**SINOCLOUD GROUP LIMITED**
**(THE "COMPANY")**
(Company Registration No.: 34050)
(Incorporated in Bermuda on 13 August 2003)

## Unaudited First Quarter Financial Statements And Dividend Announcement for the Financial Period Ended 30 September 2020

*Pursuant to Rule 705(2C) of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual Section B: Rules of Catalist ("**Catalist Rules**"), the Company is required by the SGX-ST to continue to announce its quarterly financial statements in view of the material uncertainty relating to going concern issued by the Company's auditors in the latest audited financial statements for the financial year from 1 July 2019 to 30 June 2020.*

*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 Catalist Rules.*

*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.*

**PART I - INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1, Q2, Q3 & Q4), HALF-YEAR AND FULL YEAR RESULTS**

**1(a)(i) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**
**FOR THE PERIOD ENDED 30 SEPTEMBER 2020**
**(Expressed in Hong Kong thousand dollars)**

| | 3 months ended Group 30.9.2020 (Unaudited) | 3 months ended Group 30.9.2019 (Audited) | % + / (-) |
|---|---|---|---|
| Revenue | 4,971 | 10,229 | (51) |
| Other income | 1,504 | 3 | N.M. |
| Employee benefits expenses | (753) | (1,596) | (53) |
| Depreciation of property, plant and equipment | (1,417) | (1,839) | (23) |
| Depreciation of right-of-use assets | (593) | - | N.M. |
| Amortisation of intangible assets | - | (2,412) | (100) |
| Software development expenses written off | - | (1,100) | (100) |
| Operating lease expenses | (25) | (1,334) | (98) |
| Bandwidth fees | (855) | (1,963) | (56) |
| Foreign exchange (loss)/ gain | (41) | 9 | N.M. |
| Other expenses | (2,515) | (3,008) | (16) |
| Finance costs | (2,289) | (885) | N.M. |
| **Loss before tax** | (2,013) | (3,896) | (48) |
| Tax credit / (expenses) | 34 | (164) | N.M. |
| **Loss for the financial period** | (1,979) | (4,060) | (51) |
| **Loss attributable to:** | | | |
| Equity holders of the Company | (1,903) | (4,432) | (57) |
| Non-controlling interest | (76) | 372 | N.M. |
| | (1,979) | (4,060) | (51) |

*N.M.: Not meaningful*

**1(a)(ii) A consolidated statement (for the group) of comprehensive income together with a comparative statement for the corresponding period of the immediately preceding financial year**

**SINOCLOUD GROUP LIMITED**
**CONSOLIDATED COMPREHENSIVE INCOME STATEMENT**
**FOR THE PERIOD ENDED 30 SEPTEMBER 2020**
**(Expressed in Hong Kong thousand dollars)**

| | 3 Months Ended 30.9.2020 | 3 Months Ended 30.9.2019 | % |
|---|---|---|---|
| | **(Unaudited)** | **(Unaudited)** | +/(-) |
| **Loss for the financial period** | (1,979) | (4,060) | (51) |
| **Other comprehensive income/ (loss)** | | | |
| Currency translation difference arising from consolidation | 4,135 | (6,459) | N.M. |
| **Total comprehensive income/ (loss) for the period** | **2,156** | **(10,519)** | N.M. |
| **Total comprehensive income/ (loss) attributable to** | | | |
| Equity holders of the Company | 496 | (8,609) | N.M. |
| Non-controlling interest | 1,660 | (1,910) | N.M. |
| **Total comprehensive income/ (loss) for the period** | **2,156** | **(10,519)** | N.M. |

*N.M.: Not meaningful*

## 1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year

**SINOCLOUD GROUP LIMITED**
**STATEMENT OF FINANCIAL POSITION**
**AS AT 30 SEPTEMBER 2020**
(Expressed in Hong Kong thousand dollars)

