

SINOCLOUD GROUP LIMITED
(THE "COMPANY")

(Company Registration No.: 34050)
(Incorporated in Bermuda on 13 August 2003)

Unaudited First Quarter Financial Statements And Dividend Announcement for the Financial Period Ended 30 September 2019

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE PERIOD ENDED 30 SEPTEMBER 2019
(Expressed in Hong Kong thousand dollars)

The Group	Three Months Ended 30.9.2019	Three Months Ended 30.9.2018	%
	(Unaudited)	(Unaudited)	+ / (-)
Revenue	10,229	13,149	(22)
Other income	3	237	(99)
Employee benefits expenses	(1,596)	(3,078)	(48)
Depreciation of property, plant and equipment	(1,839)	(2,263)	(19)
Amortisation of intangible assets	(2,412)	(2,412)	-
Software development expenses	(1,100)	-	NM
Operating lease expenses	(1,334)	(1,016)	31
Bandwidth fees	(1,963)	(3,782)	(48)
Other expenses	(2,999)	(3,855)	(22)
Finance costs	(885)	(556)	59
Loss before tax	(3,896)	(3,576)	9
Provision for income tax	(164)	(403)	(59)
Loss for the financial period	(4,060)	(3,979)	2
(Loss) / Profit attributable to:			
Equity holders of the Company	(4,432)	(4,849)	(9)
Non-controlling interest	372	870	(57)
	(4,060)	(3,979)	2

NM: Not meaningful

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

**CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 SEPTEMBER 2019
(Expressed in Hong Kong thousand dollars)**

The Group	Three Months Ended 30.9.2019	Three Months Ended 30.9.2018	%
	(Unaudited)	(Unaudited)	+ / (-)
Loss for the financial period	(4,060)	(3,979)	2
Other comprehensive loss			
Currency translation difference arising from consolidation	<u>(6,459)</u>	<u>(7,965)</u>	(19)
Total comprehensive loss for the period	<u>(10,519)</u>	<u>(11,944)</u>	(12)
Total comprehensive loss attributable to			
Equity holders of the Company	(8,609)	(9,419)	(9)
Non-controlling interest	<u>(1,910)</u>	<u>(2,525)</u>	(24)
Total comprehensive loss for the period	<u>(10,519)</u>	<u>(11,944)</u>	(12)

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

STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2019
(Expressed in Hong Kong thousand dollars)

	The Group		The Company	
	As at 30.9.2019 (Unaudited)	As at 30.6.2019 (Audited)	As at 30.9.2019 (Unaudited)	As at 30.6.2019 (Audited)
ASSETS				
Non-current assets				
Property, plant and equipment	187,180	184,138	-	-
Intangible assets	137,143	139,555	-	-
Investment in subsidiaries	-	-	60,166	60,166
Amount due from subsidiaries (non-trade)	-	-	108,296	104,507
	324,323	323,693	168,462	164,673
Current assets				
Trade and other receivables	39,536	59,625	6,461	11,604
Contract assets	42,430	36,241	-	-
Cash and bank balances	1,044	572	-	-
	83,010	96,438	6,461	11,604
TOTAL ASSETS	407,333	420,131	174,923	176,277
LIABILITIES				
Current liabilities				
Trade and other payables	47,869	49,984	10,893	10,638
Contract liabilities	30	755	-	-
Redeemable convertible bonds	13,220	13,220	13,220	13,220
Provision for warranty	811	838	-	-
Income tax payable	3,009	7,045	-	-
	64,939	71,842	24,113	23,858
Non-current liabilities				
Trade and other payables	28,699	24,109	-	-
Borrowings	4,940	5,106	-	-
Deferred tax liabilities	74	74	-	-
Loans from a shareholder	10,067	9,867	-	-
	43,780	39,156	-	-
TOTAL LIABILITIES	108,719	110,998	24,113	23,858
NET ASSETS	298,614	309,133	150,810	152,419
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	14,311	14,311	14,311	14,311
Share premium	473,003	473,003	473,003	473,003
Contributed surplus	16,456	16,456	16,456	16,456
Translation deficit	(4,518)	(341)	-	-
Statutory reserve	6,454	6,454	-	-
Revaluation reserve	98	98	-	-
Other reserve	15,120	15,120	-	-
Accumulated losses	(293,642)	(289,210)	(352,960)	(351,351)
	227,282	235,891	150,810	152,419
Non-controlling interest	71,332	73,242	-	-
TOTAL EQUITY	298,614	309,133	150,810	152,419

