SINOCLOUD GROUP LIMITED

(Incorporated in Bermuda on 13 August 2003)

(Company Registration No: 34050)

EMPHASIS OF MATTER BY INDEPENDENT AUDITORS ON THE FINANCIAL STATEMENTS OF THE COMPANY AND ITS SUBSIDIARIES FOR THE FINANCIAL YEAR ENDED 31 MARCH 2016

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 (the "**Board**") of SinoCloud Group Limited (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce that the Company's independent auditor, RT LLP, had, without qualifying their audit opinion, included in the Independent Auditor's Report, an emphasis of matter in respect of the Group's going concern assumption, impairment of associates China Satellite Mobile Communications Group Limited ("**CSMCG**"), recoverability of convertible loan receivable and recoverability of interest free advances and earnest deposits on the audited financial statements of the Group (the "**Audited Financial Statements**") for the financial year ended 31 March 2016 ("**FY2016**"). A copy of the Independent Auditor's Report and extract of Notes 2, 7 and 10 to the Audited Financial Statements are attached to this announcement for information.

Notwithstanding the above, the Board is of the opinion that, barring unforeseen circumstances, the Group will continue as a going concern on the basis of, including, but not limited to, the following:

1. The Group continues to implement measures to tighten cost controls over various operating expenses. During FY2016, the Group had undertaken numerous actions to streamline the Group's structure in order to improve efficiency and to reduce unnecessary operating costs by disposing the non-performance subsidiaries and winding up dormant subsidiaries.

2. The Group's subsidiary, SinoCloud 01 Limited, which operates internet data centre ("**IDC**") in Guiyang, PRC, reported profit after tax since January 2016. The IDC is expected to contribute profit to the Group, taking into account, the economic conditions and sentiments (both general and specific to IDC industries), business development and existing contractual arrangements.

3. The Group is also looking for alternative funding option including equity financing and debt financing in order to strengthen the cash position and cope with future development purpose.

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

Shareholders of the Company ("**Shareholders**") are advised to read the Audited Financial Statements in its 2016 annual report, which will be despatched to Shareholders in due course.

The Board wishes to advise Shareholders and investors to exercise caution when dealing in the shares of the Company. In the event of any doubt, they should consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers.

BY THE ORDER OF THE BOARD

Chan Andrew Wai Men
Chairman and Chief Executive Officer

2 July 2016

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor ("Sponsor"), SAC Advisors Private Limited (formerly known as Canaccord Genuity Singapore Pte. Ltd.), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("SGX-ST").The Sponsor has not independently verified the contents of this announcement.

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 Soo Hsin Yu, Partner, SAC Advisors Private Limited (formerly known as Canaccord Genuity Singapore Pte. Ltd.) at 77 Robinson Road #21-02 Singapore 068896, telephone (65) 6854 6160.

INDEPENDENT AUDITOR'S **REPORT**

TO THE MEMBERS OF SINOCLOUD GROUP LIMITED
(Formerly Known As ARMARDA GROUP LIMITED)
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2016

Report on the Financial Statements

We have audited the accompanying financial statements of SinoCloud Group Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at 31 March 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, 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 that 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with International Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Company as at 31 March 2016, and of the financial performance, changes in equity and cash flows of the Group for the financial year ended on that date.

INDEPENDENT AUDITOR'S **REPORT**

TO THE MEMBERS OF SINOCLOUD GROUP LIMITED
(Formerly Known As ARMARDA GROUP LIMITED)
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2016

Report on the Financial Statements (Continued)

Emphasis of matter

1) Going concern assumption

We draw attention to Note 2 to the financial statements, which states that the Group registered a net loss of $112,521,000 (2015: $42,511,000) and incurred negative operating cash flows of $16,653,000 (2015: $43,120,000) for the financial year ended 31 March 2016. The Group had scaled down its core business and continued its business restructuring exercise to invest in other business opportunities.

As disclosed in Note 7 to the financial statements, the Group's associate, China Satellite Mobile Communications Group Limited and its subsidiaries (collectively "China Satellite Group") which was acquired during 2013, recorded revenue of $8,560,000 (2015: $7,306,000) and incurred operating losses of $14,387,000 (2015: $14,168,000) for the financial year ended 31 March 2016.

In order to improve the Group's financial performance, the Group continues to diversify its business opportunities in various IT related areas, especially in the areas of internet data centre ("IDC") services and business in the People's Republic of China ("PRC"). On 1 October 2015, the Group acquired a 63% equity interest in SinoCloud 01 Limited and its subsidiaries for a purchase consideration of $103.7 million as disclosed in Note 37 to the financial statements so as to provide a gateway for future expansion into the IDC industry. This acquisition has resulted in the Group having an interest in Guiyang Zhongdian Gaoxin Digital Technologies Limited ("Guiyang Tech"), a Tier 4 data center located in Guiyang, the PRC with an expected full capacity of 5,000 racks.

