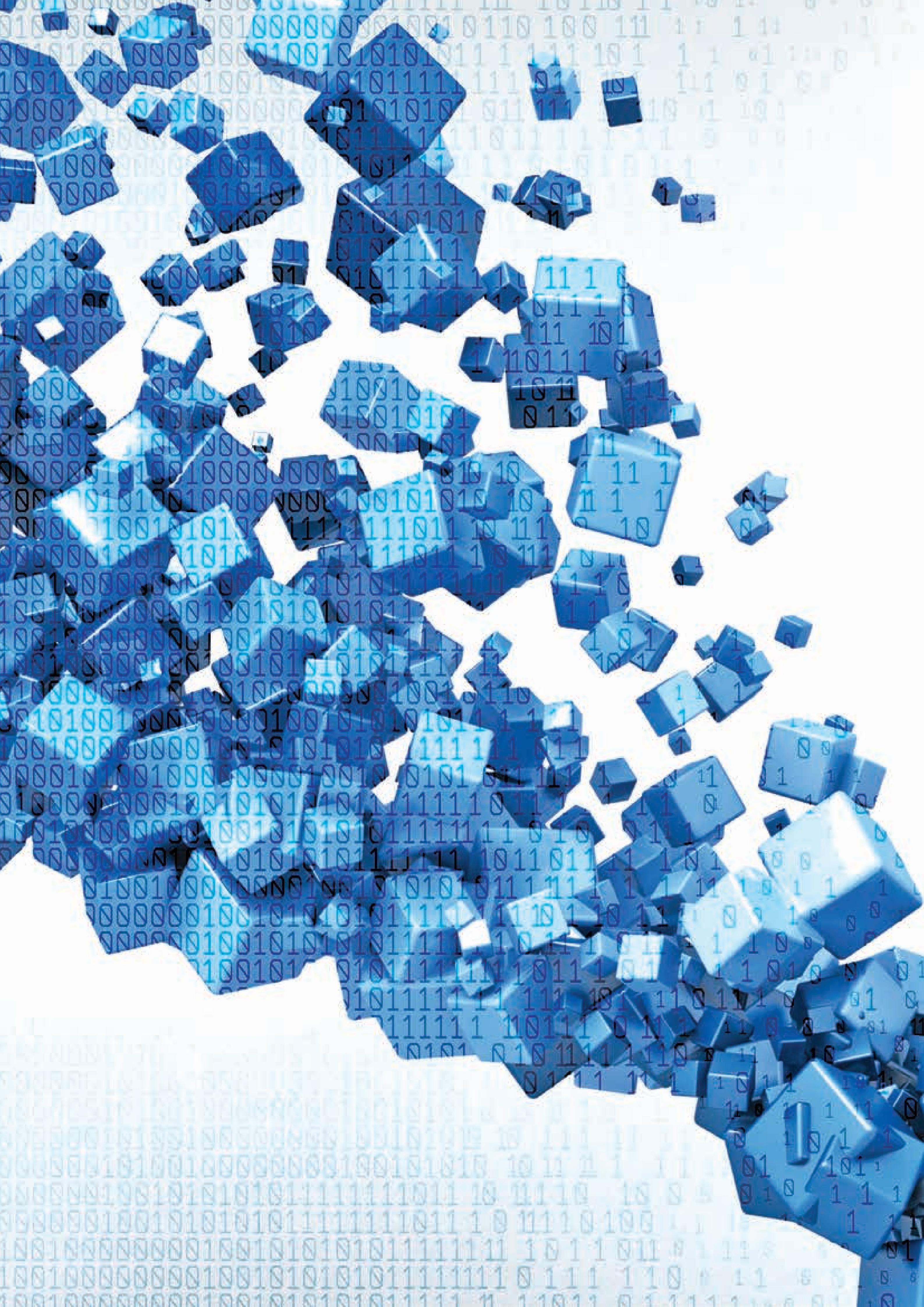
SINOCLOUD

SINOCLOUD GROUP LIMITED

ANNUAL REPORT 2020

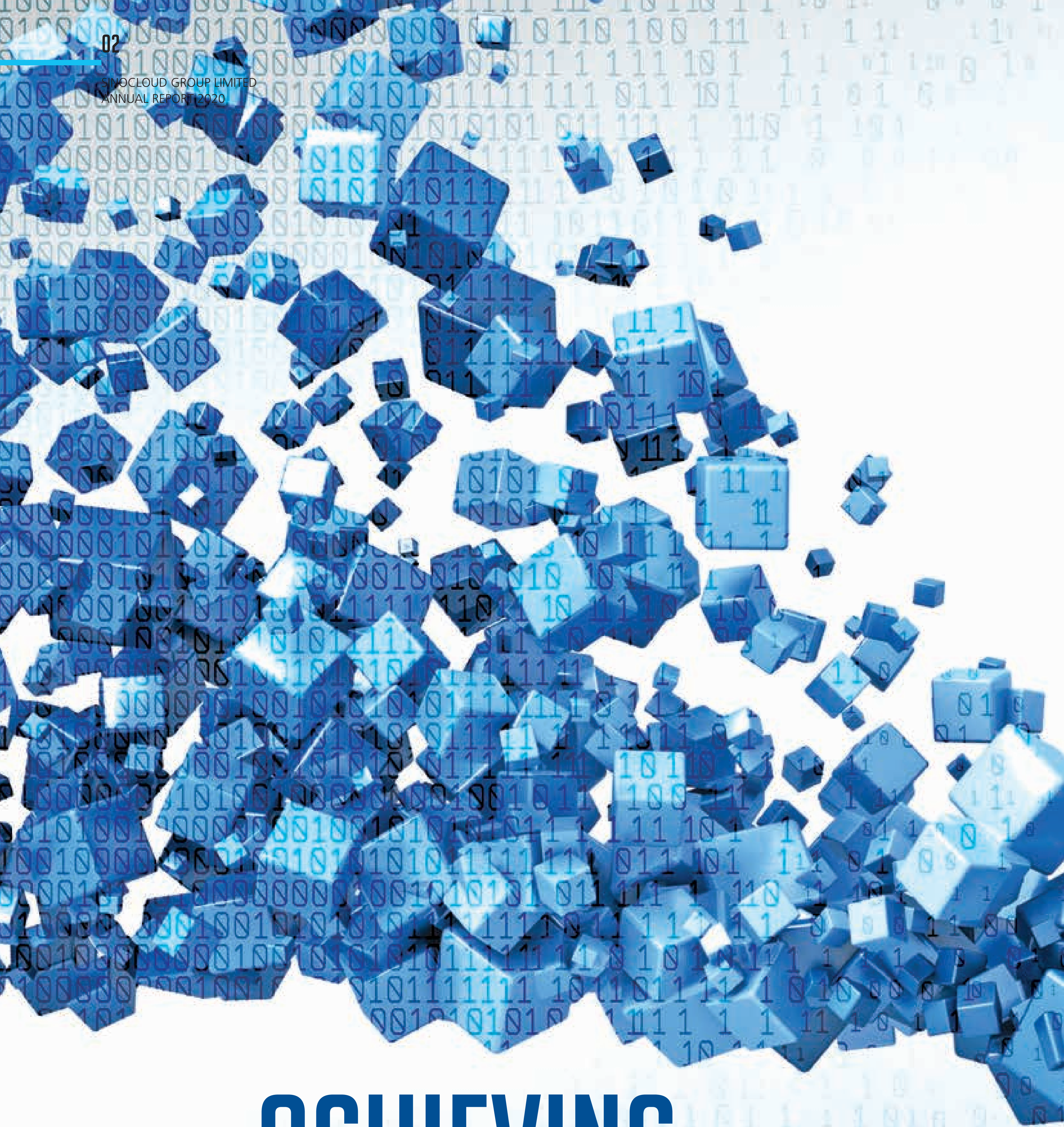


CONTENTS

This annual report 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 annual report has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this annual report including the correctness of any of the statements or opinions made or reports contained in this annual report.