| | The Group | | The Company | |
|---|---|---|---|---|
| | As at 30.9.2020 (Unaudited) | As at 30.6.2020 (Audited) | As at 30.9.2020 (Unaudited) | As at 30.6.2020 (Audited) |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 186,807 | 181,366 | - | - |
| Right-of-use assets | 32,590 | 31,961 | - | - |
| Investment in subsidiaries | - | - | 57,112 | 57,112 |
| Deferred tax assets | 8,185 | 8,185 | - | - |
| | 227,582 | 221,512 | 57,112 | 57,112 |
| **Current assets** | | | | |
| Trade and other receivables | 23,410 | 20,827 | 104 | 92 |
| Contract assets | 2,046 | - | - | - |
| Cash and bank balances | 805 | 303 | - | - |
| | 26,261 | 21,130 | 104 | 92 |
| **TOTAL ASSETS** | 253,843 | 242,642 | 57,216 | 57,204 |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | 39,243 | 36,095 | 21,882 | 18,868 |
| Contract liabilities | 39 | 152 | - | - |
| Non-convertible bonds | 15,000 | - | - | - |
| Provision for warranty | 838 | 807 | - | - |
| Income tax payable | 7,701 | 7,694 | - | - |
| Borrowings | 5,101 | 8,008 | - | 3,094 |
| | 67,922 | 52,756 | 21,882 | 21,962 |
| **Non-current liabilities** | | | | |
| Trade and other payables | - | 2,405 | - | - |
| Borrowings | 13,840 | 20,960 | - | - |
| Lease liabilities | 60,410 | 57,006 | - | - |
| | 74,250 | 80,371 | - | - |
| **TOTAL LIABILITIES** | 142,172 | 133,127 | 21,882 | 21,962 |
| **NET ASSETS** | 111,671 | 109,515 | 35,334 | 35,242 |
| **EQUITY** | | | | |
| **Capital and reserves attributable to equity** | | | | |
| Share capital | 14,311 | 14,311 | 14,311 | 14,311 |
| Share premium | 473,003 | 473,003 | 473,003 | 473,003 |
| Contributed surplus | 16,456 | 16,456 | 16,456 | 16,456 |
| Translation deficit | (2,383) | (4,782) | - | - |
| Statutory reserve | 7,066 | 7,066 | - | - |
| Revaluation reserve | 98 | 98 | - | - |
| Other reserve | 15,120 | 15,120 | - | - |
| Accumulated losses | (398,199) | (396,296) | (468,436) | (468,528) |
| | 125,472 | 124,976 | 35,334 | 35,242 |
| **Non-controlling interest** | (13,801) | (15,461) | - | - |
| **TOTAL EQUITY** | 111,671 | 109,515 | 35,334 | 35,242 |

## 1(b)(ii) Aggregate amount of group's borrowings and debt securities

### Amount repayable in one year or less, or on demand

| | As at 30.9.2020 In HK$'000 | | As at 30.6.2020 In HK$'000 | |
|---|---|---|---|---|
| | **Secured** | **Unsecured** | **Secured** | **Unsecured** |
| Amount due to director(s) of the Company | - | 368 | - | 1,156 |
| Amount due to related parties | - | 4,507 | - | 4,333 |
| Non-convertible bonds | - | 15,000 | - | - |
| Loans from shareholder of the Company | - | - | - | 3,094 |
| Bank borrowings | - | 5,101 | - | 4,914 |

### Amount repayable after one year

| | As at 30.9.2020 In HK$'000 | | As at 30.6.2020 In HK$'000 | |
|---|---|---|---|---|
| | **Secured** | **Unsecured** | **Secured** | **Unsecured** |
| Amount due to a director of the Company | - | - | - | 2,405 |
| Loans from shareholders of the Company | - | 13,840 | - | 20,960 |
| Lease liabilities | - | 60,410 | - | 57,006 |

### Details of any collateral

Not applicable as there are no collateral on the Group's borrowings and debt securities.

**1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year**

**SINOCLOUD GROUP LIMITED**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**FOR THE PERIOD ENDED 30 SEPTEMBER 2020**

(Expressed in Hong Kong thousand dollars)