The ability of the Group to achieve profitability and generate positive operating cash flows in the foreseeable future is largely dependent on the following factors:

(i) increase in profit contribution to the Group from the IDC business of Guiyang Tech;
(ii) the expected improvement in the achievement of certain utilisation rate of IDC services by Guiyang Tech; and
(iii) increase in positive future contribution by China Satellite Group.

2) Impairment of associates - China Satellite Mobile Communications Group Limited ("CSMCG Group")

We draw attention to Note 7 to the financial statements. The valuation of 100% equity interest of CSMCG Group, which was performed by a professional independent valuer, was estimated to be $196,000,000. The key basis and assumptions used for the valuation were the new business model with Thuraya Telecommunications Company ("Thuraya") for the provision of services including voice, data and sales of equipment in the PRC, which the Group has obtained distributorship with Thuraya. Management explained that the value in use of CSMCG Group was assessed using the discounted cash flow method based on income approach. As at the date of this report, management informed that the key business terms and conditions of the new agreement with Thuraya although have been confirmed, is still pending the final internal clearance of both parties.

As management is confident that the key business terms and conditions of the new agreement with Thuraya will be finalised in due course, the Group's share of its 45% equity interest in the investment in CSMCG Group has been impaired up to the Group's 45% proportional share of its investment value of $196,000,000 as determined by the professional independent valuer, which is $88,200,000. Accordingly, the carrying amount of the investment in CSMCG Group has been reduced to $88,200,000, after an impairment loss of $81,232,000 was recognized in profit or loss for the financial year.

Report on the Financial Statements (Continued)

Emphasis of matter (continued)

2) Impairment of associates - China Satellite Mobile Communications Group Limited ("CSMCG Group") (Continued)

In the event that the new agreement with Thuraya is not finalised, further impairment of the investment in CSMCG Group may be required.

3) Recoverability of convertible loan receivable

We draw attention to Note 10 to the financial statements. In assessing the recoverability of the convertible loan receivables of $78,084,000 from Mr Lu (comprising the principal amount of $72,000,000 plus interest charge of $6,084,000), management had proposed a settlement of $36,000,000 and had agreed to waive the remaining amount of $42,084,000. This was due to the view that the Company expected the waived amount to be unrecoverable and had deemed the convertible loan receivable as an investment loss. Accordingly, an impairment loss of $42,084,000 on the convertible loan receivables was recognized in profit or loss during the financial year.

On 14 June 2016, the Company entered into a binding Memorandum of Understanding with Mr Lu for the settlement of the remaining $36,000,000 via the following arrangement:

a) A first installment of $25,000,000 shall be paid to the Company within six months from the date the Company has obtained approval from its shareholders for the Proposed Settlement (Note 10) at a special general meeting ("SGM") to be convened in due course; and

b) The remaining $11,000,000 shall be paid on or before 31 March 2017.

Management expects the SGM will be convened no later than 30 September 2016. In the event the above arrangement is not approved at the SGM, there may be a possibility of further impairment of the convertible loan receivable of up to $36,000,000.

4) Recoverability of interest free advances and earnest deposits

We draw attention to Note 7 to the financial statements. On 9 December 2015, the Company announced that it has reached an agreement with the Pledging Parties and the Transferring Parties to settle the aggregate amount of $43,800,000 due and owing to the Company in respect of the interest free advances of $24,700,000 and the earnest deposits of $19,100,000 ("Proposed Settlement") in the following manner:

(a) Pursuant to an agreement dated 9 December 2015 and entered into between the Company and the Pledging Parties, (i) the Transferring Parties agreed to transfer the earnest deposits to the Pledging Parties; and (ii) the Pledging Parties agreed and undertook to accept and assume the liabilities and obligations of the Transferring Parties to repay, the earnest deposits. As a result, the aggregate amount due and owing by the Pledging Parties to the Company increased from $24,700,000 to $43,800,000, being the aggregate amount of the interest free advances and the earnest deposits (the "Outstanding Amount").

(b) Pursuant to an agreement dated 9 December 2015 and entered into between the Company and the Pledging Parties, the Pledging Parties agreed to transfer, and the Company agreed to accept, the Pledged Shares in full settlement and satisfaction of the Outstanding Amount.