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.



ACHIEVING OUR GOAL

CORPORATE PROFILE

SinoCloud Group Limited (the "Company", and together with its subsidiaries, the "Group"), incorporated in Bermuda in 2003, was listed on Catalist of the Singapore Exchange Securities Trading Limited on 21 May 2004.

The Group started out as an Information Technology ("IT") and professional services provider focused on serving the People's Republic of China ("PRC") banking and financial services industry.

In October 2015, the Group expanded its IT-related business to include the provision of internet data center ("IDC") services with its acquisition of 63% effective equity interests in Guiyang Zhongdian Gaoxin Digital Technologies Limited ("Guiyang Zhongdian"), an IDC asset in the city of Guiyang, Guizhou province, the PRC. Guiyang Zhongdian is principally engaged in the business of operating IDC services, cloud computing and big data services, with a hosting capacity of up to 5,000 racks. Currently, the Group has an effective equity interest of 60% in Guiyang Zhongdian where the remaining 40% is owned by Guiyang Gaoxin Big Data Fund Company.

In view of the business potential of the IDC industry, the Group has focused its efforts and resources in growing and developing its business in the IDC industry.

MESSAGE FROM CHAIRMAN AND CEO

DEAR SHAREHOLDERS,

On behalf of the board of directors (the "**Board**" or "**Directors**"), I would like to present you the 2020 Annual Report of SinoCloud Group Limited ("**SinoCloud**" or "**Company**", and together with its subsidiaries, the "**Group**") for the financial year ended 30 June 2020 ("**FY2020**").

As a consequence of the COVID-19 pandemic during the first half of 2020, and the subsequent global disruptions to aggregate supply and demand, more negative impact than anticipated on business activity is expected. The outbreak of COVID-19 has brought upon unprecedented challenges, and is expected to have a significant impact on China's economy this year. Along with global trade tensions and political uncertainty, it increased business headwinds and presented challenges to the Group's operations and business performance. Nevertheless, certain industries, such as, e-commerce and online entertainment will have a relatively favorable impact. The Group's internet data centre ("**IDC**") service, in fact, did not experience any disruption pursuant to the pandemic.

OPERATIONS AND FINANCIAL REVIEWS

FINANCIAL PERFORMANCE

The Group's financial performance in FY2020 has been affected by the COVID-19 pandemic. The Group's IDC business operated by the Company's subsidiary, Guiyang Zhongdian Gaoxin Digital Technologies Limited ("**GYZD**"), in Guiyang city, China was impacted as negotiation process on some of the potential new orders has been postponed, and collection of customer receivables has been delayed due to unforeseen circumstances on the customers' end. The schedule of resuming negotiation process with the Group's customers, along with their respective capacity requirement has been delayed as well.

The Group's revenue decreased by 48.5%, from HK$64.7 million in the fifteen months financial period from 1 April 2018 to 30 June 2019 ("**15M 2019**") to HK$33.3 million in the twelve months financial year ended 30 June 2020 ("**12M 2020**"). The decrease in revenue was mainly due to decrease in customer demand and service fee reduction in the 12M 2020, which was largely due to the lockdown in China caused by the COVID-19 pandemic.

The Group's other income decreased from HK$8.9 million in the 15M 2019 to HK$0.7 million in the 12M 2020. The decrease was primarily attributed to (i) government subsidy amounting to HK$11 thousand in 12M 2020, as compared to HK$7.2 million reported in the 15M 2019; and (ii) waiver of directors' remuneration amounting to HK$0.7 million in the 12M 2020 arising from cost saving measures implemented within the Group, as compared to HK$1.7 million reported in the 12M 2020.

Impairment of financial assets increased by HK$56.5 million, from HK$1.7 million in the 15M 2019, to HK$58.2 million in the 12M 2020, mainly due to impairment of outstanding trade receivables and contract assets of GYZD. The management of GYZD re-assessed the payment track records, customer relationship and aging analysis, and was of the view that the recoverable amount and/or its respective repayment schedule from the outstanding trade receivables and contract assets were uncertain, in particular, under the current situation during COVID-19 pandemic and global economy recession. Accordingly, an impairment of financial assets has been provided for. Nevertheless, the management of GYZD will continue to engage in discussions and negotiations with the debtors in order to reach a feasible repayment plan by these debtors to GYZD in the near future.

Impairment of prepayments of HK$8.6 million in the 15M 2019 (12M 2020: Nil) relates to impairment on payment made for purchase of equipment in prior years. Impairment was made on the basis of a prudent approach as there was no concrete plan to utilise the equipment or to recover the prepaid amount.

Impairment of intangible assets (relating to the business combination of SinoCloud 01 Limited) amounted to HK$124.8 million in the 12M 2020 (15M 2019: Nil). The COVID-19 pandemic created substantial adverse impact on global economy, including the Group's IDC business, where potential new orders for the Group's services had been postponed. The schedule of resuming negotiation process and capacity requirement with potential customers had been delayed. In addition, the Group experienced a decline in customer demand for the Group's IDC services and reduction in service fees, resulting in a decline in the Group's revenue in the 12M 2020. After taking into consideration the aforesaid factors, the management of the Group reassessed the future cash flow of the Group, and compared with the carrying amount of the cash generating unit, to arrive at an impairment of intangible assets in the 12M 2020.

Bandwidth fee decreased by HK$8.8 million, from HK$15.6 million in the 15M 2019 to HK$6.8 million in the 12M 2020, as a result of decrease in the Group's provision of IDC services in the 12M 2020.

Employee benefit expenses decreased by HK$6.6 million to HK$4.5 million in the 12M 2020, from HK$11.1 million in the 15M 2019. The decrease was mainly due to certain cost savings measures implemented within the Group since 2019.

Operating lease expenses primarily refer to the lease of the IDC of GYZD, amounting to HK$4.3 million in the 15M 2019 (12M 2020: Nil), due to the adoption of IFRS 16 Leases ("**IFRS 16**"), to supersede the previous standard IAS 17, where the treatment of lease contract for the IDC of GYZD was different from prior years. IFRS 16 became effective for annual reporting periods beginning on or after 1 January 2019, as such, the Group adopted IFRS 16 in the 12M 2020. The lease will be accounted for under depreciation of right-of-use assets and interests on lease liabilities.

Other expenses, comprising software development expenses written off, marketing expenses, office overhead, legal and professional fees, and utility service fees, decreased by HK$21.3 million, from HK$32.9 million in the 15M 2019 to HK$11.6 million in the 12M 2020, mainly due to (i) no software development expenses written off in the 12M 2020 as compared to HK$16.4 million in the 15M 2020; (ii) no subcontracting fee in the 12M 2020 as compared to HK$1.0 million in the 15M 2019; (iii) no marketing expenses in the 12M 2020 as compared to HK$2.3 million in the 15M 2020; and (iv) decrease in legal and professional fees from HK$2.0 million in the 15M 2019 to HK$1.1 million in the 12M 2020. Software development expenses written off of HK$16.4 million in the 15M 2019 (12M 2020: Nil) were previously recognised under long term assets, and prepayment for software and platform development. As the software application cannot be utilised in the near future, it has been expensed off in the 15M 2019.

