	(545)	(124)	(1,103)	(13)	(45)	-	(1,830)
As at 30 June 2022	20,896	4,581	41,769	497	1,642	-	69,385
As at 1 July 2022	20,896	4,581	41,769	497	1,642	-	69,385
Depreciation during the financial year	5	695	1,821	59	288	-	2,868
Currency translation differences	(1,601)	(374)	(3,262)	(39)	(136)	-	(5,412)
As at 30 June 2023	19,300	4,902	40,328	517	1,794	-	66,841

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
Impairment loss							
As at 1 July 2021	-	-	-	-	-	-	-
Addition	200	-	-	-	-	140,736	140,936
Currency translation differences	(7)	-	-	-	-	(4,335)	(4,342)
As at 30 June 2022	193	-	-	-	-	136,401	136,594
As at 1 July 2022	193	-	-	-	-	136,401	136,594
Addition	-	-	-	-	-	941	941
Currency translation differences	(14)	-	-	-	-	(10,479)	(10,493)
As at 30 June 2023	179	-	-	-	-	126,863	127,042
Net carrying amount							
As at 30 June 2023	-	1,808	16,348	87	1,006	20,671	39,920
As at 30 June 2022	5	2,685	19,607	158	1,256	23,369	47,080

Construction in progress

Construction in progress relates to expansion project which includes the construction of an additional 1,500 racks, a call centre to improve response time to customers and the development of related software ("Expansion Project"). During the financial year, due to the termination of the Expansion Project in prior year, management engaged an external valuer to ascertain the salvage value of the Expansion Project, based on the repossession value using the depreciated replacement cost approach. The market value of the Expansion Project, in the existing state, was valued at $20,671,000 (2022: $23,369,000) ("Salvage Value"), taking into consideration of the current cost of replacement of the building and its improvements, less deductions for physical deterioration, obsolescence and optimisation. Consequently, the Expansion Project has been written down to its Salvage Value and an impairment of $941,000 (2022: $140,736,000) was charged to the consolidated profit and loss in the current year.

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

Impairment assessment of existing IDC Centre (Phase 1)

The Group has only 1 sole operating subsidiary, Guiyang Tech, which reported net loss before tax of $15,279,000 for the financial year ended 30 June 2023. The utilisation rate of Guiyang Tech's existing hosting capacity ("Phase 1") is less than 50% since commencement and certain secured contracts have been delayed in terms of capacity requirement and timing.

Accordingly, as at reporting date, the Group performed an impairment test for Guiyang Tech's non-current assets attributable to Phase 1, which includes property, plant equipment of $19,249,000 and right-of-use asset of $14,952,000 (Note 5). As at 30 June 2023, the total carrying amount, subject to impairment test, amounted to $34,201,000 ("Assets"). Management concluded that no impairment is required as the total recoverable amount of these Assets, based on the value-in-use ("VIU") computation, was higher than the total carrying amount of the Assets as at 30 June 2023.

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

	Group	
	2023	2022
Average utilisation rate for Phase 1 only:		
- Year 1	47%	45%
- Year 2	62%	100%
- Year 3	80%	100%
- Year 4	92%	100%
- Year 5 onwards	100%	100%
Annual growth rate in average selling price		
- Government sector	Increase by 6%	Increase by 13%
- Private sector	Increase by 6%	Increase by 15%
Discount rate	19%	17%

Average utilisation rate

The utilisation rate is forecasted based on management's expectations of the utilisation of the Assets. Management forecasted an increase in the utilisation rate on the assumption that Guiyang Tech was able to secure new contracts from certain state-owned enterprises in the PRC and realise certain postponed orders from existing contracts, including a general improvement of the overall economic environment of the IDC sector in the PRC, achieving 100% utilisation of Phase I in Year 5 (2022: full utilisation of Phase I in Year 2).

Average selling price

The growth rate of the selling price is forecasted based on current actual price and management's expectations based on historical trends.

Discount rate

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

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

Impairment assessment of existing IDC Centre– (Phase 1) Continued

Sensitivity analysis

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

2023	Changes in rate	Effect on the VIU computation: Increase / (Decrease)
		$'000
Utilisation rate	+10%	2,186
	-10%	(4,865) *
Growth rate of selling price	+1%	1,956
	-1%	(1,854) *
2022		
Utilisation rate	+10%	3,836
	-10%	(7,225) *
Growth rate of selling price	+1%	3,006
	-1%	(2,845) *

* The decrease would not result in any impairment charge as the lower VIU is still higher than the carrying amount of the Assets.