INDEPENDENT AUDITOR'S **REPORT**

TO THE MEMBERS OF SINOCLOUD GROUP LIMITED
(Formerly Known As ARMARDA GROUP LIMITED)
FOR THE FINANCIAL YEAR ENDED 31 MARCH 2016

Report on the Financial Statements (Continued)

Emphasis of matter (continued)

4) Recoverability of interest free advances and earnest deposits (Continued)

Following the completion of the Proposed Settlement ("Completion"), CSMCG, which is currently a 45% associate of the Company, will become a 70.19% subsidiary of the Company.

However, this Proposed Settlement is subject to shareholders' approval in a special general meeting to be convened in due course.

As these interest-free advances and earnest deposits totaling $43,800,000 are not intended to be repayable given that management intends to offset them against the Completion, accordingly, these interest-free advances and earnest deposits had been reclassified to investment in associate to form part of the investment.

In the event the above mentioned Proposed Settlement is not being approved by shareholders in the SGM, management will need to assess the recoverability of these interest free advances and earnest deposits. Accordingly, there may be a need for impairment for these advances and earnest deposits.

Our opinion is not qualified in respect of these matters.

Other Matter

The financial statements for the financial year ended 31 March 2015 were audited by another independent auditor whose report dated 19 June 2015 expressed an unmodified opinion on those financial statements.

RT LLP

Public Accountants and
Chartered Accountants

Singapore, 20 June 2016

NOTES TO THE **FINANCIAL STATEMENTS**

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2016
(Amounts in thousands Hong Kong dollar "$'000" unless otherwise stated)

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 Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are shown in Note 6 to the financial statements.

The financial statements for the financial year ended 31 March 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 20 June 2016.

2. BASIS OF PREPARATION

Going concern assumption

The Group registered a net loss of $112,521,000 (2015: $42,511,000) and incurred negative operating cash flows of $16,653,000 (2015: $43,120,000) for the financial year ended 31 March 2016. The Group had scaled down its core business and continued its business restructuring exercise to invest in other business opportunities.

During the financial year, the Group's associate, China Satellite Mobile Communications Group Limited and its subsidiaries (collectively "China Satellite Group") which was acquired during 2013, recorded revenue of $8,560,000 (2015: $7,306,000) and operating losses of $14,387,000 (2015: $14,168,000) as disclosed in Note 7 to the financial statements.

In order to improve the Group's financial performance, the Group continue to diversify its business opportunities in various IT related areas especially in the areas of internet data centre ("IDC") services and business in the People's Republic of China ("PRC"). On 1 October 2015, the Group acquired a 63% equity interest in SinoCloud 01 Limited and its subsidiaries for a purchase consideration of $103.7 million as disclosed in Note 37 to the financial statements so as to provide a gateway for future expansion into the IDC industry. This acquisition had resulted in the Group having an interest in Guiyang Zhongdian Gaoxin Digital Technologies Limited ("Guiyang Tech"), a Tier 4 data center located in Guiyang, the PRC with an expected full capacity of 5,000 racks.

The ability of the Group to achieve profitability and generate positive operating cash flows in the foreseeable future is largely dependent on the following factors:

(i) increase in profit contribution to the Group from the IDC business of Guiyang Tech;

(ii) the expected improvement in the achievement of certain utilisation rate of IDC services by Guiyang Tech; and

(iii) increase in positive future contribution by China Satellite Group.

2. BASIS OF PREPARATION (Continued)

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 ("IFRS"). The financial statements are presented in Hong Kong dollar ("$'000") and all values are rounded to the nearest thousand ($'000) as indicated.

The preparation of the financial statements in conformity with IFRS 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 Note 3.

3. SIGNIFICANT ACCOUNTING POLICIES

Adoption of new and revised standards

On 1 April 2015, the Group adopted the new or amended International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee's Interpretations (IFRIC Interpretations) 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 IFRSs and IFRIC Interpretations. The adoption of these new or amended IFRSs and IFRIC Interpretations 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.

Key standards issued but not yet effective

The Group has not adopted the following new IFRSs and amendments to IFRS that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to IAS 12 *Deferred Tax Assets for Unrealised Losses*	1 January 2017
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
IFRS 9 (2014) *Financial Instruments*	1 January 2018
IFRS 16 *Leases*	1 January 2019

7. INVESTMENT IN ASSOCIATES

	Group		Company	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
At beginning of the financial year	164,108	175,323	169,432	169,432
Disposal of an associate	(11,222)	-	-	-
Share of loss	(6,474)	(8,039)	-	-
Share of translation reserve (Note 20)	-	69	-	-
Impairment loss	(81,232)	(3,245)	(81,232)	-
	65,180	164,108	88,200	169,432
Add: Reclassified from trade and other receivables				
Advances to third parties (Note 10)	24,700	-	24,700	-
Earnest deposits to third parties (unsecured) (Note 10)	19,100	-	19,100	-
At end of the financial year	108,980	164,108	132,000	169,432