Finance costs increased by HK$4.3 million, from HK$4.2 million in the 15M 2019 to HK$8.5 million in the 12M 2020. The increase was mainly due to the adoption of IFRS 16, where HK$4.8 million out of HK$8.5 million relates to interest on lease liabilities incurred in the 12M 2020.

Foreign exchange loss amounted to HK$0.6 million in the 12M 2020, as compared to a gain of HK$0.4 million in the 15M 2019, due to depreciation of RMB against HKD.

Income tax credit amounted to HK$3.1 million in the 12M 2020, as compared to an income tax expense of HK$2.4 million in the 15M 2019, due to deferred tax credit arising from the impairment of financial assets in the 12M 2020.

As a result of the aforesaid, the Group recorded a loss after tax of HK$191.2 million and HK$30.7 million in the 12M 2020 and 15M 2019 respectively, where the loss attributable to equity shareholders of the Company amounted to HK$105.4 million and HK$28.2 million in the 12M 2020 and 15M 2019 respectively.

FINANCIAL POSITION

I. Non-Current Assets

The net book value of property, plant and equipment ("**PPE**") decreased by HK$2.7 million, from HK$184.1 million as at 30 June 2019 to HK$181.4 million as at 30 June 2020. The decrease was mainly due to depreciation charge of HK$7.6 million and translation loss of HK$7.0 million, partially offset by addition of PPE amounting to HK$11.9 million during the 12M 2020.

The Group adopted IFRS 16 in the 12M 2020. Leasees are required to recognise all leases on their statements of financial position to reflect their rights to use leased assets and the associated obligations for lease payments. Right-of-use assets of HK$32.0 million as at 30 June 2020 relate to long-term leased IDC of GYZD.

MESSAGE FROM CHAIRMAN AND CEO

Intangible assets had been fully impaired, from HK$139.6 million as at 30 June 2019 to nil as at 30 June 2020, due to impairment of intangible assets as well as amortisation charge in the 12M 2020.

Deferred tax assets of HK$8.2 million as at 30 June 2020 (30 June 2019: Nil), relate to future taxable profit available against the deductible temporary difference in the 12M 2020.

II. Current Assets

Current assets decreased by HK$75.3 million, from HK$96.4 million as at 30 June 2019 to HK$21.1 million as at 30 June 2020. Current assets comprised (i) trade and other receivables; (ii) contract assets; and (iii) cash and bank balances.

(i) Trade and other receivables

Trade and other receivables decreased by HK$38.8 million, from HK$59.6 million as at 30 June 2019 to HK$20.8 million as at 30 June 2020. Trade and other receivables as at 30 June 2020 comprised trade receivables of HK$0.5 million, and other receivables and prepayment of HK$20.3 million.

(a) Trade receivables decreased by HK$27.4 million, from HK$27.9 million as at 30 June 2019 to HK$0.5 million as at 30 June 2020, due to (i) impairment of financial assets of HK$22.3 million in the 12M 2020; and (ii) effect of decrease in revenue generated by GYZD of HK$5.1 million during 12M 2020.

(b) Other receivables and prepayment, comprising mainly prepayment for software development for the IDC business, remained unchanged at HK$20.3 million as at 30 June 2020 and 30 June 2019.

(c) Loan and deposit from vendors of China Satellite Mobile Communications Group Limited of HK$11.5 million as at 30 June 2019 was fully recovered before 30 June 2020.

(ii) Contract assets

Contract assets was nil as at 30 June 2020 (30 June 2019: HK$36.2 million). It relates mainly to the Group's right to consideration for work completed but not billed at the reporting date in respect of its business. As at 30 June 2020, the management has assessed that the gross balance is credit impaired and full expected credit losses allowance has been made.

(iii) Cash and bank balances

Cash and bank balances decreased by HK$0.3 million, from HK$0.6 million as at 30 June 2019 to HK$0.3 million as at 30 June 2020. Please refer to "Cashflows" for the movement in cash and cash equivalents.

III. Current Liabilities

Current liabilities decreased by HK$19.0 million, from HK$71.8 million as at 30 June 2019 to HK$52.8 million as at 30 June 2020. Current liabilities comprised (i) trade and other payables; (ii) contract liabilities; (iii) redeemable convertible bonds; (iv) provision for warranty; (v) income tax payable; and (vi) borrowings.

(i) Trade and other payables

Trade and other payables decreased by HK$13.9 million, from HK$50.0 million as at 30 June 2019 to HK$36.1 million as at 30 June 2020. Trade and other payables as at 30 June 2020 comprised (a) trade payables of HK$7.6 million; (b) accruals and other payables of HK$23.0 million; (c) amount due to directors of HK$1.2 million; and (d) amount due to related parties of HK$4.3 million.

(a) Trade payables to subcontractors decreased by HK$5.4 million, from HK$13.0 million as at 30 June 2019 to HK$7.6 million as at 30 June 2020, primarily due to settlement of subcontracting fees incurred by GYZD.

No trade payable relating to operating lease expenses was recorded as at 30 June 2020 due to adoption of IFRS 16, whereas HK$4.2 million was recorded as at 30 June 2019.

(b) Accruals and other payables decreased by HK$5.3 million, from HK$28.3 million as at 30 June 2019 to HK$23.0 million as at 30 June 2020, primarily due to the settlement of the payables as well as a reduction in operating expenses in the 12M 2020.

(c) Amount due to directors of the Company decreased by HK$3.0 million, from HK$4.2 million as at 30 June 2019 to HK$1.2 million as at 30 June 2020, due to (i) reclassification to non-current liabilities of HK$2.4 million, following an extension of the loan repayment, which is interest free and repayable after 12 months from 30 June 2020; and (ii) settlement of director remuneration and expenses incurred of HK$0.6 million in the 12M 2020.

(d) Amount due to related parties increased by HK$4.1 million, from HK$0.2 million as at 30 June 2019 to HK$4.3 million as at 30 June 2020, due to an increase in short-term advance from related parties, which is interest-free and repayable on demand.

(ii) Contract liabilities
Contract liabilities decreased by HK$0.6 million, from HK$0.8 million as at 30 June 2019 to HK$0.2 million as at 30 June 2020, as a result of subsequent recognition of revenue as and when the Group fulfilled its performance obligations in the 12M 2020.

(iii) Borrowings
Borrowings of HK$8.0 million as at 30 June 2020 (30 June 2019: HK$13.2 million) relates to (i) a loan from a bank, with an interest rate of 8.28% per annum, and is repayable on or before 26 March 2021. The loan has been classified under non-current liabilities in prior year, and is guaranteed by a related party of the Company; and (ii) a loan from a shareholder of HK$3.1 million. Subsequent to the financial year ended 30 June 2020, as at the date of this annual report, the loan from shareholder of HK$3.1 million has been fully repaid with proceeds raised from a bond.