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

Amount repayable in one year or less, or on demand

	As at 30.9.2019 In HK\$'000		As at 30.6.2019 In HK\$'000	
	Secured	Unsecured	Secured	Unsecured
Amount due to a director of the Company	-	4,105	-	4,209
Amount due to related parties	-	294	-	245
Redeemable convertible bonds	-	13,220	-	13,220

Amount repayable after one year

	As at 30.6.2019 In HK\$'000		As at 31.3.2018 In HK\$'000	
	Secured	Unsecured	Secured	Unsecured
Loans from a shareholder	-	10,067	-	9,867
Long term loan from bank	-	4,940	-	5,106

Details of any collateral

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 SEPTEMBER 2019
(Expressed in Hong Kong thousand dollars)

	Three Months Ended 30.9.2019	Three Months Ended 30.9.2018
Cash flow from operating activities		
Loss before tax	(3,896)	(3,576)
<i>Adjustments:</i>		
Depreciation of property, plant and equipment	1,839	2,263
Amortisation of intangible assets	2,412	2,412
Interest expenses	885	556
Operating profit before working capital changes	1,240	1,655
Trade and other receivables	14,924	3,987
Trade and other payables	2,070	(14,667)
Contract assets/ amount due from contract work	(6,189)	-
Contract liabilities	(725)	-
Cash generated from/ (used in) operations	11,320	(9,025)
Income tax paid	(4,259)	-
Interest paid	(197)	(121)
Net cash generated from/ (used in) operating activities	6,864	(9,146)
Cash flow from investing activities		
Repayment received from advances and earnest deposits to CSMCG vendors	5,165	13,650
Proceeds from refundable deposit for a potential acquisition	-	39,823
Additions to property, plant and equipment	(10,909)	-
Net cash (used in)/ generated from investing activities	(5,744)	53,473
Cash flow from financing activities		
Repayment of loan from director of a subsidiary	-	(3,686)
Proceeds of loan from a director	405	-
Proceeds of loan from a shareholder	200	1,000
Repayment of loan borrowing from a financial institution	-	(39,880)
Net cash generated from/ (used in) financing activities	605	(42,566)
Net increase in cash and cash equivalents	1,725	1,761
Cash and cash equivalents at beginning of the financial period	572	1,050
Effect of exchange rate changes in cash and cash equivalents	(1,253)	(1,578)
Cash and cash equivalents at end of the financial period	1,044	1,233

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

Group

Attributable to equity holders of the Company

	Share Capital HK\$'000	Share Premium HK\$'000	Contributed Surplus HK\$'000	Translation Reserve HK\$'000	Statutory Reserve HK\$'000	Revaluation Reserve HK\$'000	Other reserve HK\$'000	Accumulated Losses HK\$'000	Non- Controlling Interest HK\$'000	Total Equity HK\$'000
Balance as at 1 July 2019	14,311	473,003	16,456	(341)	6,454	98	15,120	(289,210)	73,242	309,133
Loss for the period from 1.7.2019 to 30.9.2019	-	-	-	-	-	-	-	(4,432)	372	(4,060)
Other comprehensive loss, net of tax	-	-	-	(4,177)	-	-	-	-	(2,282)	(6,459)
Total comprehensive loss	-	-	-	(4,177)	-	-	-	(4,432)	(1,910)	(10,519)
Balance as at 30 September 2019	14,311	473,003	16,456	(4,518)	6,454	98	15,120	(293,642)	71,332	298,614