| | Three Months Ended 30.9.2020 | Three Months Ended 30.9.2019 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Loss before tax | (2,013) | (3,896) |
| *Adjustments:* | | |
| Depreciation of property, plant and equipment | 1,417 | 1,839 |
| Depreciation of right-of-use assets | 593 | - |
| Amortisation of intangible assets | - | 2,412 |
| Interest expenses | 2,289 | 885 |
| Operating profit before working capital changes | 2,286 | 1,240 |
| Trade and other receivables | (2,583) | 14,924 |
| Trade and other payables | 1,067 | 2,070 |
| Contract assets/ amount due from contract work | (2,046) | (6,189) |
| Contract liabilities | (113) | (725) |
| Cash generated from/ (used in) operations | (1,389) | 11,320 |
| Income tax paid | - | (4,259) |
| Interest paid | (227) | (197) |
| **Net cash (used in)/ generated from operating activities** | (1,616) | 6,864 |
| **Cash flow from investing activities** | | |
| Repayment received from advances and earnest deposits to vendors of China Satellite Group | - | 5,165 |
| Additions to property, plant and equipment | - | (10,909) |
| **Net cash used in investing activities** | - | (5,744) |
| **Cash flow from financing activities** | | |
| Proceeds from non-convertible bonds | 15,000 | - |
| Proceeds from loan from a director | - | 405 |
| Proceeds from loan from a shareholder | - | 200 |
| Repayment of loan from shareholders | (10,514) | - |
| Repayment of loan from a director | (2,405) | - |
| **Net cash generated from financing activities** | 2,081 | 605 |
| **Net decrease in cash and cash equivalents** | 465 | 1,725 |
| Cash and cash equivalents at beginning of the financial period | 303 | 572 |
| Effect of exchange rate changes in cash and cash equivalents | 37 | (1,253) |
| **Cash and cash equivalents at end of the financial period** | 805 | 1,044 |

**1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year**

| FY2021 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Group*** | Attributable to equity holders of the Company | | | | | | | | | |
| | **Share Capital** | **Share Premium** | **Contributed Surplus** | **Translation Reserve** | **Statutory Reserve** | **Revaluation Reserve** | **Other reserve** | **Accum. Losses** | **Non-Controlling Interest** | **Total Equity** |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| **Balance as at 1 July 2020** | **14,311** | **473,003** | **16,456** | **(4,782)** | **7,066** | **98** | **15,120** | **(396,296)** | **(15,461)** | **109,515** |
| Loss for the period from 1.7.2020 to 30.9.2020 | - | - | - | - | - | - | - | (1,903) | (76) | (1,979) |
| Other comprehensive income, net of tax | - | - | - | 2,399 | - | - | - | - | 1,736 | 4,135 |
| Total comprehensive income/ (loss) | - | - | - | 2,399 | - | - | - | (1,903) | 1,660 | 2,156 |
| **Balance as at 30 September 2020** | **14,311** | **473,003** | **16,456** | **(2,383)** | **7,066** | **98** | **15,120** | **(398,199)** | **(13,801)** | **111,671** |

| FY2020 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| ***Group*** | Attributable to equity holders of the Company | | | | | | | | | |
| | **Share Capital** | **Share Premium** | **Contributed Surplus** | **Translation Reserve** | **Statutory Reserve** | **Revaluation Reserve** | **Other reserve** | **Accum. Losses** | **Non-Controlling Interest** | **Total Equity** |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| **Balance as at 1 July 2019** | **14,311** | **473,003** | **16,456** | **(341)** | **6,454** | **98** | **15,120** | **(289,210)** | **73,242** | **309,133** |
| (Loss)/ Profit for the period from 1.7.2020 to 30.9.2020 | - | - | - | - | - | - | - | (4,432) | 372 | (4,060) |
| Other comprehensive loss, net of tax | - | - | - | (4,177) | - | - | - | - | (2,282) | (6,459) |
| Total comprehensive loss | - | - | - | (4,177) | - | - | - | (4,432) | (1,910) | (10,519) |
| **Balance as at 30 September 2019** | **14,311** | **473,003** | **16,456** | **(4,518)** | **6,454** | **98** | **15,120** | **(293,642)** | **71,332** | **298,614** |

| FY2021 | | | | | |
|---|---|---|---|---|---|
| ***Company*** | Attributable to equity holders of the Company | | | | |
| | **Share capital** | **Share premium** | **Contributed surplus** | **Accumulated losses** | **Total equity** |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| **Balance as at 1 July 2020** | **14,311** | **473,003** | **16,456** | **(468,528)** | **35,242** |
| Profit for the period from 1.7.2020 to 30.9.2020 | - | - | - | 92 | 92 |
| **Balance as at 30 September 2020** | **14,311** | **473,003** | **16,456** | **(468,436)** | **35,334** |

| FY2020 | | | | | |
|---|---|---|---|---|---|
| ***Company*** | Attributable to equity holders of the Company | | | | |
| | **Share capital** | **Share premium** | **Contributed surplus** | **Accumulated losses** | **Total equity** |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| **Balance as at 1 July 2019** | **14,311** | **473,003** | **16,456** | **(351,351)** | **152,419** |
| Loss for the period from 1.7.2019 to 30.9.2019 | - | - | - | (1,609) | (1,609) |
| **Balance as at 30 September 2019** | **14,311** | **473,003** | **16,456** | **(352,960)** | **150,810** |