	Group	
	2016	2015
	$'000	$'000
Representing:		
Goodwill	158,748	160,548
Share of net assets	(93,568)	3,560
	65,180	164,108
Advances to third parties	24,700	-
Earnest deposits to third parties (unsecured)	19,100	-
	108,980	164,108

The movement in accumulated impairment loss is as follows:

	Group	
	2016	2015
	$'000	$'000
At beginning of the financial year	6,168	2,923
Disposal of an associate	(6,168)	-
Impairment loss charged to profit or loss	81,232	3,245
At end of the financial year	81,232	6,168

The above impairment loss relate to China Satellite Group.

7. INVESTMENT IN ASSOCIATES (Continued)

Details of the Group's associates as at 31 March 2016 are as follows:

Name of companies	Principal activities	Country of incorporation and place of business	Proportion of the Group's effective interest (%)	
			2016 %	2015 %
Held by the Company				
China Satellite Mobile Communications Group Limited ("CSMCG") (i) (ii)	Investment holding	BVI	45	45
Held by CSMCG				
China Mobile Satellite Communication Group Ltd ("CMSCG") (ii)	Provision of mobile satellite communication services and distribution of satellite phones	Hong Kong	45	45
China Satellite Mobile (HK) Limited (ii)	Investment holding	Hong Kong	45	45
Held by CMSCG				
Suraya Network Technology (Shanghai) CO., Ltd (ii)	Provision of mobile satellite communication services and distribution of satellite phones	PRC	-	45
Held by Armarda Technology (Hong Kong) Limited				
Fesco E-HR Service (Beijing) Co,. Ltd (i)	Provision of IT consulting, IT support services, technical trainings and human resources services	PRC	-	45

(i) Not required to be audited under the laws of the British Virgin Islands ("BVI").

(ii) Audited by RT LLP for the purpose of expressing an opinion on the consolidated financial statements.

Developments in China Satellite Group

The Group holds 45% (2015: 45%) of the voting rights in China Satellite Group. On 30 September 2014, the Company entered into individual sales and purchase agreements ("S&P Agreements") with 10 out of 11 shareholders to acquire an additional 45.95% equity interest ("Proposed Acquisition"), after which China Satellite Group will become a subsidiary of the Company. The total purchase consideration amounted to approximately S$11,800,000 (equivalent to $72,000,000), shall be satisfied by a combination of 1,069,381,820 new issued ordinary shares of the Company and cash consideration of $45,950,000. The completion of the acquisition is subject to the satisfaction of certain significant conditions precedent set out in the S&P Agreements (expiring on 30 September 2015), whose conditions are substantially beyond the control of the Group.

7. INVESTMENT IN ASSOCIATES (Continued)

Developments in China Satellite Group (Continued)

The Group has also granted interest-free advances of $24,700,000 to 5 out of these 11 shareholders ("Pledging Parties") and earnest deposits of $19,100,000 to another 5 shareholders out of these 11 shareholders ("Transferring Parties"), both of which totaling $43,800,000 (2015: $43,800,000) to the 10 (2015:10) shareholders. The interest free advances were pledged with an aggregate of 5,037 ordinary shares in the capital of CSMCG (the "Pledged Shares"), representing 25.19% of the total issued and paid up capital of CSMCG, owned by the relevant 5 vendors to whom the interest free advances were extended. These interest free advances will either be offset against the purchase consideration upon completion of the acquisition or repayable on certain dates prior to end January 2016 (Note 10(iii)(iv)).

On 2 October 2015, the Company announced that the S&P Agreements signed on 30 September 2014 (with Long Stop Date for the satisfaction or waiver of the conditions precedent for the S&P Agreements, being 30 September 2015) has lapsed. As such, the S&P Agreements were terminated and accordingly, the Company will not be proceeding with the Proposed Acquisition.

On 9 December 2015, the Company announced that it has reached an agreement with the Pledging Parties and the Transferring Parties to settle the aggregate amount of $43,800,000 due and owing to the Company in respect of the interest free advances and the earnest deposits ("Proposed Settlement") in the following manner:

(a) Pursuant to an agreement dated 9 December 2015 and entered into between the Company and the Pledging Parties, (i) the Transferring Parties agreed to transfer the earnest deposits to the Pledging Parties; and (ii) the Pledging Parties agreed and undertook to accept and assume the liabilities and obligations of the Transferring Parties to repay, the earnest deposits. As a result, the aggregate amount due and owing by the Pledging Parties to the Company increased from $24,700,000 to $43,800,000, being the aggregate amount of the interest free advances and the earnest deposits (the "Outstanding Amount").

