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

RESPONSE TO QUERIES FROM SGX

The board of directors (the "**Board**") of SinoCloud Group Limited (the "**Company**", and together with its subsidiaries, the "**Group**") refers to the Company's announcement dated 8 February 2021 in relation to the unaudited financial results for the second quarter ended 31 December 2020 ("**Q2FY2021**") (the "**Announcement**"). The Board wishes to inform that Singapore Exchange Regulation Pte Ltd ("**SGX**") had raised some queries on the Announcement and the Company would like to announce its responses below.

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

SGX Query 1

We note that majority of the current liabilities of the Group comprise of trade and other payables.

(i) Please disclose a breakdown of trade and other payables amounting to HK$42.4 million as at 31 December 2020.

(ii) For other payables, please disclose the aging and nature of these other payables and whether the counterparties are related parties.

Company's Response

(i) Below is the breakdown of trade and other payables amounting to HK$42.4 million as at 31 December 2020:

	HK$'million
Trade payables	
- Accrual for subcontracting fees for IDC projects in the PRC	7.6
- Accrual for current portion of lease liabilities of internet data centre in the PRC[(1)]	3.3
	10.9
Accruals	
- Bandwidth and energy saving service for IDC operations in the PRC	13.7
Other payables	
- PRC value added tax[(2)]	7.9
- Office overhead and related expenses in PRC	2.2
- Office overhead and related expenses in Hong Kong	0.3
- Deposits received in respect of placement exercise	5.0
- Interest payable for loan and convertible bond issued to controlling shareholder of the Company	0.9
	16.3
Amount due to directors	0.3
Amount due to related parties	1.2
Total	**42.4**

Notes:

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

(2) Value added tax ("**VAT**") payable in the PRC amounted to HK$7.9 million, out of which only HK$0.1 million is required to be settled, while the remaining balance of HK$7.8 million arose from accounting adjustments (i.e. International Financial Reporting Standard ("**IFRS**") adjustments against PRC GAAP as the accounts of GYZD have been prepared based on PRC GAAP). Such VAT will only be required to be paid when sales revenue is collected by GYZD, along with the issuance of the respective VAT receipts.

(ii) Please see aging of the other payables as follows:

	Current	**1 to 30 days**	**31 to 60 days**	**More than 60 days**	**Total**
	HK$'M	**HK$'M**	**HK$'M**	**HK$'M**	**HK$'M**
ACCRUALS					
Accruals for bandwidth and energy saving service for IDC operations in the PRC	Not applicable				13.7
OTHER PAYABLES					
PRC value added tax	0.1	0.1	0.1	7.6	7.9
Office overhead and related expenses in PRC	0.2	0.2	0.2	1.6	2.2
Office overhead and related expenses in Hong Kong	0.1	-	-	0.2	0.3
Deposits received in respect of placement exercise	Not applicable				5.0
Interest payable for loan and convertible bond issued to controlling shareholder of the Company(1)	Not applicable				0.9
OTHERS					
Amount due to directors(1)	0.1	0.1	0.1	-	0.3
Amount due to related parties(1)	-	-	-	1.2	1.2
Total					**31.5**

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

SGX Query 2

Given the Group's current liabilities of HK$62.4 million and cash and bank balance of only HK$2.1 million and noting that the Company incurred losses of HK$6.6 million for the 6 months ended 31 December 2020, please disclose the pro-active actions which management plans to take to ensure that the Group's financial position remains strong.

Company's Response

As at 31 December 2020, the Group's current liabilities of HK$62.4 million comprised the following:

	HK$'million
Trade and other payables[(1)]	42.4
Contract liabilities	6.0
Provision for warranty	0.9
Income tax payable[(2)]	7.8
Borrowings	5.3
	62.4

Notes:

(1) Please refer to response to SGX Query 1 above for detailed listing of trade and other payables.
(2) Income tax payable relates to PRC income tax arising from IFRS adjustment against PRC GAAP (as the accounts of GYZD have been prepared based on PRC GAAP). No such tax is required to be settled as GYZD is loss making (based on accounts of GYZD prepared based on PRC GAAP) in 2020.

Out of the current liabilities amounting to HK$62.4 million, the management of the Company does not expect the following items amounting to an aggregate of HK$51.1 million (82% of total current liabilities) to be made payable by the Group within the next 12 months from 31 December 2020, reasons as set out below:

(a) *Under Trade and Other Payables*

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

(ii) Accruals for bandwidth and energy saving service for IDC operations in the PRC of **HK$13.7 million**. GYZD has yet to receive the supplier invoice for the aforesaid service and the management expects that the payment for such sevice fee can be extended by the service provider.

(iii) PRC value added tax of **HK$7.9 million** arose largely due to IFRS adjustments, out of which only HK$0.1 million is required to be settled, while the remaining balance of HK$7.8 million arose from accounting adjustments (i.e. IFRS adjustments against PRC GAAP as the accounts of GYZD have been prepared based on PRC GAAP). Such VAT will only be required to be paid when sales revenue is collected by GYZD, along with the issuance of the respective VAT receipts.