**1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, subdivision, consolidation, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on.**

| | **Issued and fully paid-up ordinary shares** | **Share capital HK$'000** |
|---|---|---|
| Balance as at 30 September 2020 and 30 June 2020 | 14,310,670,617 | 14,311 |

**State the number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

**State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

| | As at 30 September 2020 | As at 30 September 2019 |
|---|---|---|
| Number of shares that may be issued on conversion of all outstanding convertibles | - | 1,128,000,000[(1)] |
| Total number of issued shares (excluding treasury shares and subsidiary holdings[(2)]) | 14,310,670,617 | 14,310,670,617 |

**Notes**:

(1) On 28 November 2017, the Company entered into two separate convertible bonds agreements with Mr Lam Cho Ying Terence Joe and Mr Soo Kok Beng Peter ("**Subscribers**") respectively, for bonds in aggregate principal amount of S$2,256,000 to be issued by the Company, with maturity date on 27 November 2019 ("**Convertible Bonds**"). The Convertible Bonds are convertible into 1,128,000,000 new shares in the capital of the Company at a conversion price of S$0.002 for each share. No conversion has taken place since the effective date of the Convertible Bonds. On 26 November 2019, the Company entered into two separate loan agreements dated 26 November 2019 ("**Loan Agreements**") with the respective Subscribers on the settlement of the amounts due pursuant to the Convertible Bonds of HK$13,220,160 ("**Loans**"). The Loans are subject to an interest of 15% and 12% per annum respectively, and do not have conversion features.

(2) There were no treasury shares and subsidiary holdings as at 30 September 2020 and 30 September 2019.

**1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.**

The total number of issued shares excluding treasury shares as at 30 September 2020 was 14,310,670,617 (30 June 2020: 14,310,670,617). There were no treasury shares as at 30 September 2020 and 30 June 2020.

**1(d)(iv) A statement showing all sales, transfers, cancellation, and/or use of treasury shares as at the end of the current financial period reported on.**

Not applicable. The Company did not have any treasury shares during and as at the end of the current financial period reported on.

**1(d)(v) A statement showing all sales, transfers, cancellation, and/or use of subsidiary holdings as at the end of the current financial period reported on.**

Not applicable. The Company did not have any sales, transfers, cancellation, and/or use of subsidiary holdings during and as at the end of the current financial period reported on.

**2. Whether the figures have been audited or reviewed, and in accordance with which auditing standard or practice**

The figures have not been audited nor reviewed by the Group's auditors.

**3. Where the figures have been audited or reviewed, the auditors' report (including any modifications or emphasis of matter)**

Not applicable.

**3A. Where the latest financial statements are subject to an adverse opinion, qualified opinion or disclaimer of opinion: to provide (a) updates on the efforts taken to resolve each outstanding audit issue; and (b) confirmation from the Board that the impact of all outstanding audit issues on the financial statements have been disclosed. This is not required for any audit issue that is a material uncertainty relating to going concern.**

Not applicable. The latest audited financial statements of the Group for the financial period from 1 July 2019 to 30 June 2020 (which contained material uncertainty relating to going concern) are not subject to any adverse opinion, qualified opinion or disclaimer of opinion.

**4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied**

The Group has applied the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting period compared with the audited financial statements for the financial year ended 30 June 2020. The adoption of the new and amended International Financial Reporting Standards (IFRS) and IFRIC Interpretations that became effective for annual reporting periods beginning on or after 1 January 2020 is not expected to result in substantial changes to the Group's financial statements.

**5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change**

Please refer to paragraph 4 above.

**6. Loss per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends**

| | **3 Months Ended 30.9.2020 (Unaudited)** | **3 Months Ended 30.9.2019 (Unaudited)** |
|---|---|---|
| Loss attributable to equity holders of the Company (HK$'000) | (1,903) | (4,432) |
| Weighted average number of shares in issue | 14,310,670,617 | 14,310,670,617 |
| **Loss per ordinary share (HK cents)** | | |
| - Based on weighted average number of ordinary shares in issue | **(0.013)** | **(0.031)** |
| - On a fully diluted basis (Please see note below) | **(0.013)** | **(0.031)** |

**Note**:
The Convertible Bonds which expired on 27 November 2019 has no dilutive effect for the financial period ended 30 September 2020.