(b) Pursuant to an agreement dated 9 December 2015 and entered into between the Company and the Pledging Parties, the Pledging Parties agreed to transfer, and the Company agreed to accept, the Pledged Shares in full settlement and satisfaction of the Outstanding Amount.

Following the completion of the Proposed Settlement ("Completion"), CSMCG, which is currently a 45% associate of the Company, will become a 70.19% subsidiary of the Company.

However, this Proposed Settlement is subject to shareholders' approval in a special general meeting to be convened in due course.

As these interest-free advances and earnest deposits totaling $43,800,000 are not intended to be repayable given that management intends to offset them against the Completion, accordingly, these interest-free advances and earnest deposits had been reclassified to investment in associates to form part of the investment.

The judgement relating to the significant influence over this associate is disclosed in Note 3.

7. INVESTMENT IN ASSOCIATES (Continued)

Impairment testing for China Satellite Group

During the financial year, management appointed a professional independent valuer with a recognised and relevant professional qualifications to provide an independent opinion on the investment value of China Satellite Group. This is due to indication of impairment as the associate had reported net losses of $14,387,000 (2015: $14,168,000) for the financial year ended 31 March 2016.

The professional valuer had valued the investment value of China Satellite Group as at 31 March 2016 to be $196,000,000 based on income approach. This impairment loss of $81,232,000 is recognised in profit or loss and included in "Mobile Satellite Service" segment. As the Group's 45% proportionate share of this valuation is $88,200,000, accordingly, management had made an impairment loss of $81,232,000 based on its carrying amount of $169,432,000 as at 31 March 2016.

The investment value of China Satellite Group was determined using value-in-use calculations based on a 10-year cash flow projection from financial budgets approved by management. In assessing value in use, the estimated future cash flows are discounted their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. The pre-tax discount rate applied to the cash flow projection is 15.2% and the forecasted declining growth rate used are range from 81.0% to 10.2%.

The key basis and assumptions used for the valuation were the new business model with Thuraya Telecommunications Company ("Thuraya") for the provision of services including voice, data and sales of equipment in the PRC, which the Group has obtained distributorship with Thuraya.

The calculation of the value-in-use is most sensitive to the following assumptions:

Equipment Sales

- China Satellite Group is expected to buy voice and data modems from Thuraya at a certain fixed price per voice modem and a certain fixed price per data modem and to resell them to distributors and retailers at a certain expected margin.
- At the 10th Anniversary, a total of 61,800 vessels for fishing in ocean is anticipated to be installed with voice and data modem.

Data Service

- Data service is expected to come from one source (i.e. modem-installed vessel), which is expected to have 10 users (fishermen), each of whom is expected to utilise 12 MB per user per annum.

Voice service

- The target user of voice service is expected to come from two sources: 1) utilisation of 1,200 minutes of voice service per annum from an existing 5,000 satellite phone users; and 2) utilisation of 500 minutes of voice service per annum from each voice modem on modem-installed vessel.
- China Satellite Group is expected to be allocated with certain percentage of the Thuraya's revenue.

7. INVESTMENT IN ASSOCIATES (Continued)

Impairment testing for Fesco E-HR

In the financial year ended 31 March 2015, the recoverable amount of the investment in Fesco E-HR has been determined using value-in-use calculations based on a 5-year cash flow projection from financial budgets approved by management. A terminal value, which is the present value of all future cash flows, assuming a perpetual constant growth rate, is also applied in the fifth year. The pre-tax discount rate applied to the cash flow projection is 14% and the forecasted growth rate used to extrapolate cash flow projections beyond the 5-year period is 5%. In the financial year ended 31 March 2015, an impairment loss of $3,245,000 is recognised in profit or loss and included in "Provision of IT services" segment as the recoverable amount is below the carrying amount of the investment.

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of the investment:

Revenue growth rate: Revenue growth rate in the 5-year budgets are based on future increase in management fees income of 10% - 15% for every 3 years, as agreed by the majority shareholder of Fesco E-HR.

Discount rate: Discount rate reflects the weighted average cost of capital of Fesco E-HR, representing the current market assessment of the risks specific to Fesco E-HR.

