

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

INDEPENDENT AUDITOR'S COMMENTS ON FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2018

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 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 year ended 31 March 2018 (the "**Audited Financial Statements**"). A copy of the Independent Auditor's Report and an extract of Note 2 to the Audited Financial Statements are attached to this announcement for information.

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 2018 annual report, which will be despatched 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
25 June 2018

*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**"), for compliance with the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual Section B: Rules of Catalist. 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. Alice Ng, Director of Continuing Sponsorship, ZICO Capital Pte. Ltd. at 8 Robinson Road, #09-00 ASO Building, Singapore 048544, telephone (65) 6636 4201.

Extracted from the Independent Auditor's Report to the Audited Financial Statements of SinoCloud Group Limited for the financial year ended 31 March 2018.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the financial statements of SinoCloud Group Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 March 2018 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flows for the year then ended, and the 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 give a true and fair view of the financial position of the Group and of the Company as at 31 March 2018, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). 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

We draw attention to Note 2 in the financial statements, which indicates that the Group incurred a net loss of \$17,473,000 (2017: \$42,235,000) during the year ended 31 March 2018 and, as of that date, the Group's cash and cash equivalents available for use amounting to \$724,000 while the current liabilities and capital commitment due in one year amounting to \$159,334,000 and \$174,475,000 respectively. The Group is highly dependent on the borrowings from financial institution, loan from related party, the realisation of cash flows from the current trade and other receivables and generation of additional cash flow from its operating activities. These factors indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern notwithstanding the net assets of approximately \$366,057,000 as at 31 March 2018 and positive operating cash flow of \$9,026,000 during the year ended 31 March 2018. Our opinion is not modified in respect of this matter.

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 year. These matters were addressed in the context of our audit of the financial statements as a whole, an in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters (Cont'd)

Key audit matters	How the matter was addressed in the audit
<p data-bbox="129 293 759 412"><u>Impairment of investments in associates - China Satellite Mobile Communications Group Limited ("China Satellite Group") and amount due from China Satellite Group</u></p> <p data-bbox="129 445 759 564">In 2018, the Group had fully recognised impairment loss of HK\$26.4 million and HK\$22.7 million on its investments in China Satellite Group and amount due from China Satellite Group.</p> <p data-bbox="129 598 759 687">Management is required to assess at the end of each reporting period whether there is any indication that the investments may be impaired.</p> <p data-bbox="129 721 759 871">The recoverable amount of investments in China Satellite Group and amount due from China Satellite Group was determined using the value in use which involves significant judgments and estimations by management.</p> <p data-bbox="129 904 759 994">The significant estimates and disclosures on the impairment loss on receivables are disclosed in the Note 3.1(ii)(b), Note 7 and Note 10 respectively.</p>	<p data-bbox="782 293 1402 412">Our audit procedures focused on evaluating and challenging the key assumptions used by the Management in the impairment assessment of the investment in China Satellite Group.</p> <p data-bbox="782 432 1326 461">We have performed the following procedures:</p> <ul data-bbox="831 481 1402 848" style="list-style-type: none"><li data-bbox="831 481 1402 571">• Challenged the discounted cash flow used by management with respect to the assumptions;<li data-bbox="831 602 1402 663">• Evaluated the growth rates and discount rates used in the discounted cash flow;<li data-bbox="831 694 1402 754">• Assessed the accuracy of the computation of the discounted cash flow; and<li data-bbox="831 786 1402 848">• Considered the financial position of China Satellite Group.

Key Audit Matters (Continued)

Key audit matters	How the matter was addressed in the audit
<p data-bbox="129 416 711 477"><u>Impairment of receivables from vendors of China Satellite Group (“Vendors”)</u></p> <p data-bbox="129 524 746 645">In 2018, the Group had outstanding receivables from Vendors amounting to HK\$31.6 million which constituted 5.8% of the total assets and 18.6% of the current assets of the Group.</p> <p data-bbox="129 710 746 891">Management is required to assess at the end of each reporting period whether there is any indication that the receivables may be impaired. The recovery of the receivables from the Vendors is dependent on the intention and payment history from the Vendors.</p> <p data-bbox="129 943 746 1151">During the financial year, the Group has recovered HK\$12.2 million from the Vendors. Subsequent to year end and before the date of this report, the Group has entered into a supplemental repayment agreement with Vendors to extend the repayment date of the outstanding balances and additional HK\$3.1 million was recovered from the Vendors.</p> <p data-bbox="129 1202 746 1323">The significant estimates and disclosure on the impairment loss on investment in associates are disclosed in the Note 3.1(ii)(b), Note 9(ii) and Note 9(iii) respectively.</p>	<p data-bbox="770 416 1434 506">Our audit procedures focused on evaluating management’s impairment assessment of those receivables which include :</p> <ul data-bbox="820 539 1434 853" style="list-style-type: none"> <li data-bbox="820 539 1434 600">• Considered the ability of the vendors on repayment; <li data-bbox="820 651 1434 712">• Checked to the subsequent repayments from the vendors; and <li data-bbox="820 763 1434 853">• Assessed the age of the receivables and the terms and conditions of the supplemental repayment agreement.

Information Other than the Financial Statements and Auditor’s Report Thereon

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 will not express any form of assurance conclusion thereon.

Information Other than the Financial Statements and Auditor's Report Thereon (Continued)

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available 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 therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Those charged with governance are responsible for 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 judgment and maintain professional skepticism 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.

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 Company'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 Company 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 those charged with governance 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 those charged with governance 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 those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period 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 Su Chun Keat.

RT LLP
Public Accountants and
Chartered Accountants

Singapore
Date: 22 June 2018

Extracted Note 2 to the Audited Financial Statements of SinoCloud Group Limited for the financial year ended 31 March 2018.

2. BASIS OF PREPARATION

Going concern assumption

The Group incurred a net loss of \$17,473,000 (2017: \$42,235,000) during the year ended 31 March 2018 and, as of that date, the Group's cash and cash equivalents available for use amounting to \$724,000 while the current liabilities and capital commitment due in one year amounting to \$159,334,000 and \$174,475,000 respectively. The Group is highly dependent on the borrowings from financial institution, loan from related party and the realisation of current trade and other receivables and generation of additional cash flow from its operating activities notwithstanding the net assets of approximately \$366,057,000 as at 31 March 2018 and positive operating cash flow of \$9,026,000 during the year ended 31 March 2018.

The directors are of the view that the going concern assumption is appropriate for the preparation of the financial statements and that debts owing will be paid and when they fall due. 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"). Guiyang Zhongdian Gaoxin Digital Technologies Limited ("GYZD") IDC is under phase II development with a capacity of hosting 1,000 racks which is expected to be completed in early 2019. The increased capacity, from an existing capacity of 660 racks to 1,660 racks, will enable GYZD to expand its IDC business in Guizhou province and obtain financing to support its investing activity, as well as generate additional positive operating cash flows.

The ability of the Group to generate additional positive 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 GYZD;
- (ii) the expected improvement in the achievement of certain utilisation rate of IDC services by GYZD;
- (iii) obtain financing by GYZD for its operating and investing activities; and
- (iv) financial support from a director/shareholder that he will provide continuing financial support to the Group as and when its liabilities fall due.

The financial statements are prepared in accordance with the historical cost basis, 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.

2. BASIS OF PREPARATION (Continued)

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.