**7. Net asset value (for the issuer and group) per ordinary share based on total number of issued shares excluding treasury shares at the end of the (a) current financial period reported on and (b) immediately preceding financial year**

| | As at 30.9.2020 (Unaudited) | As at 30.6.2020 (Audited) |
|---|---|---|
| Net asset value of the Company per ordinary share | **HK$0.0025** | **HK$0.0025** |
| Net asset value of the Group per ordinary share | **HK$0.0088** | **HK$0.0087** |

**8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. The review must discuss any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors. It must also discuss any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on**

**(A) REVIEW OF FINANCIAL RESULTS**

**Revenue**

Revenue generated in the three months ended 30 September 2020 ("**3MFY2021**") decreased by HK$5.2 million, from HK$10.2 million in the three months ended 30 September 2019 ("**3MFY2020**"), to HK$5.0 million in the 3M FY2021. The decrease in revenue was mainly due to decrease in customer demand and service fee reduction, largely attributable to the lockdown in China caused by the COVID-19 pandemic.

**Other income**

Other income of HK$1.5 million in the 3MFY2021 comprised (i) reversal of accrued and unpaid interest of HK$0.5 million in respect of the Convertible Bonds which was fully waived by one of the Subscribers; (ii) waiver of remuneration of HK$0.4 million accrued and unpaid to the Group's directors, arising from cost saving measures implemented within the Group; and (iii) reversal of accrued and unpaid office expenses of HK$0.6 million, in respect of an administrative services agreement which was waived by a director of the Company.

Other income of HK$3 thousand in the 3MFY2020 represents the interest income from bank.

**Expenses**

Employee benefits expenses decreased by HK$0.8 million to HK$0.8 million in the 3MFY2021, from HK$1.6 million in the 3MFY2020. The decrease was mainly due to certain cost savings measures implemented within the Group since 2019.

Depreciation of property, plant and equipment ("**PPE**") decreased by HK$0.4 million, from HK$1.8 million in the 3MFY2020 to HK$1.4 million in the 3MFY2021, as a result of the full depreciation of certain PPE.

Depreciation of right-of-use assets amounted to HK$0.6 million in the 3MFY2021 (3MFY2020 : Nil). IFRS 16 Leases became effective for annual reporting periods beginning on or after 1 January 2019.

There were no amortisation charges of intangible assets reported in the 3MFY2021 (3MFY2020 : HK$2.4 million). The respective intangible assets arising from the Company's acquisition of SinoCloud 01 Limited ("**SC01**") since October 2015, had been fully amortised or impaired during the financial year ended 30 June 2020.

There were no software development expenses written off reported in the 3MFY2021, as compared to HK$1.1 million in the 3MFY2020, relating to additional expenses that Guiyang Zhongdian Gaoxin Digital Technologies Limited ("**GYZD**") incurred due to termination of certain software development contract.

Operating lease expenses in the 3MFY2021 amounted to HK$25 thousand, as compared to HK$1.3 million in the 3MFY2020. The decrease was mainly due to the adoption of IFRS 16, where the treatment of lease contract for the IDC of GYZD was different from prior years. The lease will be accounted for under depreciation of right-of-use assets and interests on lease liabilities.

Bandwidth fees decreased by HK$1.1 million, from HK$2.0 million in the 3MFY2020 to HK$0.9 million in the 3MFY2021, as a result of decrease in demand for IDC services.

Other expenses, comprising primarily office overhead, legal and professional fee and utility service fee, decreased by HK$0.4 million, from HK$3.0 million in the 3MFY2020 to HK$2.6 million in the 3MFY2021, mainly due to the decrease in utility service fee as well as office overhead.

Finance costs increased by HK$1.4 million, from HK$0.9 million in the 3MFY2020 to HK$2.3 million in the 3MFY2021. The increase was mainly a result of (i) an increase of HK$0.2 million of interest charges relating to the increase in loan from a shareholder of the Company; and (ii) interest in lease liabilities of HK$1.2 million arising from the adoption of IFRS 16.

Foreign exchange loss of HK$41 thousand in the 3MFY2021 as compared to foreign exchange gain of HK$9 thousand in the 3MFY2020, arising from the translation of payment of foreign currency denominated expenses.

