

**-RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (“SIAS”) IN
RESPECT OF THE COMPANY’S ANNUAL REPORT 2021**

The board of directors (the “**Board**” or the “**Directors**”) of SinoCloud Group Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) refers to the Annual Report of the Company (“**Annual Report 2021**”) for the financial year ended 30 June 2021 (“**FY2021**”) and the Notice of Annual General Meeting which was issued on 13 October 2021. The following is the response from the Board to the questions received from SIAS.

Unless otherwise defined, all capitalised terms in the Company’s response shall have the same meaning as ascribed to them in the Annual Report 2021.

QUESTION 1

On 13 October 2021, the Company announced that the independent auditor has issued a disclaimer of opinion on the Group’s audited financial statements for the financial year ended 30 June 2021.

*The basis for the disclaimer of opinion is in relation to (a) impairment assessment of property, plant and equipment (“**PPE**”), right-of-use asset and prepayments; (b) recoverability of deferred tax asset; and (c) impairment assessment of investment in subsidiaries. The basis for disclaimer of opinion can be found on pages 62 and 63 of the annual report.*

The auditor has also highlighted material uncertainty related to going concern, as follows:

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).

*These matters are also the subject of a SGX RegCo query which the Company has responded to on 18 October 2021 (“**18 October 2021 Announcement**”). The Company’s responses to SGX RegCo’s query can be found here:*

<https://links.sgx.com/FileOpen/20211018%20SinoCloud%20-%20ann%20on%20response%20to%20SGXqueries%20final.ashx?App=Announcement&FileID=687227>

- (i) Can the audit committee (“**AC**”) help shareholders understand the level of cooperation given by management to the auditors?** *It was disclosed that management could not provide sufficient documentary evidence from third party sources to the auditors on the revenue forecast and the underlying assumptions used in the discounted cash flow projection (“**DCF**”). As a result, the auditors were unable to obtain sufficient appropriate audit evidence to assess the reasonableness of the key assumptions used in the determination of the recoverable amount of the group’s PPE, right-of-use asset and prepayments, and consequently, the auditors were unable to determine whether any adjustments were necessary in respect of the carrying amounts of these assets as at 30 June 2021. **What did the AC do to facilitate the***

auditors in their audit of the Company? Had the AC been effective and has the AC discharged its duties?

Company's response

In accordance with the terms of reference of the AC (full details are set out in the section on Corporate Governance Report on page 34 of Annual Report 2021), the AC conducted the following to facilitate the external auditors in its audit of the Company and discharged its duties:

- (i) reviewed with external auditors the audit plan and audit issues identified;
- (ii) reviewed the effectiveness and adequacy of the overall internal control system including the financial, operational, compliance and information technology control risks and risk management policies and systems on an annual basis; and
- (iii) reviewed the assistance given by the Company's management to the external auditors and held private meeting with the external auditors to discuss the cooperation and assistance given by the Company's management to external auditors, and to ensure that the external auditors is satisfied with the assistance rendered.

The Company wishes to highlight that the inability of the external auditors in obtaining sufficient appropriate audit evidence to assess the reasonableness of the key assumptions used in the DCF was not due to non-cooperation or non-assistance by the management of the Company ("**Management**"), but was due to a lack of objective third-party source of documentary evidences required by the external auditors to satisfy their evaluation of the DCF prepared by the Management.

- (ii) ***Given that the auditors have stated that they were unable to obtain sufficient appropriate audit evidence to assess the reasonableness of the key assumptions used, can the AC clarify if there is a high risk that the carrying value of the assets could be overstated?***

Company's response

As set out in the Company's response to SGX Query 1 in the 18 October 2021 Announcement, the Management estimated that the value in use of the IDC operated by Guiyang Tech amounted to approximately RMB203.2 million (equivalent to HK\$244.0 million), which was higher than the carrying amount of the Group's PPE, right-of-use asset and prepayments which amounted to approximately HK\$243.6 million as at 30 June 2021. Hence, the Management concluded that the carrying amount of these assets were not overstated. Whether the carrying amount of these assets could be sustained depends on the success of fund raising by the Group to support the expansion of the IDC, and the realisation of future customer demand and price growth, of which the Board is reasonably confident that these are achievable at this moment.