Borrowings of HK$13.2 million as at 30 June 2019 relate to the convertible bonds of an aggregate principal amount of S$2,256,000 (equivalent to HK$13.2 million) ("**Convertible Bonds**") entered into by the Company with Mr Lam Cho Ying Terence Joe ("**Mr Lam**") and Mr Soo Kok Beng Peter ("**Mr Soo**") in November 2017. The Convertible Bonds expired on 27 November 2019 and the amount outstanding under the Convertible Bonds were converted to loans owing to the aforesaid subscribers ("**Loans**") pursuant to the loan agreements dated 26 November 2019 entered into between the Company with each of Mr Lam and Mr Soo. The Loans are subject to an interest rate of 15% (relating to the Loan owing to Mr Lam) and 12% per annum (relating to the Loan owing to Mr Soo), and shall be repayable on 27 May 2020. On 27 May 2020, Mr Lam agreed to further extend the loan repayment date to 30 November 2021 for the outstanding principal of HK$10.1 million. Accordingly, HK$10.1 million of the Loans owing to Mr Lam was classified under non-current liabilities.

(iv) Income tax payable
Income tax payable increased by HK$0.7 million, from HK$7.0 million as at 30 June 2019 to HK$7.7 million as at 30 June 2020, as a result of taxable profits generated by GYZD in the 12M 2020 in addition to unpaid income tax carried forward from prior year.

IV. Non-current Liabilities
Non-current liabilities increased by HK$41.2 million, from HK$39.2 million as at 30 June 2019 to HK$80.4 million as at 30 June 2020. Non-current liabilities comprised mainly (i) trade and other payables; (ii) borrowings; and (iii) lease liabilities.

(i) Trade and other payables
Trade and other payables decreased by HK$21.7 million, from HK$24.1 million as at 30 June 2019 to HK$2.4 million as at 30 June 2020. Upon adoption of IFRS 16 in the 12M 2020, lease payables had been reclassified to lease liabilities. Trade and other payables of HK$2.4 million as at 30 June 2020 solely relates to an advance provided by a director of the Company, which is interest free, repayable after 12 months from 30 June 2020. Subsequent to the financial year ended 30 June 2020, as at the date of this annual report, the amount due to director of the Company of HK$2.4 million has been fully repaid with proceeds raised from a bond.

(ii) Borrowings
Borrowings increased by HK$6.0 million, from HK$15.0 million as at 30 June 2019 to HK$21.0 million as at 30 June 2020. The increase was due to further loans from Mr Lam, as described in the section titled "Current liabilities – (iii) Borrowings" above. These loans are interest bearing at 15% per annum, unsecured, and repayable on 30 November 2021. Subsequent to the financial year ended 30 June 2020, as at the date of this annual report, HK$7.42 million has been repaid with the proceeds raised from a bond. The aforesaid increase was partially offset by reclassification of bank borrowings, amounting to HK$5.1 million as at 30 June 2019 to current liabilities as at 30 June 2020 with an amount of HK$4.9 million. Please refer to the above section on "Borrowings" under current liabilities for further information.

MESSAGE FROM CHAIRMAN AND CEO

(iii) Lease liabilities

Lease liabilities amounted to HK$57.0 million as at 30 June 2020 (30 June 2019: Nil). IFRS 16 became effective for annual reporting periods beginning on or after 1 January 2019, as such, the Group adopted IFRS 16 in the 12M 2020. The Group is required to recognise all leases on their statements of financial position to reflect their rights to use leased assets and the associated obligations for lease payments of the IDC.

CASH FLOWS

Net cash generated from operating activities in the 12M 2020 amounted to HK$1.6 million. This was mainly due to (i) operating profit before changes in working capital of HK$9.8 million; (ii) decrease in trade and other payables of HK$0.8 million; (iii) increase in contract assets of HK$0.4 million; (iv) decrease in contract liabilities of HK$0.5 million; partially offset by (v) decrease in trade and other receivables of HK$3.1 million; (vi) income tax paid of HK$4.3 million; and (vii) interest paid of HK$5.3 million.

Net cash used in investing activities of HK$6.2 million in the 12M 2020 was due to (i) additions to property, plant and equipment of HK$16.1 million; and (ii) prepayment for software of HK$1.6 million; partially offset by repayment received from advances and earnest deposits to vendors of CSMCG amount to HK$11.5 million.

Net cash generated from financing activities was HK$4.4 million in the 12M 2020, mainly due to (i) proceeds from borrowings of HK$1.0 million; (ii) advances from directors of the Company of HK$0.4 million; and (iii) advances from related parties of HK$3.1 million.

As a result, the Group's cash and cash equivalents decreased from HK$0.6 million as at 30 June 2019 to HK$0.3 million as at 30 June 2020.

OUTLOOK

While adopting a prudent approach to investing, GYZD's expansion with a hosting capacity of 1,500 racks in addition to existing 660 racks will be divided into phases. The milestone construction schedule shall be tied to its target capacity requirement as well as commissioning schedule, when the potential new orders or projects are secured. Accordingly, the burden on capital expenditure is minimised.

In addition to the IDC business, the management of the Group is exploring and refining different business development plans to ensure business continuity and capture potential rebound in the medium to long-term.

The management of the Group is cautious and continues to implement cost saving measures to reduce operating costs and expenses. Moreover, the Group is exploring various alternatives to further strengthen its financial positions to ensure it has the ability to maintain and/or diverse its investment. On 18 August 2020, the Group secured a bond from a controlling shareholder of the Company amounting to HK$15 million, interest bearing at 6% per annum and repayable on 18 August 2021. Proceeds from the Bond will enable the Group to settle some outstanding loans which are high interest bearing, thereby reducing the Group's exposure to high interest charges.

APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation to our shareholders for their enduring belief in the long-term prospects of SinoCloud, despite the challenges in recent years. We are relentless in our support to enhance long-term shareholder value and thank you for your support in our vision for the Group.

I would like to thank Mr Zhang Dai, who resigned with effect from 24 March 2020, for his contribution to the Group during his tenure. Meanwhile, we would like to take this opportunity to welcome Mr Luk Siu Fung, Mark, who was appointed as Executive Director and Chief Operating Officer on 1 April 2020, and will be able to assist me in overall strategic planning.

I would also like to express my gratitude to our customers, suppliers and business associates who have supported us during the year. We look forward to reaching new milestones together in the year ahead.

CHAN ANDREW WAI MEN
Chairman and Chief Executive Officer
29 September 2020

BOARD OF DIRECTORS

MR CHAN ANDREW WAI MEN
Chairman and Chief Executive Officer

Mr Chan Andrew Wai Men was appointed as Non-Executive Chairman of our Company in November 2014, and currently serves as Chairman and Chief Executive Officer ("CEO"). Mr Chan has over 30 years of experience in finance and real estate, and has worked for Jardine Fleming, Nomura, Yuanta, Tysan Group, Deloitte, and DTZ Investment Management (Asia) ("DTZ"), where he was the managing director of DTZ, responsible for the group's investment activities in Asia.

Mr Chan is currently the chairman of JUST MMA Hong Kong, and the president of the Hong Kong MMA Federation.

Mr Chan holds a Bachelor's Degree in Mechanical Engineering from the University of Toronto in Canada. Mr Chan was last re-elected as a director of our Company on 23 October 2019.

MR LUK SIU FUNG, MARK
Executive Director and Chief Operating Officer

Mr Luk Siu Fung, Mark was appointed as Executive Director and Chief Operating Officer of our Company on 1 April 2020. Mr Luk is responsible for overseeing operating activities of the Group, and assist the CEO in overall strategic planning and business development of the Group. He has experience in merger and acquisition, and advisory services in PRC projects and business planning.