**Income tax**

In the 3MFY2021, the Group recorded income tax credit of HK$34 thousand, as compared to income tax expense of HK$0.2 million in the 3MFY2020. The income tax credit was due to loss being reported under GYZD in the 3MFY2021 which will be utilised in the future.

**Net loss after taxation**

As a result of the aforesaid, the Group recorded a loss after tax of HK$2.0 million and HK$4.1 million in the 3MFY2021 and 3MFY2020 respectively.

## (B) REVIEW OF FINANCIAL POSITION

**Non-Current Assets**

Non-current assets of the Group amounted to HK$227.6 million and HK$221.5 million as at 30 September 2020 and 30 June 2020 respectively. Non-current assets comprised (i) property, plant and equipment; (ii) right-of-use assets; and (iii) deferred tax assets.

(i) Property, plant and equipment

The net book value of property, plant and equipment increased by HK$5.4 million, from HK$181.4 million as at 30 June 2020 to HK$186.8 million as at 30 September 2020. The increase was mainly due to translation gain of HK$6.8 million arising from appreciation of

RMB against HKD, partially offset by depreciation charge of HK$1.4 million during 3MFY2021.

(ii) Right-of-use assets

IFRS 16 Leases became effective for annual reporting periods beginning on or after 1 January 2019. Leasees are required to recognise all leases on their statements of financial position to reflect their rights to use leased assets and the associated obligations for lease payments. Right-of-use assets increased by HK$0.6 million, from HK$32.0 million as at 30 June 2020 to HK$32.6 million as at 30 September 2020. The increase was mainly due to translation gain of HK$1.2 million arising from appreciation of RMB against HKD, partially offset by depreciation charge of HK$0.6 million during 3MFY2021.

(iii) Deferred tax assets

Deferred tax assets remained unchanged at HK$8.2 million as at 30 September 2020 and 30 June 2020. 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.

**Current Assets**

Current assets increased by HK$5.2 million, from HK$21.1 million as at 30 June 2020 to HK$26.3 million as at 30 September 2020. Current assets comprised (i) trade and other receivables; (ii) contract assets; and (iii) cash and bank balances.

(i) Trade and other receivables

Trade and other receivables increased by HK$2.6 million, from HK$20.8 million as at 30 June 2020 to HK$23.4 million as at 30 September 2020.

Trade and other receivables as at 30 September 2020 comprised trade receivables of HK$2.3 million, and other receivables and prepayment of HK$21.1 million.

(a) Trade receivables increased by HK$1.8 million, from HK$0.5 million as at 30 June 2020 to HK$2.3 million as at 30 September 2020. The increase was mainly due to revenue generated by GYZD during 3MFY2021 which remained uncollected as at 30 September 2020.

(b) Other receivables and prepayment comprising mainly prepayment for software development for the IDC business, increased by HK$0.8 million, from HK$20.3 million as at 30 June 2020 to HK$21.1 million as at 30 September 2020, due to appreciation of RMB against HKD.

(ii) Contract assets

Contract assets amounted to HK$2.0 million as at 30 September 2020 (30 June 2020 : Nil), relating primarily to the Group's right to consideration for work completed but not billed.

(iii) Cash and bank balances

Cash and bank balances increased by HK$0.5 million, from HK$0.3 million as at 30 June 2020 to HK$0.8 million as at 30 September 2020. Please refer to "Cashflows" for the movement in cash and cash equivalents.

**Current Liabilities**

Current liabilities increased by HK$15.1 million, from HK$52.8 million as at 30 June 2020 to HK$67.9 million as at 30 September 2020, mainly due to the following:

(i) Trade and other payables

Trade and other payables increased by HK$3.1 million, from HK$36.1 million as at 30 June 2020 to HK$39.2 million as at 30 September 2020. Trade and other payables as at 30 September 2020 comprised (a) trade payables of HK$9.1 million; (b) accruals and other payables of HK$25.2 million; (c) amount due to directors of HK$0.4 million; and (d) amount due to related parties of HK$4.5 million.

(a) Trade payable increased by HK$1.5 million, from HK$7.6 million as at 30 June 2020 to HK$9.1 million as at 30 September 2020, due to the reclassification of non-current portion of lease liabilities to current trade payable as it falls due and payable within 12 months.

(b) Accruals and other payables increased by HK$2.2 million, from HK$23.0 million as at 30 June 2020 to HK$25.2 million as at 30 September 2020, due to unpaid operating expenses in the 3MFY2021.