- (iii) ***The auditors did not express an opinion on the financial statements due to the significance of the matters described in the basis for disclaimer of opinion. However, in the directors' statement (page 57), the Directors have stated that, in their opinion, the statement of financial position of the Company and the consolidated financial statements of the Group are drawn up so as to give a true and fair view of the financial position of the Company and the Group as at 30 June 2021 and of the financial performance, changes in equity and cash flows of the Group for the financial year then ended. Can the Directors provide the basis for their opinion? Please also help shareholders understand if they have taken note of the auditor's disclaimer of opinion in forming their opinion.***

Company's response

In forming its opinion, the Board has taken note of the auditor's disclaimer of opinion, and also reviewed the DCF prepared by the Management. Notwithstanding the auditor's disclaimer of the opinion, the Board concurred with the Management's revenue forecast and the underlying assumptions used in the DCF as stated in Note 4 of the Notes to the Financial Statements ("**FS Notes**") on page 107 of the Annual Report 2021, and the key considerations and assumptions to support the Group's and the Company's ability to continue as going concern as stated in the Note 2 of the FS Notes on page 74 to 75 of the Annual Report 2021. Accordingly, the Board is of the view that the statement of financial position of the Company and the consolidated financial statements of the Group are drawn up so as to give a true and fair view of the financial position of the Company and the Group as at 30 June 2021 and of the financial performance, changes in equity and cash flows of the Group for the financial year then ended.

QUESTION 2

Would the board/management provide shareholders with greater clarity on the following operational and financial matters? Specifically:

- (i) Can management help shareholders understand the sentiment on the ground in Guizhou Province? How has the city adapted to living with COVID-19? What is the impact on the Group's data centre operation?**

Company's response

According to public statistics gathered in google (link: https://news.google.com/covid19/map?hl=enUS&mid=%2Fm%2F017f_s&gl=US&ceid=US%3Aen), total COVID-19 cases in Guizhou Province as of 26 October 2021 was 158. Although China's local COVID-19 infection cases have been increasing recently, the number of cases recorded in Guizhou Province is relatively low. As at the date of this announcement, there are no lockdown at Guizhou Province and Guiyang Tech's businesses in Guiyang District are operating as usual.

China has adopted a zero-tolerance approach to COVID-19, and there have been several COVID-19 outbreaks in China recently that prompted tightening of measures in the major cities in China. Together with the new Personal Information Protection Law tightening control over information gathered by private companies that was approved in August 2021 (defining what information companies can gather and setting standards for how it must be stored), sentiments of private customers have been adversely affected and these customers are adopting a more prudent approach in investing and expanding hosting cloud services in the Group's IDC. The Group will continue to monitor the situation at its IDC operations.

- (ii) Can the chairman elaborate further on the continued "deterioration in the internet data centre ("IDC") market"? What is the profile of its major customers? How is the weakness experienced in the IDC market linked to the lockdown in China? It has been widely reported that the pandemic accelerated the pace of businesses' digitalisation and have in fact helped many data centre companies achieve better operational and financial performance.**

Company's response

Guiyang Tech had focused its resources on obtaining contracts from private companies in the past, and the sentiments of such companies are more sensitive to the economic and legal

environments as stated in the Company's response in Question 2(i). As a result, Guiyang Tech's operational and financial performance had been adversely affected during this COVID-19 pandemic. In FY2021, the Management has focused its resources on obtaining government bureau contracts and expects such contracts to improve the Group's financial performance in the coming years.

- (iii) *Would the Board be reviewing the track record of the management team and evaluate if the Group has the necessary human resources to execute its growth plans?***

Company's response

The Board, particularly the Nominating Committee, reviews the composition of the Management team and evaluates the adequacy of the Management team in executing the Group's strategic plans. The Board is of the view that the current Management team is effective and adequate in executing the growth plans of the Group. The Company had identified a suitable candidate for the role of Chief Financial Officer of the Group ("CFO") (further details as set out in the Company's response for Question 3(iii) below) and will make the necessary announcement in accordance to the Catalist Rules in due course.

- (iv) *Does management see any silver lining during the pandemic/in the next 12-18 months?***

Company's response

As mentioned in the Message from Executive Chairman on page 6 of the Annual Report 2021, the Management will continue to explore business opportunities in the new businesses. The Company have several potential new businesses under negotiation, and will make the necessary announcement in accordance to the Catalist Rules as and when there are material developments.

- (v) *What is the utilisation rate in FY2021? Guiyang Tech currently hosts 660 racks which are currently "under-utilised".***

Company's response

As at 30 June 2021, Guiyang Tech utilised 225 racks out of 660 racks, with utilisation rate of approximately 34.1%.