5. RIGHT-OF-USE ASSET

	Leasehold Property
	$'000
Cost	
As at 1 July 2021	34,891
Decrease arising from reassessment of lease liabilities (Note 15)	(8,961)
Currency translation differences	(882)
As at 30 June 2022	25,048
As at 1 July 2022	25,048
Currency translation differences	(1,919)
As at 30 June 2023	23,129
Accumulated depreciation	
As at 1 July 2021	5,299
Depreciation during the financial year	2,289
Currency translation differences	(204)
As at 30 June 2022	7,384

5. RIGHT-OF-USE ASSET (Continued)

	Leasehold Property
	$'000
Accumulated depreciation	
As at 1 July 2022	7,384
Depreciation during the financial year	1,408
Currency translation differences	(615)
As at 30 June 2023	8,177
Net carrying amount	
As at 30 June 2023	14,952
As at 30 June 2022	17,664

The right-of-use asset represents a leasehold property located at Guizhou province of the PRC. In May 2014, a subsidiary, Guiyang Tech entered into an operating lease agreement with the landlord, a state-owned enterprise, to lease the internet data centre ("IDC") premises for 20 years expiring in May 2034. As set out in the lease agreement, Guiyang Tech is entitled to a rent-free period 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.

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 15.

6. INVESTMENT IN SUBSIDIARIES

	Company	
	2023	2022
	$'000	$'000
Unquoted equity shares, at cost	60,166	60,166
Accumulated impairment loss	(32,109)	(3,054)
	28,057	57,112

The cost of investment in subsidiaries relate entirely to Guiyang Tech.

A) Impairment assessment

During the financial year, management performed an impairment review of the recoverable amount of its investment in Guiyang Tech as the subsidiary has been persistently making losses. An impairment loss of $29,055,000 (2022: Nil) was recognised for the financial year ended 30 June 2023 to write down the carrying amount of the cost of investment in Guiyang Tech to its recoverable amount. Management estimated the recoverable amount of Guiyang Tech based on its value-in-use ("VIU"), using discounted cash flows and key assumptions as disclosed in Note 4.

6. INVESTMENT IN SUBSIDIARIES (Continued)

B) Details of the subsidiaries are as follows:

Name of subsidiaries	Principal activities	Country / Region of incorporation and place of business	Proportion (%) of ownership interest	
			2023	2022
			%	%
Held by the Company				
SinoCloud Investment Holdings Limited (i) (ii)	Investment holding	BVI, Hong Kong	100	100
Held by SinoCloud Investment Holdings Limited				
SinoCloud Group (HK) Limited (i)	Management services	Hong Kong	100	100
SinoCloud Assets Management Company Limited (i)	Investment holding	BVI, Hong Kong	100	100
SinoCloud 01 Limited (i)	Investment holding	BVI, Hong Kong	100	100
Armarda International Inc (i)	Investment holding	BVI, Hong Kong	100	100
Held by SinoCloud Assets Management Company Limited				
SinoCloud Asset Management Limited (i)	Investment holding	Hong Kong	100	100
Zhong Yun Shi Dai Data Technology (Beijing) Co., Ltd. (中云时代数据科技(北京)有限公司) (ii)	Internet data centre services (inactive)	PRC	100	100
Held by SinoCloud 01 Limited				
SinoCloud 01 (HK) Limited (i)	Investment holding	Hong Kong	100	100
SinoCloud Data (Guiyang) Limited (i)	Investment holding	PRC	100	100
Guiyang Zhongdian Gaoxin Digital Technologies Limited (“贵阳中电高新数据科技有限公司) (“Guiyang Tech”) (ii)	Internet data centre services	PRC	60	60

(i) Not required to be audited by law of the country / region of incorporation.

(ii) Audited by Crowe Horwath First Trust LLP for the purpose of expressing an opinion on the consolidated financial statements.

