

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

INDEPENDENT AUDITOR'S COMMENTS ON FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD FROM 1 APRIL 2018 TO 30 JUNE 2019

Pursuant to Rule 704(4) of the Listing Manual Section B: Rules of Catalyst (“**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, Crowe Horwath First Trust LLP, had, without qualifying its audit opinion, included in the Independent Auditor’s Report a material uncertainty related to going concern in the audited financial statements of the Group for the financial period from 1 April 2018 to 30 June 2019 (the “**Audited Financial Statements**”). A copy of the Independent Auditor’s Report and an extract of Notes 2, 9 and 37 to the Audited Financial Statements are attached to this announcement for information.

The Audited Financial Statements have been prepared on a going concern basis. Management’s assessment of the Group’s and the Company’s ability to continue as a going concern includes the following key assumptions:

- (a) the Group’s key operating subsidiary in the PRC, Guiyang Zhongdian Gaoxin Digital Technologies Limited (“**Guiyang Tech**”), is able to successfully participate in government projects including obtaining key contracts from more state-owned and other enterprises in the PRC, continues to receive strong sales orders from and renew existing contracts with its major customer, thereby increasing its operating profits and operating cashflows from its internet data centre (“**IDC**”) business;
- (b) the Group continues to obtain financial support from its related party, controlled by an executive director of the Company, to enable the Group to operate as a going concern and to meet its obligations as and when they fall due, in particular, the Group’s contractual capital commitment of HK\$141,932,000 relating to IDC Phase II development which includes the construction of a call centre, as disclosed in Note 37 of the Audited Financial Statements;
- (c) a shareholder not calling for payment of the aggregate amount owing to him of HK\$19,993,000 (comprising of loans of HK\$9,867,000 and redeemable convertible bonds of HK\$10,126,000) and accrued interest payable of HK\$3,499,000; and
- (d) the eventual realisation of cash flows from the Group’s trade and other receivables and contract assets, including the collection of HK\$11,486,000 from the individual shareholders of China Satellite Group as disclosed in Note 9 of the Audited Financial Statements and collection of HK\$52,829,000 from the single largest customer in accordance with its repayment agreement. Subsequently, at the date of this report, HK\$3,840,000 and \$18,313,000 have been collected respectively.

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 confirmed 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 2019 annual report, which will be made available to Shareholders in due course.

The Board wishes to advise Shareholders and potential 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 Order of the Board

Chan Andrew Wai Men
Chairman and Chief Executive Officer
28 September 2019

*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.



Crowe Horwath First Trust LLP
8 Shenton Way
#05-01 AXA Tower
Singapore 068811
Main +65 6221 0338
Fax +65 6221 1080
www.crowe.sg

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SinoCloud Group Limited (the "Company") and its subsidiaries (the "Group"), set out on pages 47 to 140 which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial period from 1 April 2018 to 30 June 2019, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with International Financial Reporting Standards (IFRSs) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 30 June 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial period from 1 April 2018 to 30 June 2019.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our auditor's report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 2 to the financial statements, which indicates that the Group reported a net loss of \$30,708,000 during the financial period from 1 April 2018 to 30 June 2019 and, as of 30 June 2019, the Group's cash and bank balances available for use amounted to \$572,000 while the current liabilities amounted to \$71,842,000. The Group is highly dependent on financing from a related party and the eventual realisation of cash flows from its current trade and other receivables, including contract assets. These factors, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the ability of the Group and the Company to continue as a going concern.



INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SINO CLOUD GROUP LIMITED (Continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current financial period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matter described as below as the key audit matters to be communicated in our report.

Impairment of trade receivables and contract assets	
<p><i>Refer to Note 3 “Critical accounting estimates, assumptions and judgements”, Note 9 “Trade and other receivables”, Note 27(b) “Contract balances” and Note 39(iii) “Financial Risk Management Objectives and Policies”</i></p>	
Key audit matter	How the matter was addressed in the audit
<p>The Group has trade receivables of \$27,907,000 (2018: \$47,829,000) and contract assets of \$36,241,000 (2018: \$Nil) as at 30 June 2019, representing 67% (2018: 28%) of the Group’s current assets as at 30 June 2019.</p> <p>In addition, approximately 82% (2018: 57%) of trade receivables and contract assets is due from a single largest customer, contributing 60% (2018: 43%) of the Group’s total revenue during the financial period ended 30 June 2019. The total balance due from this customer amounted to \$52,829,000 (2018: \$27,100,000) as at 30 June 2019.</p>	<p>We reviewed management’s assessment on the impairment of trade receivables and contract assets. Our audit procedures included, amongst others, the following:</p> <ol style="list-style-type: none"> 1) We evaluated the Group’s processes and key controls relating to the monitoring of trade receivables and contract assets. 2) We requested and obtained confirmations from significant trade receivables. 3) We reviewed the aging profile of the trade receivables to identify collection risks, and checked for evidence of receipts, subsequent to the financial period for certain customers, including the adherence to repayment agreements. 4) We discussed with management about the collection status of long outstanding trade receivables and management’s consideration of customers’ profiles, payment history and credit risks.



INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SINO CLOUD GROUP LIMITED (Continued)

Key Audit Matters (Continued)

Key audit matter	How the matter was addressed in the audit
<p>The Group determines the expected credit losses (“ECL”) of trade receivables and contract assets by making debtor-specific assessment of long outstanding trade receivables and contract assets and using probability of default from an external credit rating agency, where available, or historical credit loss experience, taking into consideration of the debtors’ ability to pay and adjusting for forward-looking information specific to the debtors and the economic environment. This assessment requires management to exercise significant judgement. Accordingly, we determined this as a key audit matter.</p> <p>As at 30 June 2019, the Group’s aggregate impairment loss for trade receivables and contract assets amounted to \$2,584,000 (2018: \$750,000), which includes a net allowance of \$1,660,000 (2018: \$Nil) recognised in the profit or loss during the financial period.</p>	<p>5) We evaluated management’s assumptions and inputs used in the ECL computation and assessed the reasonableness of management’s assumptions used in estimating the probability of default including forward-looking adjustments.</p> <p>6) We also assessed the adequacy of the Group’s disclosures on the trade receivables and contract assets and the related credit risk in Note 39(iii) to the financial statements, relating to the ECL of trade receivables and contract assets.</p> <p>We found management’s assessment of the impairment of trade receivables and contract assets to be reasonable and the relevant disclosures to be appropriate.</p>

Other Information

Management is responsible for the other information. The other information comprises the information included in the Directors’ Statement, but does not include the financial statements and our auditor’s report thereon, which we obtained prior to the date of this auditor’s report and the remaining sections of the annual report are expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SINO CLOUD GROUP LIMITED (Continued)

Other Matter

The financial statements for the financial year ended 31 March 2018 were audited by another auditor whose report dated 22 June 2018 expressed an unqualified opinion with an emphasis of matter for material uncertainty related to going concern on those financial statements.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of IFRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS
OF
SINOCLOUD GROUP LIMITED (Continued)**

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Adeline Ng Cheah Chen.

Crowe Horwath First Trust LLP
Public Accountants and
Chartered Accountants
Singapore

24 September 2019

2. FUNDAMENTAL ACCOUNTING CONCEPT

During the financial period from 1 April 2018 to 30 June 2019, the Group reported a net loss of \$30,708,000 (1 April 2017 to 31 March 2018: \$37,902,000) and, as of 30 June 2019, the Group's cash and bank balances available for use amounted to \$572,000 (2018: \$724,000) while its current liabilities amounted to \$71,842,000 (2018: \$131,131,000). In addition, 60% of the Group's revenue is derived from a single customer of which the balance as at 30 June 2019 represents 82% of the Group's total trade receivables and contract assets. These facts and circumstances indicate the existence of material uncertainties that may cast significant doubts on the ability of the Group and of the Company to continue as a going concern, notwithstanding the net assets of approximately \$309,133,000 (2018: \$358,514,000) as at 30 June 2019.

The accompanying financial statements have been prepared on a going concern basis. Management's assessment of the Group's and the Company's ability to continue as a going concern includes the following key assumptions:

- (a) The Group's key operating subsidiary in the PRC, Guiyang Zhongdian Gaoxin Digital Technologies Limited ("Guiyang Tech"), is able to successfully participate in government projects including obtaining key contracts from more state-owned and other enterprises in the PRC, continues to receive strong sales orders from and renew existing contracts with its major customer, thereby increasing its operating profits and operating cashflows from its internet data centre ("IDC") business;
- (b) The Group continues to obtain financial support from its related party, controlled by an executive director of the Company, to enable the Group to operate as a going concern and to meet its obligations as and when they fall due, in particular, the Group's contractual capital commitment of \$141,932,000 relating to IDC Phase II development which includes the construction of a call centre, as disclosed in Note 37;
- (c) A shareholder not calling for payment of the aggregate amount owing to him of \$19,993,000 (comprising of loans of \$9,867,000 and redeemable convertible bonds of \$10,126,000) and accrued interest payable of \$3,499,000; and
- (d) The eventual realisation of cash flows from the Group's trade and other receivables and contract assets, including the collection of \$11,486,000 from the individual shareholders of China Satellite Group as disclosed in Note 9 and collection of \$52,829,000 from the single largest customer in accordance with its repayment agreement. Subsequently, at the date of this report, \$3,840,000 and \$18,313,000 have been collected respectively.