Prior to joining our Company, Mr Luk was a consultant on project basis advising on merger and acquisition during 2018 to 2020, and served as an executive director at Affluent Partners Holdings Limited, a company listed on the Hong Kong Stock Exchange, during 2016 to 2018. Mr Luk was a project manager at our Company from 2011 to 2015.

Mr Luk holds a Bachelor's and Master's Degree in Arts from the University of Cambridge. Mr Luk will be due for re-election as a director of our Company at the forthcoming annual general meeting of our Company.

MS CHU YIN LING, KAREN
Executive Director and Chief Financial Officer

Ms Chu Yin Ling, Karen was appointed as Financial Controller of our Company in July 2009, and subsequently as Chief Financial Officer and Company Secretary on 10 June 2013. She was appointed as Executive Director in August 2015. Prior to joining the Company, she was an accounting manager of LottVision Limited. She has over 20 years of experience in accounting, financial management and company secretarial functions.

Ms Chu holds a Master's Degree in Professional Accounting from the Hong Kong Polytechnic University. She is also an associate member of the Hong Kong Institute of Certified Public Accountant. Ms Chu will retire as a director of our Company at the forthcoming annual general meeting, while remaining as the Chief Financial Officer and Company Secretary of our Company.

MR WAN NGAR YIN, DAVID
Independent Director

Mr Wan Ngar Yin, David was appointed as an Independent Director of our Company in March 2019. He is currently the managing director of Silverbricks Securities Company Limited, and director of Silverbricks Asset Management Company Limited. Mr Wan has over 35 years of experience in investment banking, merger and acquisition, financial management, accounting and auditing activities. He has also experience in serving as independent non-executive director in numerous listed companies in Hong Kong, as well as serving as an audit committee chairman for some of those companies.

He is a member of the Hong Kong Securities Institute, a member of CPA Australia, an associate member of the Taxation Institute of Hong Kong and the Hong Kong Institute of Certified Public Accountants, and a fellow member of the Association of Chartered Certified Accountants. He is also a responsible officer for type 1,4,9 regulated activities under the Hong Kong Securities and Futures Commission.

Mr Wan holds a Master's Degree in Business Administration from the University of Sydney. Mr Wan was last re-elected as a director of our Company on 23 October 2019.

BOARD OF DIRECTORS

MR CHAU KING FAI, PHILIP

Independent Director

Mr Chau King Fai, Philip was appointed as an Independent Director of our Company in May 2019. He is currently the managing director of Grand Moore Capital Limited. Mr Chau has over 30 years of experience in banking and corporate finance, with senior positions held in several major international banks. He was involved in numerous corporate finance transactions including flotation of various companies on stock exchanges in Hong Kong and the PRC, fund raising exercises of listed companies in the secondary market, and financial advisory work of various nature for public and private companies in the Greater China region.

Mr Chau is a responsible officer for type 6 regulated activities under the Hong Kong Securities and Futures Commission. He holds a Bachelor's Degree in Business Administration majoring in finance from the Chinese University of Hong Kong. Mr Chau will be due for re- election as a director of our Company at the forthcoming annual general meeting of our Company.

MR ALEXANDER SHLAEN

Independent Director

Mr Alexander Shlaen was appointed as an Independent Director of our Company in February 2015.

Mr Shlaen was the vice president at Brink's Japan Ltd. between 1995 and 1999, before moving on to Hong Kong based Brink's Asia Pacifc Ltd in 1999, where he was the vice president in charge of Brink's Global Services in the Asia Pacific region.

He has also served on the board of directors for Brinks Japan, a joint venture between Nissho Iwai Corporation (at that time the sixth largest company in the world) and Brinks Inc (a Fortune 500 US corporation), as well as on boards of Brink's Vietnam and Brinks Korea.

He is currently the CEO of the Singapore based Panache Management Pte Ltd.

Mr Shlaen holds a Bachelor's Degree in Economics from Haifa University and an Executive MBA from the Kellogg School of Management and the Hong Kong University of Science and Technology. Mr Shlaen was last re-elected as a director of our Company on 23 October 2019.

KEY MANAGEMENT

MR CHAN ANDREW WAI MEN

Chairman and Chief Executive Officer

Mr Chan Andrew Wai Men is responsible for strategic planning, overall management and business development of the Group. As Chairman of the Company, he is responsible for leading the Board to ensure its effectiveness on all aspects of its role and set its agenda, promoting a culture of openness and debate at the Board.

MR LUK SIU FUNG, MARK

Executive Director and Chief Operating Officer

Mr Luk Siu Fung, Mark is responsible for overseeing operating activities of the Group, and assist the CEO in overall strategic planning and business development of the Group.

MS CHU YIN LING, KAREN

Executive Director and Chief Financial Officer

Ms Chu Yin Ling, Karen is responsible for overseeing financing activities, compliance, and corporate secretarial functions of the Group.

CORPORATE INFORMATION

BOARD OF DIRECTORS
Chan Andrew Wai Men
(Chairman and Chief Executive Officer)

Luk Siu Fung, Mark
(Executive Director and Chief Operating Officer)

Chu Yin Ling, Karen
(Executive Director and Chief Financial Officer)

Wan Ngar Yin, David
(Independent Director)

Chau King Fai, Philip
(Independent Director)

Alexander Shlaen
(Independent Director)

AUDIT COMMITTEE
Wan Ngar Yin, David
(Chairman)
Chau King Fai, Philip
Alexander Shlaen

REMUNERATION COMMITTEE
Alexander Shlaen
(Chairman)
Wan Ngar Yin, David
Chau King Fai, Philip

NOMINATING COMMITTEE
Alexander Shlaen
(Chairman)
Wan Ngar Yin, David
Chau King Fai, Philip

COMPANY SECRETARY
Chu Yin Ling, Karen

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Partner-in-charge: Ms Adeline Ng
(since financial period ended 30 June 2019)

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Singapore 048544

CORPORATE GOVERNANCE REPORT

SinoCloud Group Limited (the "**Company**", and together with its subsidiaries, the "**Group**") believes that it is important to establish good corporate governance within the Group as this provides the foundation for a well-managed and efficient organisation that can in turn focus on sustaining good business performance and safeguarding the interests of its shareholders ("**Shareholders**"). The board of directors of the Company (the "**Board**" or "**Directors**") is committed to ensuring the practices recommended in the Code of Corporate Governance 2018 issued in August 2018 (the "**Code**") are practiced throughout the Group. The Company believes that good corporate governance provides the framework for an ethical and accountable corporate environment that will maximise long term shareholders' value and protect the interests of shareholders.

This report sets out the Group's corporate governance practices with specific reference to each of the Principles and Provisions of the Code, which forms part of the continuing obligations of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual Section B: Rules of Catalist ("**Catalist Rules**"). The Board confirms that, for the financial year ended 30 June ("**FY**") 2020, the Group has adhered to the Principles and Provisions (except where otherwise explained) set out in the Code. Where there are deviations from the Provisions of the Code, appropriate explanations are provided.

I. BOARD MATTERS

The Board's Conduct of Affairs

Principle 1: The company is headed by an effective Board which is collectively responsible and works with Management for long-term success of the company.

Provision 1.1

Principal Duties of the Board

The Board's primary role is to protect and enhance long-term shareholder value. Its responsibilities are distinct from the management of the Group ("**Management**"). It sets the overall strategy and policies for the Group and supervises Management. To fulfil this role, the Board sets strategic direction, establishes goals for Management and monitors the achievement of these goals, thereby taking responsibility for the overall corporate governance of the Group.