If Fesco E-HR's revenue growth rate and discount rate adopted in the cash flow projection is to deviate by 1% respectively, the Group's loss for the financial year will increase / (decrease) by:

	Effect of +1% change to profit and loss	Effect of -1% change to profit and loss
	$'000	$'000
2015		
Change in revenue growth rate	(1,315)	1,422
Change in discount rate	1,115	(1,265)

The summarised financial information of the associates, not adjusted for the proportion of ownership interest held by the Group, is as follows:

	China Satellite Group		Fesco E-HR	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Current assets	8,652	11,724	-	27,663
Non-current assets	-	1,017	-	9,932
Current liabilities	36,066	24,754	-	5,293
Non-current liabilities	-	5,166	-	-
Revenue	8,560	7,306	31,482	41,704
Net profit/ (loss) for the financial year	(14,387)[a]	(14,168)	279	(3,696)[b]
Other comprehensive income	-	-	-	153
Total comprehensive income/ (loss)	(14,387)	(14,168)	279	(3,543)

7. INVESTMENT IN ASSOCIATES (Continued)

(a) Include in China Satellite Group's net loss for the financial year is an impairment loss of investment in China Satellite Group of $81,232,000 due to their recoverable amount being lower than its carrying amount of investment in China Satellite Group as at financial year 31 March 2016.

(b) Included in Fesco E-HR's net loss for the financial year is an impairment loss of Fesco E-HR's investments in associates of $3,245,000 due to their continuing loss making positions.

Reconciliation of the above summarised financial information to the carrying amount of the interest in associates recognised in the consolidated financial statements:

	Group	
	2016	2015
	$'000	$'000
China Satellite Group		
Net assets	(27,414)	(17,179)
Proportion of the Group's ownership interest	45%	45%
Share of net assets	(12,336)	(7,731)
Goodwill on acquisition	158,748	160,548
Impairment loss	(81,232)	-
	65,180	152,817
Fesco E-HR		
Net assets	-	32,302
Proportion of the Group's ownership interest	-	45%
Share of net assets	-	14,536
Goodwill on acquisition	-	2,923
Impairment loss	-	(6,168)
	-	11,291
Total carrying amount	65,180	164,108

10. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Trade receivables	10,243	1,319	-	-
Other receivables [i]	899	10,829	-	-
Less: Allowance for impairment loss	-	(3,652)	-	-
	899	7,177	-	-
Prepayments	2,331	385	233	283
Refundable deposits	2,541	701	-	-
Convertible loan receivable [ii]	72,000	72,000	72,000	72,000
Interest convertible loan receivable	6,084	3,060	6,084	3,060
	78,084	75,060	78,084	75,060
Less: Allowance for impairment loss	(42,084)	-	(42,084)	-
	36,000	75,060	36,000	75,060
Advances to third parties (secured) [iii]	24,700	24,700	24,700	24,700
Earnest deposits to third parties (unsecured) [iv]	19,100	19,100	19,100	19,100
Due from a director of a subsidiary (non-trade) [v]	780	312	-	-
	96,594	128,754	80,033	119,143
Less: Reclassified to investment in associates				
- Advances to third parties (secured) [iii] (Note 7)	(24,700)	-	(24,700)	-
- Earnest deposits to third parties [iv] (Note 7)	(19,100)	-	(19,100)	-
	52,794	128,754	36,233	119,143

[i] Other receivables

In the financial year ended 31 March 2015, included in the balance is a loan of $5,510,000 due from a third party for working capital in connection with its future collaboration with China Satellite Group's business.

During the current financial year, the loan which was interest free, unsecured and repayable on 31 March 2016, has been transferred to its associate, China Satellite Group based on Loan Transfer Agreements signed between a third party, China Satellite Group and the Company. This amount is reclassified to amount due from an associate (Note 11).

In the financial year ended 31 March 2015, the Group provided interest-free advances of $25,000,000 to a third party for the purpose of developing telecommunication equipment in relation to China Satellite Group's business. This advances of $25,000,000 were partially settled by way of Debt Assignment as disclosed in Note 9. As at 31 March 2015, remaining advances amounting to $808,000 are unsecured and repayable within 12 months.

10. TRADE AND OTHER RECEIVABLES (Continued)

(ii) Convertible loan receivable

On 25 March 2014, the Company entered into a convertible loan agreement ("Convertible Loan Agreement") with Mr Lu Zhen Dong ("Mr Lu") and his special purpose vehicle company, the Zhuhai Entity for the purpose of restructuring the refundable deposits ("Deposits") totalling $50,050,000 into a convertible loan ("Convertible Loan"). These Deposits, which were refundable, were originally paid towards a potential acquisition of a PRC telecommunication project ("PRC Project Company"), pending the fulfilment of certain milestones. Subsequent to the payment of the Deposits, the Company was not able to directly invest in the PRC Project Company due to the then prevailing policy restriction on foreign ownership in the telecommunication industry of the PRC government.