Group

Attributable to equity holders of the Company

	Share Capital HK\$'000	Share Premium HK\$'000	Contributed Surplus HK\$'000	Translation Reserve HK\$'000	Statutory Reserve HK\$'000	Revaluation Reserve HK\$'000	Other reserve HK\$'000	Accumulated Losses HK\$'000	Non- Controlling Interest HK\$'000	Total Equity HK\$'000
Balance as at 1 July 2018	14,311	473,003	16,456	2,620	5,863	98	15,120	(256,333)	81,247	352,385
Loss for the period from 1.7.2018 to 30.9.2018	-	-	-	-	-	-	-	(4,849)	870	(3,979)
Other comprehensive loss, net of tax	-	-	-	(4,570)	-	-	-	-	(3,395)	(7,965)
Total comprehensive loss	-	-	-	(4,570)	-	-	-	(4,849)	(2,525)	(11,944)
Balance as at 30 September 2018	14,311	473,003	16,456	(1,950)	5,863	98	15,120	(261,182)	78,722	340,441

Company

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total equity HK\$'000
Balance as at 1 July 2019	14,311	473,003	16,456	(351,351)	152,419
Loss for the period from 1.7.2019 to 30.9.2019	-	-	-	(1,609)	(1,609)
Balance as at 30 September 2019	<u>14,311</u>	<u>473,003</u>	<u>16,456</u>	<u>(352,960)</u>	<u>150,810</u>

Company

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total equity HK\$'000
Balance as at 1 July 2018	14,311	473,003	16,456	(392,405)	111,365
Loss for the period from 1.7.2018 to 30.9.2018	-	-	-	(2,584)	(2,584)
Balance as at 30 September 2018	<u>14,311</u>	<u>473,003</u>	<u>16,456</u>	<u>(394,989)</u>	<u>108,781</u>

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State the number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

	Issued and fully paid-up ordinary shares	Share capital HK\$'000
Balance as at 30 June 2019 and 30 September 2019	14,310,670,617	14,311

On 28 November 2017, the Company entered into two separate convertible bonds agreements with Mr Lam Cho Ying Terence Joe and Mr Soo Kok Beng Peter (“**Subscribers**”) respectively, for bonds in aggregate principal amount of S\$2,256,000 to be issued by the Company, due on 27 November 2019 (“**Convertible Bonds**”). The Convertible Bonds are convertible into 1,128,000,000 new shares in the capital of the Company at a conversion price of S\$0.002 for each share. As at 30 September 2019 and as at the date of this announcement, no conversion has taken place. The Company is currently in discussions with the Subscribers and exploring various options on the repayment of the Convertible Bonds, and will update Shareholders in due course.

The total number of shares that may be issued on conversion of all the outstanding convertibles of the Company as at 30 September 2019 is 1,128,000,000 (30 September 2018: 1,128,000,000). The convertible securities as at 30 September 2019 relate to the Convertible Bonds. Save for the above, the Company does not have any other convertible securities.

There were no treasury shares and subsidiary holdings as at 30 September 2019 and 30 September 2018.

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

The total number of issued shares excluding treasury shares as at 30 September 2019 was 14,310,670,617 (30 June 2019: 14,310,670,617).

There were no treasury shares as at 30 September 2019 and 30 June 2019.

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

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

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

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

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

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

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

Not applicable.

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

The Group has applied the same accounting policies and methods of computation in the preparation of the financial statements for the current reporting period compared with the audited financial statements for the financial year ended 30 June 2019. The adoption of the new and amended International Financial Reporting Standards (IFRS) and IFRIC Interpretations that are mandatory for financial year beginning on or after 1 July 2019 does not result in substantial changes to the Group's financial statements.