The principal functions of the Board, apart from its statutory responsibilities, include the following:

- providing entrepreneurial leadership and sets the overall strategy and direction of the Group;
- reviewing the business practices and risk management of the Group;
- approving and monitoring major investments, divestments, mergers and acquisitions;
- reviewing the financial results, internal controls, external audit reports and resource allocation of the Group;
- convening Shareholders' meetings;
- the appointments of Directors and key executives; and
- assuming responsibility for corporate governance framework of the Group.

CORPORATE GOVERNANCE REPORT

Directors exercise due diligence and independent judgement in dealing with the business affairs of the Group. They are always obliged to act in good faith, objectively discharge their fiduciaries duties and responsibilities, and take objective decisions in the interests of the Company. The Board holds the Management accountable for performance. Directors facing conflicts of interest will recuse themselves from discussions and decisions involving the issues of conflict. The Directors would abstain from voting and decision involving the issues of conflict.

Provision 1.2

Director Competencies

The Company does not have a formal training programme for the Directors but all newly appointed Directors will undergo an orientation in order to be provided with background information about the Group's history, business activities, strategic direction and industry-specific knowledge. Newly appointed Directors will also be briefed on director's duties, responsibilities, disclosure duties and statutory obligations, governance policies, policies on disclosure of interests in securities, the rules relating to disclosure of any conflict of interest in a transaction involving the Company, prohibitions in dealing in the Company's securities and restrictions on disclosure of price sensitive information. The Company appointed a new director, Mr Luk Siu Fung, Mark with effect from 1 April 2020, and has provided him with the necessary orientation and briefing as highlighted above.

The Company will also arrange for First-time Directors (being a director who has no prior experience as a director of an issuer listed on the Singapore Exchange) to attend relevant training in relation to the roles and responsibilities of a director of a listed company, organised by the Singapore Institute of Directors ("**SID**") as required under Rule 406(3)(a) of the Catalist Rules, as well as other courses relating to areas such as accounting, legal and industry specific knowledge as appropriate, organised by other training institutions. The training of Directors will be arranged and funded by the Company.

The Company encourages existing Directors to attend training courses organised by the SID or other training institutions which are aimed at providing them with the latest updates on changes in relevant regulations, accounting standards, corporate governance practices and guidelines from the SGX-ST that affect the Group and/or the Directors in connection with their duties and responsibilities as a Director of a public listed company in Singapore, and such training will be funded by the Company.

All Directors are provided with regular updates on developments in financial reporting and governance standards, as well as changes in the relevant laws and regulations to enable them to make well-informed decisions and to ensure that the Directors are competent in carrying out their expected roles and responsibilities. New releases issued by the SGX-ST, Accounting and Corporate Regulatory Authority ("**ACRA**") and other relevant regulatory bodies which are relevant to the Group and/or Directors are circulated to the Board.

Seminars and Trainings attended by Directors in FY2020

In FY2020, due to the uncertainties resulting from the Hong Kong protests which started in March 2019 (which made international travel to and from Hong Kong and Singapore logistically challenging) followed by the unprecedented COVID-19 pandemic in early 2020, the Company faced challenges in arranging for the First-time Directors (who are all based in Hong Kong) to attend the mandatory training conducted by SID required of a First-time Director pursuant to Rule 406(3) of the Catalist Rules. Mr Chau King Fai, Philip, Mr Wan Ngar Yin, David and Mr Luk Siu Fung, Mark are First-time Directors, appointed with effect from 8 March 2019, 9 May 2019 and 1 April 2020 respectively. The Company endeavours to arrange for the aforementioned First-time Directors to complete the requisite seminars and trainings as required under Practice Note 4D as soon as practicably possible.

CORPORATE GOVERNANCE REPORT

In FY2020, the Directors have attended the following courses:

- Listed entity director essentials organised by SID, which is mandatory for newly appointed directors (attended by Mr Chau King Fai, Philip and Mr Wan Ngar Yin, David); and

- Board leadership organised by SID (attended by Mr Luk Siu Fung, Mark).

Provision 1.3

Matters Requiring Board's Approval

The Company has in place internal guidelines on matters which specifically require the Board's decision or approval, which has been clearly communicated to Management, including but not limited to the following:

(a) approval of material investment and divestment proposals, acquisitions and disposals, and funding requirements;

(b) approval of change in corporate business strategy and direction;

(c) transactions which are not in the ordinary course of business of the Group;

(d) approval of announcements released via SGXNet, including financial results announcements;

(e) approval of operating budgets, annual and interim reports, financial statements, Directors' statement and annual report;

(f) dividend matters;

(g) approval of major borrowings or corporate guarantees in relation to borrowings;

(h) authorisation of banking facilities and corporate guarantees;

(i) appointment and cessation of Directors and key management; and

(j) any matters relating to general meetings, Board and Board committees.

CORPORATE GOVERNANCE REPORT

Provision 1.4

Delegation by the Board

To assist the Board in the execution of its responsibilities and to provide independent oversight of Management, the Board has delegated specific responsibilities to the three (3) Board Committees, namely, the Audit Committee ("**AC**"), the Nominating Committee ("**NC**") and the Remuneration Committee ("**RC**") (collectively "**Board Committees**"). Each of the Board Committees functions within clearly defined terms of references which are reviewed on a regular basis, along with the committee structures and membership, to ensure their continued relevance, taking into consideration the changes in the governance and legal environment. Any change to the terms of reference for any Board Committee requires the specific written approval of the Board. The responsibilities and authority of the Board Committees set out in their respective terms of reference were revised for alignment with the Code. The composition, description, terms of reference and summary of activities of each Board Committee are set out in this report.

All the Board Committees are actively engaged and play an important role in ensuring good corporate governance in the Company and within the Group. The Board Committees report its activities regularly to the Board. Minutes of the Board Committees are regularly provided to the Board and are available to all Board members. The Board acknowledges that while these various Board Committees have the authority to examine particular issues and report back to the Board with their decisions and recommendations, the ultimate responsibility on all matters lies with the Board. The Board Committees have explicit authority to investigate any matter within their terms of reference, have full access to and co-operation by Management, have resources to enable them to discharge their functions properly and full discretion to invite any Director or senior Management to attend their meetings.

As at the date of this Annual Report, the compositions of the Board and Board Committees are as follows:

		Board Committee Membership		
Name of Director	**Designation**	**Audit Committee**	**Nominating Committee**	**Remuneration Committee**
Mr Chan Andrew Wai Men	Chairman and Chief Executive Officer	–	–	–
Mr Luk Siu Fung, Mark[(1)]	Executive Director and Chief Operating Officer	–	–	–
Ms Chu Yin Ling, Karen	Executive Director and Chief Financial Officer	–	–	–
Mr Wan Ngar Yin, David	Independent Director	Chairman	Member	Member
Mr Chau King Fai	Independent Director	Member	Member	Member
Mr Alexander Shlaen	Independent Director	Member	Chairman	Chairman

Note:

(1) Appointed with effect from 1 April 2020.