For precautionary and transitional measures to ensure the Company's reasonable accessibility to important and valuable project related information of the PRC Project Company, one of the Company's then executive Directors, Mr Richard Gao ("Mr Gao"), who was appointed as executive director of the Company from February 2009 to December 2014, had been appointed by Mr Lu to act as the legal representative and sole director of Zhuhai Entity as well as a nominee shareholder holding Mr Lu's entire shareholding in the Zhuhai Entity on trust of Mr Lu.

On 23 July 2014, the Company entered into a supplemental agreement to the Convertible Loan Agreement ("Supplemental Convertible Loan Agreement") with Mr Lu to increase the amount of the Convertible Loan by $33,950,000 from $50,050,000 to $84,000,000.

On 13 March 2015, the Company and its wholly-owned subsidiary, SinoCloud Investment Holdings Limited (formerly known as Armarda Holdings Limited), entered into an agreement with Mr Zhang Dai and Mr Lu. The agreement is to assign part of the Convertible Loan amounting to $12,000,000 due from Mr Lu to the Company to Mr Zhang Dai. This partial convertible loan of $ 12,000,000 is meant to partially satisfy the purchase consideration due from the Company for the acquisition of 63% equity interests in SinoCloud 01 Limited as disclosed in Note 9. Mr Zhang Dai was one of the vendors for the sale of the 63% equity interests in SinoCloud 01 Limited to the Group which the Group subsequently acquired on 1 October 2015. Subsequent to the aforesaid arrangement ("2015 Assignment"), the amount of the Convertible Loan owing from Mr Lu to the Company was reduced from $84,000,000 to $72,000,000.

Pursuant to the terms of the Convertible Loan Agreement, the convertible loan is secured by a conversion option, at the Company's discretion (i.e. has the right but not the obligation), to convert amounts outstanding under the Convertible Loan Agreement into a maximum of 94.5% direct equity interest in Zhuhai Entity, which in turn holds, 44.3% equity interest in the PRC Project Company, and representing the Company's effective interest of 41.9% in the PRC Project Company. After the 2015 Assignment, the Company would still have the right (but not the obligation) to convert the amounts outstanding amounts under the Convertible Loan Agreement into a maximum of 94.5% direct equity interest in Zhuhai Entity, which in turn holds 36.8% equity interest in the PRC Project Company, representing the Company's effective interest of 34.8% in the PRC Project Company. This is subject to the PRC regulatory authority officially approving foreign invested enterprises to invest in the restricted telecommunication industry. The Convertible Loan was due and payable by Mr Lu on 25 March 2016, after the parties agreed to extend the initial maturity date of 25 March 2015 for a period of 12 months.

10. TRADE AND OTHER RECEIVABLES (Continued)

(ii) Convertible loan receivable (Continued)

Management assessed and concluded that as the conversion option is not transferrable and is currently not exercisable since the telecommunication industry is restricted only to domestic PRC enterprise, the conversion option has no intrinsic value and this, the Group has no potential voting rights over the SPV or the PRC Company. During the last financial year, one of the Company's directors is appointed as a director of the PRC Company as a further protective right over the Convertible Loan. The Group assessed and concluded that there is no significant influence over the PRC Company as the appointment represents 1 out 7 in the board composition of the PRC Company, and the legal representative, general manager and 3 directors of the PRC Company are appointed by the dominant shareholder of the PRC Company which is a government-owned enterprise. As a result, the management concluded that the Convertible Loan arrangement does not give rise to significant influence over the PRC Company, and has classified the Convertible Loan as a financial asset, expected to be recovered within the next 12 months.

The remaining Convertible Loan amounting to $29,916,000 (2015: $72,000,000) as at 31 March 2016 together with interest charge of $6,084,000 at 4.2% (2015: 4.2%) per annum which is repayable on the repayment date of the principal sum or upon conversion of the principal sum, is included in other receivables until then. The Loan is secured by a conversion option, at the Company's discretion, to convert the Loan into 94.5% equity interest in the SPV, which gives rise to 34.8% (2015: 34.8%) effective interest in the PRC Company, subject to the PRC regulatory authority officially approving foreign invested enterprises to invest in the restricted telecommunication industry.

On 14 June 2016, the Company entered into a binding Memorandum of Understanding with Mr Lu for the repayment of the Convertible Loan ("MOU"), pursuant to which, the Company has agreed to waive $42,084,000 of the outstanding Convertible Loan, conditional upon approval being obtained from shareholders of the Company at a Special General Meeting to be convened. This is because the Company had expected the waived amount to be unrecoverable and had deemed the Convertible Loan as an investment loss.