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

Please refer to paragraph 4 above.

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

	3 Months Ended 30.9.2019 (Unaudited)	3 Months Ended 30.9.2018 (Unaudited)
Loss attributable to equity holders of the Company (HK\$'000)	(4,432)	(4,849)
Weighted average number of shares in issue	14,310,670,617	14,310,670,617
Loss per ordinary share (HK cents)		
- Based on weighted average number of ordinary shares in issue	(0.03)	(0.03)
- On a fully diluted basis (Please see note below)	(0.03)	(0.03)

Note:

The convertible bonds in aggregate principal amount of S\$2,256,000 which expired on 26 May 2017 has no dilutive effect for the twelve-month financial year ended 31 March 2018. The Convertible Bonds expiring on 27 November 2019 has no dilutive effect for the fifteen-month financial year ended 30 June 2019.

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

	As at 30.9.2019 (Unaudited)	As at 30.6.2019 (Audited)
Net asset value of the Company per ordinary share	HK\$0.011	HK\$0.011
Net asset value of the Group per ordinary share	HK\$0.016	HK\$0.016

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

(A) REVIEW OF FINANCIAL RESULTS

Revenue

Revenue decreased by HK\$2.9 million to HK\$10.2 million in the three months ended 30 September ("3M") 2019, from HK\$13.1 million in the 3M 2018. The decrease in revenue was mainly due to decrease in customer demand in the 3M 2019.

Other income

Other income of HK\$3 thousand represents the interest income from bank in the 3M 2019, while other income of HK\$0.2 million in the 3M 2018 relates to a recovery of receivable written-off during the prior financial year.

Operating expenses

Employee benefits expense decreased by HK\$1.5 million to HK\$1.6 million in the 3M 2019, from HK\$3.1 million in the 3M 2018. The decrease was mainly due to certain cost savings measures undertaken within the Group in 2019.

Depreciation of property, plant and equipment decreased by HK\$0.5 million, from HK\$2.3 million in the 3M 2018 to HK\$1.8 million in the 3M 2019, mainly due to full depreciation being provided for certain equipment during 3M 2019.

Amortisation of intangible assets remained at HK\$2.4 million in both 3M 2019 and 3M 2018. Such amortisation charge relates to the amortisation of intangible assets of customer contract and favorable lease, arising from the Company's acquisition of SinoCloud 01 Limited since October 2015.

Software development expenses were previously recognised as a long term asset and a current asset (prepayment for software and platform development). As such software applications cannot be utilised in the near future or cannot generate future economic benefits, they have been expensed off since financial year ended 30 June 2019 as they do not meet the capitalisation criteria. Software development expenses written off of HK\$1.1 million in the 3M 2019 (3M 2018: Nil) relate to additional expenses that GYZD had to incur in 3M 2019 in respect of the development contract, which was terminated during the financial year ended 30 June 2019.

Operating lease expenses increased by HK\$0.3 million, from HK\$1.0 million in the 3M 2018 to HK\$1.3 million in the 3M 2019, mainly due to the reassessment of operating lease expenses accrued and payable in respect of the internet data centre (“IDC”) of Guiyang Zhongdian Gaoxin Digital Technologies Limited (“GYZD”).

Bandwidth fees decreased by HK\$1.8 million, from HK\$3.8 million in the 3M 2018 to HK\$2.0 million in the 3M 2019. The decrease was mainly due to the discontinued usage of a lower end broadband service in the 3M 2019.

Other expenses, comprising primarily office overhead, legal and professional fees, provision for warranty, and utility service fees, decreased by HK\$0.9 million, from HK\$3.9 million in the 3M 2018 to HK\$3.0 million in the 3M 2019. The decrease was mainly due to the decrease in office overhead and legal and professional service for IDC business.

Finance costs increased by HK\$0.3 million, from HK\$0.6 million in the 3M 2018 to HK\$0.9 million in the 3M 2019. The increase was mainly due to an increase in the amount and the interest rate of the loan extended to the Company by a shareholder of the Company.