CORPORATE GOVERNANCE REPORT

Provision 1.5

Board and Board Committees Meetings

The schedule of all the Board and Board Committees meetings as well as the annual general meeting of the Company ("**AGM**") for the next calendar year is planned well in advance. The Board meets at least four times a year and whenever warranted by particular circumstances. Ad-hoc and/or non-scheduled Board and/or Board Committees meetings may be convened to deliberate on urgent substantial matters. In addition to the scheduled meetings, the Board would have informal discussions on corporate events and/or actions, which would then be formally confirmed and approved by circulating resolutions in writing. The Board members also communicate frequently with Management to discuss the business operations of the Group.

The Company's Bye-Laws allows Board meetings to be conducted by means of telephone conference, videoconferencing, audio visual, or other electronic means of communication by which all persons participating in the meeting can hear one another contemporaneously. Decisions of the Board and Board Committees may also be obtained through circular resolutions.

During FY2020, the number of meetings held (excluding ad hoc informal meetings and discussions) and the attendance of each Board member at the Board and Board Committees meetings are as follows:

	Board	**Audit Committee**	**Nominating Committee**	**Remuneration Committee**
Number of meetings held	**4**	**4**	**1**	**1**
	Attendance			
Mr Chan Andrew Wai Men	4	4*	1*	1*
Mr Luk Siu Fung, Mark(1)	1	1*	–	–
Ms Chu Yin Ling, Karen	4	4*	1*	1*
Mr Zhang Dai(2)	2	2*	1*	1*
Mr Alexander Shlaen	4	4	1	1
Mr Wan Ngar Yin, David	4	4	1	1
Mr Chau King Fai	4	4	1	1

* By invitation

Notes:

(1) Mr Luk Siu Fung, Mark was appointed to the Board as an Executive Director and Chief Operating Officer with effect from 1 April 2020.
(2) Mr Zhang Dai resigned from the Board as an Executive Director with effect from 24 March 2020.

CORPORATE GOVERNANCE REPORT

Multiple Board Representations

All Directors are required to declare their board representations on an annual basis and as soon as practicable after the relevant facts have come to his or her knowledge. Where a Director has multiple board representations, and in considering the nomination of Directors for appointment, the NC will evaluate whether or not the Director is able to and has been adequately carrying out his or her duties as a Director, as well as sufficient time and attention are given to the affairs of the Company, taking into consideration the Director's number of listed company board representations and other principal commitments.

The NC has reviewed all the declarations from the Directors and is satisfied that the Directors are able to and have adequately carried out their duties as Directors of the Company, as well as sufficient time and attention are given to the affairs of the Company, after taking into consideration each of the Directors' number of listed company board representations and other principal commitments in FY2020. In view of this, the Board does not limit the maximum number of listed company board representation its Board members may hold as long as each of the Board members is able to commit his or her time and attention to the affairs of the Company and adequately carrying out his or her duties as a Director. The Board believes that each individual Director is best placed to determine and ensure that he or she is able to devote sufficient time and attention to discharge his or her duties and responsibilities as a Director of the Company, bearing in mind his or her other commitments. The Board and the NC will review the requirement to determine the maximum number of listed company board representations as and when they deem fit. Currently, there is no Director who has multiple listed board representations.

Provision 1.6

Access to Information

All Directors have unrestricted access to the Company's records and information. From time to time, they are furnished with complete, accurate and adequate information in a timely manner to enable them to make informed decisions and discharge their duties and responsibilities.

Detailed Board papers are prepared and circulated to the Directors before each Board meeting. The Board papers include sufficient information on financial, business and corporate issues to enable the Directors to be properly briefed on issues to be considered at the Board meetings. However, sensitive matters may be tabled at the meeting itself or discussed without any papers being distributed.

The Board receives quarterly financial results and necessary information to enable them to oversee the Group's operational and financial performance as well as risks faced by the Group. Directors are also informed on a regular basis as and when there are any significant developments or events relating to the Group's business operations.

Provision 1.7

Access to Management and Company Secretary

The Directors have separate and independent access to Management, the Company Secretary and external advisers (where necessary), who are responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied, at all times through email, telephone and face-to-face meetings.

CORPORATE GOVERNANCE REPORT

The Company Secretary assists the Chairman and the Chairman of each Board Committee in the development of the agendas for the various Board and Board Committees meetings. The Company Secretary and/or their representatives attend all the Board and Board Committees meetings and prepare minutes of meetings. The appointment and removal of the Company Secretary is decided by the Board as a whole.

Board Composition and Guidance

Principle 2: The Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.

Provision 2.1

Director's Independence

The criterion for independence is based on the definition set out in the Code and Practice Guidance, and taking into consideration whether the Director falls under any circumstances pursuant to Rule 406(3)(d) of the Catalist Rules. The Board considers an "Independent" Director as one who has no relationship with the Company, its related corporations, its substantial Shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment with a view to the best interests of the Company.

The NC, shall conduct an annual review to determine the independence of the Directors according to the Code and its Practice Guidance, as well as Rule 406(3)(d) of the Catalist Rules. In its review, the NC shall consider all nature of relationships and circumstances that could influence the judgement and decisions of the Directors before tabling its finding and recommendations to the Board for approval.

For FY2020, each of the Independent Directors (namely Mr Alexander Shlaen, Mr Wan Ngar Yin, David and Chau King Fai) has confirmed that he or his immediate family members does not have any relationship with the Company or any of its related corporations, its substantial Shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment with a view to the best interests of the Company, and does not fall under any of the circumstances pursuant to Rule 406(3)(d) of the Catalist Rules. As at 29 September 2020, Mr Alexander Shlaen has interest in 69,944,000 shares of the Company (representing 0.49% of the total issued and paid up share capital), and Mr Wan Ngar Yin, David has interest in 70,200,000 shares of the Company (representing 0.49% of the total issued and paid up share capital). Mr Chau King Fai does not hold any shares of the Company. Notwithstanding the above, the Board is of the view that the shareholdings held by an independent Director will not compromise his independence of thought and decision. The Board, based on the review conducted by the NC, has determined that the aforesaid Directors are independent.

Duration of Independent Directors' Tenure

As at the date of this report, none of the Independent Directors has served on the Board beyond nine (9) years since the date of his or her first appointment. Nonetheless, the independence of any Directors who has served on the Board beyond nine (9) years since the date of his or her first appointment will be subject to particularly rigorous review.

CORPORATE GOVERNANCE REPORT

Provisions 2.2 and 2.3

Proportion of Independent Non-Executive Directors

The Board currently comprises six (6) Directors, where the Independent Directors make up half of the Board. Ms Chu Yin Ling, Karen, an Executive Director, will retire at the forthcoming AGM and will not be seeking for re-election. Accordingly, subsequent to her retirement at the forthcoming AM, the Independent Directors will make up a majority of the Board (three (3) out of five (5) Directors) and the Company will satisfy the requirements for (i) independent directors to make up a majority of the Board where the Chairman of the Board is not independent; and (ii) non-executive directors to make up a majority of the Board.

Provision 2.4

Board Composition and Size

As at the date of this report, the Board comprises the following six (6) Directors, three (3) of whom are Executive Directors and three (3) of whom are Independent Non-Executive Directors:

Executive Director

Chan Andrew Wai Men	–	Chairman and Chief Executive Officer ("**CEO**")
Luk Siu Fung, Mark	–	Executive Director and Chief Operating Officer
Chu Yin Ling, Karen	–	Executive Director and Chief Financial Officer

Non-Executive Directors

Alexander Shlaen	–	Non-Executive and Independent Director
Wan Ngar Yin, David	–	Non-Executive and Independent Director
Chau King Fai, Philip	–	Non-Executive and Independent Director

The NC is responsible for examining the size and composition of the Board and Board Committees. Having considered the scope and nature of the Group's operations, the requirements of the businesses and the need to avoid undue disruptions from changes to the composition of the Board and Board Committees, the Board, in concurrence with the NC, believes that its current board size and the existing composition of the Board Committees effectively serve the Group. It provides sufficient diversity of skills, experience and knowledge of the Group without interfering with efficient decision-making.