The remaining $36,000,000 would be repayable by Mr Lu to the Company via the following arrangement:

a) The first installment of $25,000,000 shall be paid to the Company within six months from the date that the Company obtains approval from its shareholders for the Proposed Settlement at a special general meeting ("SGM") to be convened in due course; an

b) The remaining $11,000,000 million shall be paid on or before 31 March 2017.

The Board is of the view that the above arrangement is the best interest of the Company and its shareholders.

10. TRADE AND OTHER RECEIVABLES (Continued)

(iii) Advances to third parties (secured)

In the previous financial year 31 March 2014, the Company extended interest-free advances amounting to $24,700,000 to 5 shareholders of China Satellite Group. The advances are secured by 25.19% (2015: 25.19%) equity interest in China Satellite Group and will be offset against the purchase consideration of the proposed acquisition of additional equity interest in China Satellite Group as disclosed in Note 7 or repayable on 31 January 2016 in the event that the proposed acquisition is not completed by then.

On 2 October 2015, the Company announced that the S&P Agreement signed on 30 September 2015 has lapsed. As such, the S&P Agreement was terminated (the "Termination") and accordingly, the Company will not be proceeding with the Proposed Acquisition. As at the date of this announcement, the Company holds 45% of the existing issued and paid up ordinary shares in the capital of CSMCG.

On 9 December 2015, the Company announced that the Company has reached an agreement with the Pledging Parties and the Transferring Parties to settle the aggregate amount of HK$43.8 million due and owing to the Company in respect of the Loans and the Goodwill Deposits ("Proposed Settlement") in the following manner:

(a) Pursuant to an agreement dated 9 December 2015 and entered into between the Company, Chong Choi Fu (acting as attorney for and on behalf of the Transferring Parties) and the Pledging Parties, (i) the Transferring Parties agreed to transfer the Goodwill Deposits to the Pledging Parties; and (ii) the Pledging Parties agreed and undertook to accept and assume the liabilities and obligations of the Transferring Parties to repay, the Goodwill Deposits. As a result, the aggregate amount due and owing by the Pledging Parties to the Company increased from the Loans amount of HK$24.7 million to HK$43.8 million, being the aggregate amount of the Loans and the Goodwill Deposits (the "Outstanding Amount").

(b) Pursuant to an agreement dated 9 December 2015 and entered into between the Company and the Pledging Parties (the "Settlement Agreement"), the Pledging Parties agreed to transfer, and the Company agreed to accept, the Pledged Shares in full settlement and satisfaction of the Outstanding Amount.

Following the completion of the Proposed Settlement ("Completion"), CSMCG, which is currently a 45% associate of the Company, will become a 70.19% subsidiary of the Company. However, this Proposed Settlement is subject to shareholders' approval in a special general meeting to be convened in due course.

As at the end of the reporting period, as this interest free advances have not and will not be repaid, management has deemed this advances to be part of investment in China Satellite Group and accordingly, had reclassified this advances to investment in associates.

10. TRADE AND OTHER RECEIVABLES (Continued)

(iv) Earnest deposits to third parties

In the last financial year ended 31 March 2015, the Company granted interest-free earnest deposits amounting to $19,100,000 to another 5 shareholders of China Satellite Group and the Group has paid $1,000,000 in cash and the remaining $18,100,000 was paid directly by the Company's shareholders in a new shares issuance by placement as disclosed in Note 17 (ii).

The interest-free earnest deposits will be offset against the purchase consideration of the proposed acquisition of additional equity interest of 20.76% (2015: 20.76%) in China Satellite Group as disclosed in Note 7. This Proposed Settlement is subject to shareholders' approval in a special general meeting to be convened in due course. As at the end of the reporting period, as this interest free advances have not and will not be repaid, management has deemed this advances to be part of investment in China Satellite Group and accordingly, had reclassified this advances to investment in associates.

(v) Due from a director of a subsidiary (non-trade)

The non-trade balance is interest-free, unsecured and repayable on demand.

11. AMOUNT DUE FROM / (TO) AN ASSOCIATE (NON-TRADE) AMOUNT DUE TO A SUBSIDIARY (NON-TRADE)

These balances are interest-free, unsecured and repayable on demand.

12. TRADE AND OTHER PAYABLES

	Group		Company	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Trade payables	14,827	153	-	-
Other payables (i)	22,622	21,018	2,234	15,327
Accrued operating expenses	2,711	659	1,238	2,125
Deposits	40	-	-	-
Amount due to a director of a subsidiary (non-trade) (ii)	799	1,154	-	-
	40,999	22,984	3,472	17,452