Income tax

The Group’s income tax expense decreased by HK\$0.2 million, from HK\$0.4 million in the 3M 2018 to HK\$0.2 million in the 3M 2019, due to the decrease in profit generated by GYZD.

Net loss after taxation

As a result of the aforesaid, the Group recorded a loss after tax of HK\$4.1 million in the 3M 2019 (3M 2018: loss after tax of HK\$4.0 million).

(B) REVIEW OF FINANCIAL POSITION

Non-Current Assets

Non-current assets of the Group increased by HK\$0.6 million, from HK\$323.7 million as at 30 June 2019 to HK\$324.3 million as at 30 September 2019. Non-current assets comprised (i) property, plant and equipment; and (ii) intangible assets.

(i) Property, plant and equipment

The net book value of property, plant and equipment increased by HK\$3.1 million, from HK\$184.1 million as at 30 June 2019 to HK\$187.2 million as at 30 September 2019. The increase was mainly due to (i) depreciation charge of HK\$1.7 million; (ii) addition of HK\$10.9 million; and (iii) translation loss of HK\$6.2 million during 3M 2019.

(ii) Intangible assets

Intangible assets decreased by HK\$2.5 million, from HK\$139.6 million as at 30 June 2019 to HK\$137.1 million as at 30 September 2019, due to amortisation charge during 3M 2019. The intangible assets relate to the business combination of SC01, comprising (i) goodwill of HK\$124.1 million; (ii) customer contract of HK\$0.9 million; (iii) favorable lease of HK\$11.5 million; and (iv) assembled workforce of HK\$0.6 million as at 30 September 2019.

Current Assets

Current assets decreased by HK\$13.4 million, from HK\$96.4 million as at 30 June 2019 to HK\$83.0 million as at 30 September 2019. Current assets comprised (i) trade and other receivables; (ii) contract assets; and (iii) cash and bank balances.

(i) Trade and other receivables

Trade and other receivables decreased by HK\$20.1 million, from HK\$59.6 million as at 30 June 2019 to HK\$39.5 million as at 30 September 2019.

Trade and other receivables as at 30 September 2019 comprised (a) trade receivables of HK\$8.1 million; (b) other receivables and prepayment of HK\$25.1 million; and (c) loan and deposit from vendors of CSMCG of HK\$6.3 million.

(a) Trade receivables decreased by HK\$19.8 million, from HK\$27.9 million as at 30 June 2019 to HK\$8.1 million as at 30 September 2019, mainly due to the repayment from customers of GYZD.

(b) Other receivables and prepayment increased by HK\$4.9 million, from HK\$20.2 million as at 30 June 2019 to HK\$25.1 million as at 30 September 2019, mainly due to increase of (i) HK\$4.3 million for the prepayment in respect of software related development for IDC business, and (ii) HK\$0.6 million in deposits and prepayments.

(c) Loan and deposit from vendors of CSMCG (the “**CSMCG Vendors**”) decreased by HK\$5.2 million, from HK\$11.5 million as at 30 June 2019 to HK\$6.3 million as at 30 September 2019, due to repayment from the CSMCG Vendors during 3M 2019. On 7 May 2018, the Company entered into a supplemental repayment agreement with the CSMCG Vendors to extend the repayment date of the outstanding sum (“**Repayment Agreement**”). Please refer to the announcement of the Company dated 7 May 2018 for details on the Repayment Agreement. As at the date of this announcement, HK\$6.3 million remained outstanding from the CSMCG Vendors.

(ii) Contract assets

Contract assets increased by HK\$6.2 million, from HK\$36.2 million as at 30 June 2019 to HK\$42.4 million as at 30 September 2019, due to the increase in services delivered which remains unpaid as at 30 September 2019. This pertains to the Company’s right to consideration in exchange for goods or services that the entity has transferred to customers when the right is conditioned on something other than the passage of time.