(c) Amount due to directors of the Company decreased by HK$0.8 million, from HK$1.2 million as at 30 June 2020 to HK$0.4 million as at 30 September 2020, as a result of settlement in the 3MFY2021.

(d) Amount due to related parties increased by HK$0.2 million, from HK$4.3 million as at 30 June 2020 to HK$4.5 million as at 30 September 2020, due to an increase in short-term advance from related parties, which is interest-free and repayable on demand.

(ii) Contract liabilities

Contract liabilities decreased by HK$113 thousand, from HK$152 thousand as at 30 June 2020 to HK$39 thousand as at 30 September 2020, as a result of settlement of service fees in the 3MFY2021.

(iii) Non-convertible bonds

On 18 August 2020, a subsidiary of the Company in Hong Kong entered into a bond subscription agreement with a shareholder of the Company, Mr Lam Cho Ying Terence Joe, in principal amount of HK$15,000,000 ("**Bond**"), interest bearing at 6% per annum, and due on 18 August 2021. For the avoidance of doubt, the Bond is not convertible into shares of the Company. The proceeds of the Bond was used for settlement of outstanding expenses and repayment of certain loans.

(iv) Borrowings

Borrowings decreased by HK$2.9 million from HK$8.0 million as at 30 June 2020 to HK$5.1 million as at 30 September 2020, due to settlement of loan from a shareholder of the Company of approximately HK$3.1 million, partially offset by an increase in bank borrowings. Bank borrowings of HK$5.1 million as at 30 September 2020 relates to loan from a bank, with an interest rate of 8.28% per annum, and is repayable on or before 26 March 2021.

**Non-current Liabilities**

Non-current liabilities decreased by HK$6.1 million, from HK$80.4 million as at 30 June 2020 to HK$74.3 million as at 30 September 2020. Non-current liabilities comprised mainly (i) trade and other payables; (ii) borrowings; and (iii) lease liabilities.

(i) Trade and other payables

Trade and other payables amounted to HK$2.4 million as at 30 June 2020 (30 September 2020 : Nil). It relates to an interest-free advance provided by a director of the Company, which has been fully repaid with proceeds raised from the Bond.

(ii) Borrowings

Borrowings decreased by HK$7.2 million, from HK$21.0 million as at 30 June 2020 to HK$13.8 million as at 30 September 2020. The decrease was due to settlement of loan from a shareholder of the Company in the 3MFY2021.

(iii) Lease liabilities

Lease liabilities increased by HK$3.4 million, from HK$57.0 million as at 30 June 2020 to HK$60.4 million as at 30 September 2020, due to effect of appreciation of RMB against HKD amounting to HK$4.9 million, partially offset by HK$1.5 million being transferred to current trade payable.

**Working Capital**

Due to the changes in current assets and current liabilities as described above, the Group reported a negative working capital of HK$41.6 million and HK$31.7 million as at 30 September 2020 and 30 June 2020 respectively.

Subsequent to the financial period ended 30 September 2020, the Company had on 10 October 2020 announced that the Company had, on 7 October 2020, entered into a convertible bond agreement with the controlling shareholder of the Company, Mr Lam Cho Ying Terence Joe ("**Mr Lam**") for a proposed issuance of a 2-year convertible bond of up to HK$31.06 million, carrying 6% interest per annum ("**Proposed Bond Issuance**"). The Proposed Bond Issuance had been approved by shareholders of the Company in a special general meeting held on 30 October 2020. The subscription is by way of discharge of equivalent amounts owing by the Group to Mr Lam. Accordingly, no cash proceeds will be received by the Group from the Subscriber. This will allow the Group to reduce its indebtedness and allow the Group to conserve its cash resources.

**(C) CASH FLOWS**

Net cash used in operating activities in the 3MFY2021 amounted to HK$1.6 million. This was mainly due to (i) operating profit before changes in working capital of HK$2.3 million; (ii) increase in trade and other payables of HK$1.1 million, partially offset by (iii) increase in trade and other receivables of HK$2.6 million; (iv) increase in contract assets of HK$2.0 million; (v) decrease in contract liabilities of HK$0.1 million; and (vi) interest paid of HK$0.2 million.

There was no cash generated from or used in investing activities in the 3MFY2021.