C) Interest in subsidiary with non-controlling interests

	Proportion (%) of ownership		Group	
	2023	2022	2023	2022
	%	%	$’000	$’000
Guiyang Tech	40	40	(84,308)	(77,130)

6. INVESTMENT IN SUBSIDIARIES (Continued)

C) Interest in subsidiary with non-controlling interests (Continued)

The summarised financial information (before intra-group elimination) for a subsidiary with non-controlling interests that are material to the Group is as follows:

	Guiyang Tech	
	2023	2022
	$'000	$'000
Statement of Financial Position		
Current assets	7,512	9,045
Non-current assets	66,837	76,708
Current liabilities	(63,109)	(40,614)
Non-current liabilities	(56,221)	(56,768)
Net liabilities	(44,981)	(11,629)
Statement of Profit and Loss		
Revenue	7,336	13,445
Other income	569	14,952
Expenses	(22,117)	(184,932)
Loss for the financial year	(14,212)	(156,535)
Loss attributable to owners of the company	(8,527)	(93,921)
Loss attributable to the non-controlling interests	(5,685)	(62,614)
Other Comprehensive Income		
Other comprehensive (loss) / income attributable to owners of the company	(2,240)	2,230
Other comprehensive (loss) / income attributable to non-controlling interests	(1,493)	1,485
Other comprehensive income for the financial year	(3,733)	3,715
Total Comprehensive Loss		
Total comprehensive loss attributable to owners of the company	(10,767)	(91,691)
Total comprehensive loss attributable to non-controlling interests	(7,178)	(61,129)
Total comprehensive loss for the financial year	(17,945)	(152,820)
Statement of Cash Flows		
Net cash inflow from operating activities	405	863
Net cash outflow from investing activities	(128)	(748)
Net cash inflow	277	115

7. INVESTMENT IN ASSOCIATE

Details of the Group's associate is as follows:

Name of associate	Principal activities	Country / Region of incorporation and place of business	Proportion of the Group's effective interest (%)	
			2023	2022
			%	%
Held by the Company				
China Satellite Mobile Communications Group Limited ("CSMCG")	Dormant (Note A)	BVI, Hong Kong	45	45

Note A: CSMCG remained dormant since prior years and was struck off on 4 July 2023.

8. DEFERRED TAX ASSETS

The components and movement of deferred tax assets during the financial year prior to offsetting are as follows:

Deferred tax assets	At beginning and end of the financial year
	$'000
2023 and 2022	
Net difference between net carrying amount of property, plant and equipment and their tax base	(1,053)
Capitalised expenditures	(1,997)
Allowance for impairment	11,092
Unused tax losses	2,488
Other adjustment	1,436
	11,966

Unused tax losses

The PRC subsidiaries have tax losses of approximately $24,862,000 (2022: $22,854,000) that is available for offset against its future taxable profits subject to the agreement of the tax authorities and compliance with certain provisions of tax legislation. These tax losses expire by end of 5 years from the losses recorded.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised. The amount of taxation for which no deferred tax assets are recognised amounted to $5,083,000 (2022: $2,049,000). The board of directors assessed that no deferred tax assets are recognised in respect of these items as it is not probable that taxable profits of the subsidiaries will be available against which the deductible temporary differences can be utilised.

9. DUE FROM SUBSIDIARIES (NON-TRADE)

	Company	
	2023	2022
	$'000	$'000
Due from subsidiaries	215,988	215,988
Less: Expected credit losses [(1)] (Note 34(iii))	(215,988)	(215,988)
	-	-

Amounts due from subsidiaries that are not expected to be realised within twelve months after the reporting period are classified as non-current. These amounts are interest-free, unsecured and do not have fixed terms of repayment.

(1) Expected credit losses recognised are based on the assumption that repayment of the balances is not likely, if demanded at the reporting date. As at 30 June 2023, Guiyang Tech and SinoCloud Asset Management Limited ("SCAML") are in net current liabilities positions of $55,520,000 (2022: $31,569,000) and $17,388,000 (2022: $17,386,000) respectively and have significant difficulties to make repayments.

10. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2023	2022	2023	2022
	$'000	$'000	$'000	$'000
Trade receivables				
- Third parties	18,249	20,973	-	-
- Related party	5,404	5,923	-	-
Less: Expected credit losses (Note 34[(iii)])	(23,051)	(25,304)	-	-
	602	1,592	-	-
Other receivables	871	3,220	-	-
Refundable deposits	113	110	-	-
Due from a related party (non-trade) [(i)]	5,076	4,099	-	-
	6,662	9,021		-
Prepayments	281	131	187	81
	6,943	9,152	187	81

(i) Due from a related party (non-trade)

The amount due from a related party represents a company controlled by a key management personnel and a substantial shareholder of the Group ("Shareholder B"). This non-trade balance is interest-free, unsecured and repayable on demand.

11. DERIVATIVE ASSET

	Group and Company	
	2023	2022
	$'000	$'000
Redemption option – FVTPL	957	1,733

As disclosed in Note 14, the redemption option relates to the Company's right, at any time within the period commencing from the issuance of the Redeemable Convertible Bond to maturity, to redeem the Bond at 100% of the Nominal Value, together with interests accumulated to date. The Company measures the redemption option at fair value, using the trinomial tree option pricing model. The decrease in the fair value during the year was reported in the consolidated statement of profit or loss as "Fair value loss on derivative asset".

12. TRADE AND OTHER PAYABLES

	Group		Company	
	2023	2022	2023	2022
	$'000	$'000	$'000	$'000
Current				
Trade payables [(i)]	1,928	424	-	-
Other payables [(ii)]	18,228	16,576	1,914	1,176
VAT payable	7,226	8,327	-	-
Accruals	5,010	1,578	1,587	1,072
Due to directors (non-trade) [(iii)]	970	414	232	414
Due to related parties (non-trade) [(iv)]	2,170	2,987	-	-
Due to subsidiary [(v)]	-	-	2,989	4,262
	35,532	30,306	6,722	6,924

(i) Included in trade payables is an amount of RMB781,000 (equivalent to $844,000) representing a cash receipt from a supplier in connection with the purchase of software in 2017 during the financial year.

(ii) Other payables of the Group consist of construction costs incurred by Guiyang Tech amounting to approximately $1,413,000 (2022: $1,530,000), bandwidth fees payable of $10,107,000 (2022: $11,031,000) which were both long overdue balances, salary payable of $771,000 (2022: $567,000), interest payable on Bond of $1,516,000 (2022: $914,000) and on borrowings of $600,000 (2022: $173,000) owing to Shareholder A.

Included in the balance is an aggregate balance of $3,275,000 (2022: $570,000) relating to advances received from 3 (2022: 1) corporate entities.

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

(iv) Amount due to related parties (non-trade) pertains to balances due to Shareholder B and companies controlled by Shareholder B. These balances are interest-free, unsecured and repayable on demand.

(v) Amount due to a subsidiary (non-trade) pertain to payment on behalf by a subsidiary. These balances are interest-free, unsecured and repayable on demand.

12. TRADE AND OTHER PAYABLES (Continued)

Reconciliation of liabilities arising from financing activities

	As at 1 July	Financing cash flows	As at 30 June
	$'000	$'000	$'000
2023			
Due to directors (non-trade), current	414	556	970
Due to related parties (non-trade), current	2,987	(555)	2,432
	3,401	1	3,402
2022			
Due to directors (non-trade), current	165	249	414
Due to related parties (non-trade), current	1,200	1,787	2,987
	1,365	2,036	3,401

13. BORROWINGS

	Interest rate	Due within 1 year	Due after 1 year but less than 5 years	Total
		$'000	$'000	$'000
Group				
2023				
Bank loan (i) – Fixed rate	7.20%	3,783	-	3,783
Shareholder's loans (ii) – Fixed rate	6.00% - 10.00%	4,018	-	4,018
		7,801	-	7,801
2022				
Bank loan (i) – Fixed rate	7.20%	4,671	-	4,671
Shareholder's loans (ii) – Fixed rate	6.00% - 10.00%	-	4,584	4,584
		4,671	4,584	9,255

(i) Bank loan

This loan was obtained by Guiyang Tech from a PRC bank to finance its working capital and was guaranteed by a substantial shareholder of the Company, who is also a key management personnel of Guiyang Tech ("Shareholder B") and his controlled entity ("Guarantors"). During the financial year, Guiyang Tech extended the overdue facility and agreed on the repayment in 3 equal installments of RMB500,000 (equivalent to $541,000) in June 2023, September 2023 and December 2023, with the remaining balance of approximately RMB1,999,000 (equivalent to $2,160,000) to be settled in full at maturity in March 2024.