(iii) Cash and bank balances

Cash and bank balances increased by HK\$0.4 million, from HK\$0.6 million as at 30 June 2019 to HK\$1.0 million as at 30 September 2019. Please refer to “Cashflows” for the movement in cash and cash equivalents.

Current Liabilities

Current liabilities decreased by HK\$6.9 million, from HK\$71.8 million as at 30 June 2019 to HK\$64.9 million as at 30 September 2019. Current liabilities comprised (i) trade and other payables; (ii) contract liabilities; (iii) redeemable convertible bonds; (iv) provision for warranty; and (v) income tax payable.

(i) Trade and other payables

Trade and other payables decreased by HK\$2.1 million, from HK\$50.0 million as at 30 June 2019 to HK\$47.9 million as at 30 September 2019. Trade and other payables as at 30 September 2019 comprised (a) trade payables of HK\$11.9 million; (b) accruals and other payables of HK\$33.2 million; (c) amount due to directors of HK\$4.1 million; and (d) amount due to a related party of HK\$0.3 million.

- (a) Trade payables to subcontractors decreased by HK\$1.1 million, from HK\$13.0 million as at 30 June 2019 to HK\$11.9 million as at 30 September 2019, due to settlement of subcontracting fees incurred by GYZD.

Trade payables with regards to operating lease expenses decreased by HK\$4.2 million, from HK\$4.2 million as at 30 June 2019 to HK\$ nil as at 30 September 2019, due to the entire sum being reclassified from current liabilities to non-current liabilities, as GYZD's IDC is still under rent-free period, and no further notice was received from the landlord on when GYZD has to start paying the rent.

- (b) Accruals and other payables increased by HK\$3.3 million, from HK\$28.3 million as at 30 June 2019 to HK\$31.6 million as at 30 September 2019, primarily due to expenses related to IDC operation incurred in the 3M 2019.
- (c) Amount due to directors of the Company decreased by HK\$4.1 million, from HK\$4.2 million as at 30 June 2019 to HK\$4.1 million as at 30 September 2019. The loans were provided for operation purpose, and are interest-free, unsecured and repayable on demand.
- (d) Amount due to a related party increased by HK\$0.1 million from HK\$0.2 million as at 30 June 2019 to HK\$0.3 million as at 30 September 2019, due to certain expenses incurred in the 3M 2019.

(ii) Contract liabilities

Contract liabilities decreased by HK\$0.8 million, from HK\$0.8 million as at 30 June 2019 to HK\$30 thousand as at 30 September 2019, due to the repayment of such liabilities in the 3M 2019.

(iii) Redeemable convertible bonds

Redeemable convertible bonds relate to the Convertible Bonds of an aggregate amount of S\$2.26 million (equivalent to HK\$13.2 million) entered into by the Company with the Subscribers in November 2017, which bears interest rate at 12% per annum at a conversion price of S\$0.002 for each Share, due on 27 November 2019.

(iv) Provision for warranty

Provision for warranty remained at HK\$0.8 million as at 30 September 2019 and 30 June 2019.

(v) Income tax payable

Income tax payable decreased by HK\$4.0 million, from HK\$7.0 million as at 30 June 2019 to HK\$3.0 million as at 30 September 2019, due to the payment of tax by GYZD during the 3M 2019.

Non-current Liabilities

Non-current liabilities increased by HK\$4.6 million, from HK\$39.2 million as at 30 June 2019 to HK\$43.8 million as at 30 September 2019. Non-current liabilities comprised (i) trade and other payables; (ii) borrowings; and (iii) loans from a shareholder.

(i) Trade and other payables

Trade and other payables increased by HK\$4.6 million, from HK\$24.1 million as at 30 June 2019 to HK\$28.7 million as at 30 September 2019, mainly due to the reclassification of liabilities in relation to accruals for operating lease expenses of GYZD's IDC from current

liabilities to non-current liabilities. Please refer to the above section on “trade and other payables” under current liabilities for further information.