Net cash generated from financing activities was HK$2.1 million in the 3MFY2021, mainly due to (i) proceeds of non-convertible bonds of HK$15.0 million, partially offset by (ii) repayment of loan borrowing from shareholders of HK$10.5 million; and (iii) repayment of loan borrowing from a director of HK$2.4 million.

As a result, the Group's cash and cash equivalents increased from HK$0.3 million as at 30 June 2020 to HK$0.8 million as at 30 September 2020.

**9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results**

Not applicable.

**10. A commentary at the date of the announcement of the competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months**

The Group derives its revenue primarily from GYZD. As announced by the Company previously, GYZD is in the process of expanding its capacity of hosting 1,500 racks in addition to 660 racks currently. Due to changes in GYZD's end-users requirements which are further impacted by the COVID-19 pandemic, such expansion will be divided into phases. The milestone construction schedule shall be tied to its target capacity requirement as well as commissioning schedule, where the burden on capital expenditure is minimised.

The recent COVID-19 pandemic created substantial adverse impact on global economy, including the Group's IDC business in the People's Republic of China ("**PRC**"), where numerous potential new orders for the Group's services had been postponed. The schedule of resuming negotiation process and its respective capacity requirement are delayed. Customer demand as well as service fees have reduced substantially since early 2020, which affected the Group's revenue reported. Nevertheless, GYZD recently secured a 2-year government contract of HK$5.8 million per annum, which will enable GYZD to partially fill up rack capacity as a result of the aforesaid delay and postponement of customer requirements in early 2020.

The Company had, on 30 October, convened a special general meeting to seek approval from shareholders of the Company for (i) proposed diversification of the Group's existing business to include new businesses (which comprise tourism, food and beverage, and entertainment); and (ii) the Proposed Bond Issuance. Following the approval obtained from shareholders, the Company will commence on looking for potential opportunities in the new businesses. The Company will make the necessary announcement pursuant to the Catalist Rules as and when there is material development to the aforementioned. Please refer to the Company's circular dated 14 October 2020 to shareholders on the aforementioned proposed diversification for further details.

The Proposed Bond Issuance carrying 6% interest per annum, will enable the Group to discharge some outstanding loans which are high interest bearing, thereby reduce the Group's exposure to high interest charges, and allow the Group to conserve its cash resources by way of the conversion feature of the convertible bond. Furthermore, the Group is exploring various alternatives to further strengthen its financial positions to ensure it has the ability to expand and diverse its investment in addition to its current cost cutting measures to reduce operating costs and expenses The Company will make the necessary announcement(s) in due course.

**11. Dividend**

**If a decision regarding dividend has been made :-**

**(a) Whether an interim (final) ordinary dividend has been declared (recommended)**

None.

**(b)(i) and (b)(ii) Amount of dividend per share of the current reporting financial period and of the previous corresponding period.**

Nil (3MFY2020: nil).

**(c) Whether the dividend is before tax, net of tax or tax exempt. If before tax or net of tax, state the tax rate and the country where the dividend is derived. (If the dividend is not taxable in the hands of shareholders, this must be stated).**

Not applicable.

**(d) The date the dividend is payable**

Not applicable.

**(e) The date on which Registrable Transfers received by the company (up to 5.00pm) will be registered before entitlements to the dividend are determined.**

Not applicable.

**12. If no dividend has been declared/recommended, a statement to that effect and the reason(s) for the decision.**

No dividend is declared/recommended by the Directors for the 3MFY2021 as the Group is loss making in the 3MFY2021.

**13. If the group has obtained a general mandate from shareholders for IPTs, the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.**

No IPT general mandate has been obtained by the Group from the Company's shareholders.

**14. Negative assurance on interim financial statements pursuant to Rule 705(5)**

We, Chan Andrew Wai Men and Luk Siu Fung, Mark, being directors of the Company do hereby confirm on behalf of the Board of Directors that, to the best knowledge of the Board of Directors, nothing has come to the attention of the Board of Directors which may render the interim financial statements for the 3 months ended 30 September 2020 to be false or misleading in any material aspect.

**15. Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7H) under Rule 720(1) of the Catalist Rules**

The Company confirms that all the required undertakings under Rule 720(1) of the Catalist Rules have been obtained from all its directors and executive officers in the format set out in Appendix 7H of the Catalist Rules.

**BY ORDER OF THE BOARD**

**Chan Andrew Wai Men**
**Chairman and Chief Executive Officer**

**Luk Siu Fung, Mark**
**Executive Director**

13 November 2020