Guiyang Tech has defaulted on the repayment of the first two installments, which remained unrectified as of the date of this report. Management believed that the bank is willing to grant forbearance, upon settlement of quarterly interests owing to the bank, and remained confident that the bank will extend the repayment terms of the Loan by at least one year to March 2024.

13. BORROWINGS (Continued)

(ii) Shareholder's loans

The loans are due to a substantial shareholder of the Company ("Shareholder A"). The loans are unsecured, bear interests ranging from 6% to 10% per annum, and repayable from 1 month to 2 years. Subsequent to reporting date, Shareholder A has agreed to extend the due dates to 1 July 2024.

Reconciliation of liabilities arising from financing activities

		Financing cash flow		Non-cash changes			
	As at 1 July	Drawn down	Repayment	Offset arrangement with rights issue (i)	Foreign exchange movement	Others(ii)	As at 30 June
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2023							
Loans							
- current	4,671	1,853	(549)	(2,419)	(339)	4,584	7,801
- non-current	4,584	-	-	-	-	(4,584)	-
	9,255	1,853	(549)	(2,419)	(339)	-	7,801
2022							
Loans							
- current	2,402	-	-	-	(121)	2,390	4,671
- non-current	2,390	4,584	-	-	-	(2,390)	4,584
	4,792	4,584	-	-	(121)	-	9,255

(i) Details of rights issue are disclosed in Note 16.

(ii) Others relates to the reclassification of the non-current portion of the liabilities due to passage of time based on the maturity dates.

14. REDEEMABLE CONVERTIBLE BOND

	Group and Company	
	2023	2022
	$'000	$'000
Liability component on initial recognition	28,539	28,539
Redemption (Note A)	(7,000)	(7,000)
Subscription of rights issue (Note B)	(8,000)	-
Liability component subsequent to redemption	13,539	21,539
Fair value remeasurement on convertible bond	(2,094)	-
Accumulated amortisation of interest expense	6,715	4,463
Accrued coupon interest included in other payables	(2,982)	(2,364)
Liability component as at financial year end	15,178	23,638

15. LEASE LIABILITIES

	Group	
	2023	2022
	$'000	$'000
Lease liabilities		
- Current	77	-
- Non-current	56,221	56,768
	56,298	56,768

In May 2014, a subsidiary, Guiyang Tech, entered into operating lease agreement with the landlord, a state-owned enterprise, to lease the IDC premises for 20 years. As set out in the lease agreement, rental charges for the first 10 years are fixed ("Fixed Rent") and rental charges for 11th year and beyond shall be based on prevailing market rent and subject to mutual agreement ("Revised Rent"). In principle, the Revised Rent shall be no more than 50% higher than the Fixed Rent. In addition, Guiyang Tech is also entitled to a rental-free period since 2014 until receipt of notice from the landlord. The Group recognises right-of-use asset (Note 5) and corresponding lease liabilities according to IFRS16, based on management's best estimates which are revised half-yearly.

The lease expenses amounting to $223,000 (2022: $192,000) recognised in the profit or loss (Note 27) during the year represents low value asset lease contracts.

Other than above mentioned, there is no potential exposure of future cash flows that are not included in lease liabilities as at 30 June 2023.

Reconciliation of liabilities arising from financing activities

			Non-cash changes			
	As at 1 July 2022	Financing cash flows	Accretion of interest (Note 28)	Lease reassessment	Foreign exchange movement	As at 30 June 2023
	$'000	$'000	$'000	$'000	$'000	$'000
2023						
Lease liabilities						
- non-current	56,768	-	4,017	-	(4,487)	56,298
2022						
Lease liabilities						
- non-current	63,818	-	4,747	(8,961)	(2,836)	56,768

26. OTHER INCOME

	Group	
	2023	2022
	$'000	$'000
Waiver of liabilities [1]	-	5,262
Reversal for impairment of prepayment	-	8,898
Waiver of debt from bandwidth supplier	-	551
VAT refund	241	-
Others	2	15
	243	14,726

[1] In previous financial year, the waiver of amounts due to directors in relation to salary of key management personnel, directors' salary and directors' fees amounting $127,000 as 5 of the Group's key management personnel and directors have agreed to reduce their remuneration for prior years. In addition, other payables and accruals amounting to $5,135,000 were waived by the counterparties during the financial year ended 30 June 2022.