(ii) Borrowings

Borrowings decreased by HK\$0.2 million, from HK\$5.1 million as at 30 June 2019 to HK\$4.9 million as at 30 September 2019, due to the depreciation of RMB against HKD, as the outstanding bank loan is denominated in RMB. The borrowing relates to the loan from bank, with an interest rate of 8.28% per annum, and is repayable on or before 26 March 2021. The loan is guaranteed by Shenzhen Zhongdian Lechu Data Technology Co., Limited (“**Shenzhen Co**”).

(iii) Loans from a shareholder

Loans from a shareholder of the Company increased by HK\$0.3 million, from HK\$9.9 million as at 30 June 2019 to HK\$10.1 million as at 30 September 2019. The loans are interest-bearing at 15% per annum, unsecured, and repayable by 31 March 2021.

Working Capital

The Group reported a positive working capital of HK\$18.0 million as at 30 September 2019, as compared to a positive working capital of HK\$24.6 million as at 30 June 2019.

(C) CASH FLOWS

Net cash generated from operating activities for 3M 30 September 2019 amounted to HK\$6.9 million. This was mainly due to (i) operating profit before changes in working capital of HK\$1.2 million; (ii) decrease in trade and other receivables of HK\$14.9 million; and (iii) increase in trade and other payables of HK\$2.1 million, partially offset by (iv) increase in amount due from contract customer of HK\$6.2 million; (v) decrease in contract liabilities of HK\$0.7 million; (vi) income tax paid of HK\$4.3 million; and (vii) interest paid of HK\$0.2 million.

Net cash used in investing activities of HK\$5.7 million in 3M 2019, relates to the purchase of property, plant and equipment of HK\$10.9 million for the development of GYZD, partially offset by the repayment received from advances to CSMCG vendors of HK\$5.2 million.

Net cash generated from financing activities of HK\$0.6 million in 3M 2019 relates to loan from a director of the Company of HK\$0.4 million, and loan from a shareholder of the Company of HK\$0.2 million.

As a whole, the Group generated cash and cash equivalents of HK\$1.7 million in 3M 2019. The cash and cash equivalents as at 30 September 2019 amounted to HK\$1.0 million.

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

Not applicable.

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

The Group derives its revenue primarily from GYZD, which has been generating positive results since early 2016. Currently, GYZD is in the process of expanding its capacity of hosting 1,500 racks in addition to 660 racks originally. Due to the changes in GYZD's end-users requirements, such expansion will be divided into phases, where the capacity of hosting 500 racks is expected to be in operation by the end of 2019.

The Group continues to focus its efforts on strengthening its IDC business to capture the continuing growth from the IDC market in the PRC. Furthermore, the Group will be looking for other technology related investment opportunities which will enable the Group to maximise its return in the long run.

The Company is exploring various alternatives to strengthen its financial positions to ensure it has the ability to expand and diversify its investment. The Company will make the necessary announcement(s) in due course.

11. Dividend

If a decision regarding dividend has been made :-

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

None.

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

Nil (3M 30 September 2019: nil).

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

Not applicable.

(d) The date the dividend is payable

Not applicable.

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

Not applicable.

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

No dividend is declared/recommended by the Directors for the 3M 30 September 2019 as the Company is loss making.

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

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

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

We, Chan Andrew Wai Men and Chu Yin Ling, Karen, being directors of the Company do hereby confirm on behalf of the Board of Directors that, to the best knowledge of the Board of Directors, nothing has come to the attention of the Board of Directors which may render the interim financial statements for the 3 months ended 30 September 2019 to be false or misleading in any material aspect.

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

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

BY ORDER OF THE BOARD

Chan Andrew Wai Men
Chairman and Chief Executive Officer

Chu Yin Ling, Karen
Executive Director

13 November 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.