- (vi) *The Company appointed Mr. Lam Chun Hei, Justin as executive director and chief operating officer on 12 August 2021. Can management help shareholders understand Mr. Lam Chun Hei, Justin's experience in running an IDC, especially one that is in China?***

Company's response

Mr. Lam Chun Hei, Justin ("Mr Lam") is assisting the Executive Chairman in overall strategic planning and business development of the Company. Currently, the Executive Chairman devotes more time in improving the business performance of IDC in Guiyang Tech, while Mr Lam is exploring new business opportunities under the new business segment approved by shareholders in an extraordinary meeting on 30 October 2020.

QUESTION 3

On 13 October 2021, the Company announced that there are material variances between the unaudited financial statements and the audited financial statements for the financial year ended 30 June 2021 following the finalisation of audit.

The announcement on the unaudited financial results for the financial year ended 30 June 2021 was first released via SGXNet on 28 August 2021. The announcement of material variance came more than 6 weeks after the Company first announced the unaudited financial statements.

Following the finalisation of audit, the Company's equity decreased by more than HK\$10.8 million to just HK\$37.62 million as at 30 June 2021 and revenue decreased by 38% to just HK\$9.8 million.

Reasons provided by the company for the variances include:

- (i) Adjustment for accrual of additional income tax liabilities and deferred tax assets, which was inadvertently omitted.*
- (ii) Reclassification of related party balance from other receivables to other payables.*
- (iii) Reclassification of bank loan which will fall due within one year from non-current liabilities to current liabilities.*
- (iv) Adjustment for initial recognition of derivative financial instrument to other reserve, which was inadvertently misstated.*
- (v) Adjustment for accrual of additional income tax liabilities and deferred tax assets, which was inadvertently omitted.*
- (vi) Adjustment to reflect purchase of property, plant and equipment, which was inadvertently omitted.*

There are several items where the Company had either "inadvertently omitted" or "inadvertently misstated".

- (i) Is the Group (including its officers) familiar with the International Financial Reporting Standards (IFRS)?**

Company's response

Yes, the Group (including its officers) is familiar with the IFRS.

As announced by the Company on 29 July 2021, the Company's then-CFO tendered her resignation on 21 July 2021 ("**Cessation**") and due to her poor health conditions, she had requested for early release on 30 July 2021 (being her last day of employment with the Company). Please refer to the aforesaid announcement for further details on the Cessation. The Cessation occurred at the material time of preparation of year-end financial statements and the Annual Report 2021, and the Company was not able to appoint a suitable candidate in time to assume the role of CFO prior to the Company announcing its unaudited financial statements on 28 August 2021, and the Annual Report 2021 in October 2021.

With the Cessation, there was inevitably some gaps in the coordination of information flow between the external auditors, internal auditors, professional valuers and the Group's finance team, while the rest of the Group's finance team (which included a finance in-charge personnel who has the relevant accounting qualifications and experience in the IFRS) continued to work on the unaudited financial statements in August 2021, and the Annual Report 2021 in September and October 2021.

(ii) Why are there so many items that were “inadvertently” omitted or misstated?

Company’s response

Please refer to the Company’s response in Question 3(i).

(iii) How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?

Company’s response

Since the Cessation, the Company has been in active search for a suitable candidate to take over the duties and responsibilities of the CFO. In sourcing for a new CFO, the Company will ensure that the candidate has the required experience in financial reporting and the necessary professional qualification to assist the Company in the preparation of financial statements in accordance with the relevant financial reporting standards.

(iv) Has the AC evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?

Company’s response

The AC reviews the effectiveness and adequacy of the overall internal control system including the financial, operational, compliance and information technology control risks and risk management policies and systems on an annual basis. In addition, the AC also evaluates the sufficiency of the finance team. Since the Cessation, the Company is in active search for a suitable candidate to assume the role of CFO and had identified a new CFO and it is in the process of appointment procedures. The requisite appointment announcement will be made in accordance to the requirements under the Catalist Rules in due course.

(v) What role did the AC play in the preparation of the financial statements? Was it adequate?

Company’s response

The AC reviewed the Group’s financial results and the announcements before submission to the Board for approval. The Board believes that once the Company appoints the CFO, the quality of financial reporting will be improved.

(vi) What changes have been made/will be made to the Group’s financial reporting systems and processes?

Company’s response

As set out in the Company’s responses above, the Company is in active search for a suitable candidate to assume the role of CFO and had identified a new CFO and it is in the process of appointment procedures. The requisite appointment announcement will be made in accordance to the requirements under the Catalist Rules in due course.

By Order of the Board
SinoCloud Group Limited

Chan Andrew Wai Men
Executive Chairman
28 October 2021

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.