27. OTHER EXPENSES

	Group	
	2023	2022
	$'000	$'000
Entertainment expenses	227	560
Legal and professional fees	1,205	1,110
Audit fees		
- auditors of the Company	1,513	955
- other auditors	156	-
Utilities *	8,327	2,336
Purchase of equipment	-	2,114
Low value asset lease expenses	223	192
Network security fees	1,265	437
Bad debt written off	-	359
Others	1,454	394
	14,370	8,457

* Included in the balance is an amount relating to electricity back-charges billed by the vendor in the current financial year amounting to $3,246,000.

35. FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(i) Fair value of financial instruments that are carried at fair value (Continued)

For financial instruments not measured at fair values, their carrying amount are a reasonable approximation of fair value. There have been no transfers from Level 1 and Level 2 to Level 3 during the reporting period.

The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and make assumptions that are based on market conditions existing at each reporting date as follows:

Derivative asset (Note 11): the redemption option is measured using the trinomial tree option pricing model to value the embedded derivatives, with and without the redemption option, and the difference of both amounts is attributed to the redemption option.

Redeemable convertible bond (Note 14): the redemption option is measured using current risk free rate and credit spread based on S&P Capital IQ Credit Risk Pricing Model to value the convertible bond.

Fair value hierarchy (Continued)

Where a valuation technique for the financial instruments is based on significant unobservable inputs, such instruments are classified as Level 3.

Borrowing (Note 13) and non-listed redemption convertible bonds (Note 14): Fair value is estimated by using a discounted cash flow model based on market incremental borrowing rate for similar types of borrowing arrangement at reporting date.

36. ON-GOING LITIGATION

a) In June 2020, Guiyang Tech, a key management personnel and shareholder (Shareholder B, as defined in Note 13), together with 8 other companies, entered into several loan guarantee agreements to act as guarantors for a loan period of 1 year, up to a maximum of RMB60 million granted by a PRC microfinance company (“Plaintiff”) to 8 technology companies in Jiangsu province with a common legal representative and shareholder (“Individual Z”) (collectively, the “Borrowers”). The other guarantors / pledgors are also companies in which Individual Z is the legal representative and shareholder.

In May 2022, the Plaintiff initiated legal proceedings against the Borrowers and all the guarantors (collectively, the “Defendants”) claiming for repayment of principal and interests accrued. On 26 September 2022, a court in the PRC ruled in favour of the Plaintiff and ordered the Defendants to repay at least RMB 63,593,000 (equivalent to $68,750,000). As a result, a bank account of Guiyang Tech with a balance of RMB53,000 (equivalent to $57,000) had been frozen. Management assessed that no provision for liabilities was required in the Group’s financial statements as at 30 June 2023 as Guiyang tech was only one of the guarantors.

36. ON-GOING LITIGATION (Continued)

b) On 15 June 2023, an individual shareholder of the Company ("Investor") initiated a civil proceeding in a Beijing district court against 2 of the Company's subsidiaries and a substantial shareholder of the Company (Shareholder A, as defined in Note 13) for an alleged breach of a commitment letter dated 18 August 2021 in which a subsidiary of the Group agreed to buy-back the Company's shares owned by the Investor, acquired through a private placement in 2021.

The Investor claimed for an aggregate sum of RMB9,118,000, equivalent to $9,857,000 ("Compensation Sum"), which mainly comprise of consideration paid for the Company's shares of S$1,567,000 and compensation costs of RMB200,000. Subsequent to year-end, on 20 July 2023, the court granted the Investor's application to seize, impound or freeze Shareholder A's assets to the same amount, pending the court's hearing. Management has appointed a PRC legal counsel and applied for an extension of the hearing date. As of the date of this report, the hearing date has not been fixed and accordingly, management concluded that the Group was unable to estimate and measure reliably the aggregate amount of the probable outflows and no provision for liabilities was recorded in the Group's financial statements as at 30 June 2023.