(iv) Deposits received in respect of placement exercise of **HK$5.0 million** was used toward subscription for new shares subsequent to Q2FY2021, in January 2021, and recorded by the Company and the Group in the share capital account in January 2021.

(v) Interest payable for loan and convertible bond issued to controlling shareholder of the Company (being Mr Lam Cho Ying Terence Joe ("**Mr. Lam**") amounting to **HK$0.9 million**. The management intends to negotiate with Mr. Lam on extension for payment of such interest payable, and expects to receive continued financial support from Mr. Lam.

(vi) Amount due to related parties of **HK$1.2 million** has no fixed repayment date. The management intends to negotiate with the related parties on extension for payment of such amount payable, and expects to receive continued financial support from the related parties.

(b) Contract liabilities of **HK$6.0 million** relate to advance payment received by GYZD in respect of a government contract secured by GYZD. The amount will be recorded as revenue once the performance of contract is completed.

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

(d) In respect of the borrowings of **HK$5.3 million**, the Company will engage in discussions with the bank on extension of the repayment date of the loan.

Further to the above, the Company had, in January 2021, completed the Placement and raised net proceeds of HK$9.88 million ("**Placement Proceeds**"). As announced by the Company on 12 January 2021, the Company had utilised HK$6.28 million of the Placement Proceeds for partial redemption of convertible bond and repayment of interest payable, as well as payment of general corporate and administrative purposes. The Group is currently exploring alternatives to further strengthen its financial position, in addition to its current cost cutting measures to reduce operating costs and expenses.

Following the approval of the shareholders of the Company for the proposed diversification of the Group's existing business to include new businesses (which comprise tourism, food and beverage, and entertainment), the management has commenced exploring potential opportunities in the new businesses, to create new revenue stream for the Group. The Company may consider undertaking further fundraising exercises to strengthen its financial position.

The COVID-19 pandemic created substantial adverse impact on global economy, including the Group's IDC business in PRC. A downward trend of service fees as well as customer demand continues, resulting in the decrease in revenue reported for Q2FY2021. Notwithstanding the foregoing, the Group (through GYZD) secured new orders subsequent to Q2FY2021 which will enable GYZD to partially fill up rack capacity. In addition, GYZD has resumed negotiations and discussions with its potential customers and local government, which barring unforeseen circumstances, will enable the Group to increase its revenue and improve its cash flow position in the next 12 months from 31 December 2020.

SGX Query 3

Please disclose the Board's assessment on:

(i) the Company's ability to operate as a going concern;

(ii) whether the Company's current assets are adequate to meet the Company's short term liabilities of HK$62.4 million (including its bases of assessment); and

(iii) how the Company intends to fulfil its significant payment obligations in the next 12 months. Where the Company has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Company is on track to fulfilling these obligations.

Company's Response

(i) The Board is of the view that the the Company and the Group are able to continue as a going concern, on the bases of the following:

- the Board is of the view that the Group's key operating subsidiary in the PRC, GYZD, is able to continue as a going concern, having considered factors including, but not limited to, the ability of GYZD to (i) enjoy rent-free period extension from its landlord; and (ii) continuous deferment of payments to its key suppliers, in particular, those providing bandwidth and utilities to its IDC business, to extend its credit terms and to defer payments to 2022;

- GYZD had secured a two-year government contract worth HK$5.8 million per annum, at the end of 2020, and is expected to contribute positively to the financial performance of the Group in the financial year ending 30 June 2021 and 30 June 2022;

- the Group had received and continues to receive financial support and funding from its related parties, controlled by a key management personnel of the Group, to enable the Group to operate as a going concern and to meet its obligations as and when they fall due. The balance owing to this key management personnel and companies controlled by him amounted to HK$1.2 million as at 31 December 2020;

- the Group had received and continues to receive financial support and funding from the Company's controlling shareholder, Mr. Lam, who has aggregate interests of approximately 21.59% in the Company as of the date of this announcement. In addition, pursuant to the terms of the convertible loan agreeement, the accrued and unpaid interest on the Convertible Bond extended to Mr. Lam can be converted into shares of the Company upon maturity; and

- the Group is able to postpone the development projects including the Phase II development, the construction of a call centre, and certain software development projects, hence postponing the associated capital commitment of approximately HK$122 million.

(ii) Based on the Group's financial statements as at 31 December 2020, the Group's current assets amounting to HK$31.5 million are lower than (and are accordingly not adequate to meet) its current liabilities of HK$62.4 million. However, as mentioned under the Company's response to SGX Query 2, approximately HK$51.1 million of the current liabilities consist of items which are either not required to be settled within the next 12 months or may be extended as and when they fall due. In addition, the Company expects to continue to receive financial support and funding from its controlling shareholder (being Mr. Lam) and the related parties, as mentioned in point (i) above.

(iii) Please see response in point (ii) above.

By Order of the Board

Chan Andrew Wai Men
Chairman and Chief Executive Officer
17 February 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.