If the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the Company may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the statements of financial position. In addition, the Group and the Company may have to reclassify non-current assets and liabilities as current assets and liabilities, and to provide for further liabilities which may arise. No such adjustments have been made to the financial statements.

Extracted from Note 9 to the Audited Financial Statements of SinoCloud Group Limited for the financial period from 1 April 2018 to 30 June 2019

9. TRADE AND OTHER RECEIVABLES

	Group			Company	
	30 June 2019 \$'000	31 March 2018 \$'000 (Restated)	1 April 2017 \$'000 (Restated)	30 June 2019 \$'000	31 March 2018 \$'000
Trade receivables					
- Third parties	24,068	46,518	35,280	-	-
- A related party	6,186	2,061	-	-	-
Less: Allowance of impairment loss (Note 39(iii))	(2,347)	(750)	(692)	-	-
	27,907	47,829	34,588	-	-
Other receivables	1,117	1,241	259	-	-
Refundable deposits ⁽ⁱ⁾	4	43,712	2,888	-	-
Advances to Vendors (unsecured) ⁽ⁱⁱ⁾	11,486	24,700	24,700	11,486	24,700
Earnest deposits to Vendors (unsecured) ⁽ⁱⁱ⁾	-	6,908	19,100	-	6,908
Due from related parties (non-trade) ⁽ⁱⁱⁱ⁾	53	37	-	-	-
Due from a director (non-trade) ^(iv)	-	-	780	-	-
	40,567	124,427	82,315	11,486	31,608
Prepayments ^(v)	19,058	39,407	7,440	118	243
	59,625	163,834	89,755	11,604	31,851

(i) Refundable deposits

Pursuant to a termination agreement dated 30 September 2018, refundable deposit of \$43,658,000, in relation to a potential acquisition of an internet data centre in the PRC, was received in full.

(ii) Advances and earnest deposits to Vendors (unsecured)

As disclosed in prior year's report, advances and earnest deposits are paid to shareholders of China Satellite Group ("Vendors") to acquire additional interests in the Group's associate - China Satellite Group ("Proposed Additional Investment"). However, the Proposed Additional Investment was terminated, following the Board of Director's decision not to proceed with the acquisition, the Group entered into a settlement agreement dated 7 May 2018 with the Vendors to refund the outstanding balances by 31 December 2019. Subsequent to 30 June 2019, the Group received \$3,840,000 from the Vendors.

(iii) Due from related parties (non-trade)

These amounts are due from companies controlled by an executive director of the Company. These non-trade balances are interest-free, unsecured and repayable on demand.

(iv) Due from a director (non-trade)

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

(v) Prepayments

Prepayments mainly consist of prepayments for leasehold improvements, server equipment, software development and construction projects. The amount is stated after an impairment loss of \$8,594,000 (Note 33) on prepayment for server equipment, due to uncertainty of recoverability as a result of change of business plan.

Extracted Note 37 to the Audited Financial Statements of SinoCloud Group Limited for the financial period from 1 April 2018 to 30 June 2019

37. COMMITMENTS

(i) Future capital expenditure

Capital expenditures contracted for at the reporting date but not recognised in the financial statements, are as follows:

	Group	
	30 June 2019	31 March 2018
	\$'000	\$'000 (Restated)
In respect of property, plant and equipment	141,932	177,003

(ii) Operating lease commitments (non-cancellable)

As lessee

The Group has various operating lease agreements for certain buildings and offices. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing.

	Group	
	30 June 2019	31 March 2018
	\$'000	\$'000 (Restated)
Future minimum lease payments:		
- Not later than one year	5,915	6,000
- Later than one year and not later than five years	28,104	28,807
- Later than five years	49,620	54,369
	83,639	89,176

As lessor

The Group leases out servers under non-cancellable operating leases. The future minimum lease receivables under non-cancellable operating leases contracted for at the reporting date but not recognised as receivables or contract assets are as follows:

	Group	
	30 June 2019	31 March 2018
	\$'000	\$'000
Future minimum lease receivables		
- Not later than 1 year	330	-