Board Diversity

The Board's policy in identifying nominees for directorship is primarily to have an appropriate mix of expertise with complementary skills, core competencies and experience for facilitating effective decision making, regardless of gender. In recognition of the importance and value of gender diversity in the composition of the Board, the Company has appointed a female Director in August 2015. Following the retirement of Ms Chu Yin Ling, Karen at the forthcoming AGM, the Board will not have any female Director. Notwithstanding the Board does not rule out the possibility of appointing a female Director if a suitable candidate is nominated for the Board's consideration. Each Director has been appointed based on his or her skills, experience and knowledge, and is expected to bring forth his or her experience and expertise to the Board for the continuous development of the Group.

CORPORATE GOVERNANCE REPORT

All Directors possess the right core competencies and diversity of experience that enable them to effectively contribute to the Board. Their varied experiences are particularly important in ensuring that the strategies proposed by Management are fully discussed and examined, taking into account the long-term interests of the Company, the Group and Shareholders.

Board Guidance

An effective and robust Board, whose members engage in open and constructive debate and challenge Management on its assumptions and proposals, is fundamental to good corporate governance. A Board should also aid in the development of strategic proposals and oversee effective implementation by Management to achieve set objectives.

The Directors, in particular the Non-Executive Directors, are kept informed of the Company's business and affairs as well as about the industry in which the Company operates in. This knowledge is essential for the Directors to engage in informed and constructive discussions. To ensure that Non-Executive Directors are well supported by accurate, complete and timely information, Non-Executive Directors have unrestricted access to Management.

Provision 2.5

Meeting of Independent Directors without Management

Although all Directors have equal responsibility for the performance of the Group, the role of the Independent Directors is particularly important in ensuring that the strategies proposed by Management are constructively challenged, fully discussed and rigorously examined, assessing the performance of Management in meeting the agreed goals and objectives, as well as monitoring the reporting of performance.

The Independent Directors are encouraged to meet, without the presence of Management, so as to facilitate a more effective check on Management. No such meetings were necessary and conducted in FY2020. Notwithstanding, the Independent Directors are able to meet without the Management if there are matters to be discussed.

Chairman and Chief Executive Officer

Principle 3: There is a clear division of responsibilities between the leadership of the Board and Management, and no one individual has unfettered powers of decision-making.

Provision 3.1

Separation of the Role of Chairman and CEO

The Chairman of the Board and the CEO should in principle be separate persons to maintain an appropriate balance of power and authority, increased accountability and greater capacity of the Board for independent decision making.

Mr Chan Andrew Wai Men is currently the Chairman and the CEO. The Board is of the view that, given the scope and nature of the operations of the Group, there is no immediate necessity to separate the functions of the Chairman and the CEO. The Board is also of the opinion that it is in the best interests of the Group to maintain a single leadership structure.

CORPORATE GOVERNANCE REPORT

The Board is of the view that it is unlikely that the discharge of responsibilities as Chairman and CEO by the same person will be compromised as all major financial decisions made are subject to review by the AC and the Board collectively. Mr Chan Andrew Wai Men's performance and remuneration package are reviewed and recommended to the Board by the NC and the RC respectively without any individual exercising any considerable concentration of power or influence.

Provision 3.2

Role of Chairman and Chief Executive Officer

The Chairman is responsible for the effective functioning of the Board and exercises control over the quality, quantity and timeliness of information flow between the Board and Management and effective communication with Shareholders. In addition, the Chairman encourages constructive relations among the Directors and the Board's interaction with Management. The Chairman's responsibilities in respect of the Board proceedings include:

(a) scheduling of meetings to enable the Board to perform its duties responsibly while not interfering with the flow of the Group's operations (with the assistance of the Company Secretary and her representatives);

(b) setting the agenda, and ensuring that adequate time is available for discussion of all agenda items;

(c) ensuring that all Directors receive complete, adequate, timely and clear information, and ensuring effective communication Shareholders;

(d) ensuring that all agenda items are adequately and openly debated at the Board meetings; and

(e) ensuring that the Group complies with the Code and maintains high standards of corporate governance.

The CEO has full executive responsibilities in the business directions and operation efficiency of the Group. He oversees execution of the Group's corporate and business strategies and is responsible for the day-to-day running of the business. All major proposals and decisions made by the CEO are discussed and reviewed by the Board, for Board's consideration and approval. The performance and remuneration package of the CEO is reviewed periodically by the NC and the RC. The Board believes that there are adequate safeguards in place to ensure an appropriate balance of power and authority within the spirit of good corporate governance.

Provision 3.3

Lead Independent Director

Notwithstanding the Board currently does not have a Lead Independent Director, the Independent Directors make up half of the Board, and will make up majority of the Board following the retirement of Ms Chu Yin Ling, Karen at the forthcoming AGM. The Independent Directors meet amongst themselves without the presence of the Management where necessary and will provide feedback to the Management after such meetings. As such, the Board is satisfied that there is a strong independent element to contribute to effective decision making. The Independent Directors collectively are and will continue to be available to Shareholders as a channel of communication between Shareholders and the Board and/or Management. The Board will appoint a Lead Independent Director as and when deemed appropriate.

CORPORATE GOVERNANCE REPORT

Board Membership

Principle 4: The Board has a formal and transparent process for the appointment and re-appointment of directors, taking into account the need for progressive renewal of the Board.

Provision 4.1

Roles and Duties of Nominating Committee

The Board established the NC with written terms of reference which clearly set out its authority and duties, and report to the Board directly. The terms of reference of the NC, which was revised and adopted for alignment with the Code and the Catalist Rules, sets out its duties and responsibilities. Amongst them, the NC is responsible for:

(a) reviewing the structure, size and composition (including the skills, gender, age, qualification, experience and diversity) of the Board and Board Committees regularly and strategically;

(b) reviewing the succession plans for Directors, in particular the appointment and/or replacement of the Chairman, the CEO and key management personnel;

(c) reviewing and approving any new employment of related persons and the proposed terms of their employment;

(d) requesting nominated candidates to disclose any existing or expected future business interests that may lead to a conflict of interest. This disclosure is to be included in any recommendations to the Board;

(e) recommending the membership of the Board Committees to the Board;

(f) reviewing other directorships held by each Director and decide whether or not a Director is able to carry out, and has been adequately carrying out, his or her duties as a Director;

(g) keeping up to date with developments in corporate governance initiatives, changes to relevant legislations, strategic issues and commercial changes that may affect the Company and the industry in which it operates; and

(h) deciding on how the Board's performance is to be evaluated and propose objective performance criteria, subject to the approval by the Board, which address how the Board has enhanced long term Shareholders' value. The Board will also implement a process to be proposed by the NC for assessing the effectiveness of the Board as a whole and for assessing the contribution of each individual Director to the effectiveness of the Board (if applicable).

CORPORATE GOVERNANCE REPORT

Provision 4.2

Composition of the Nominating Committee

As at the date of this report, the NC comprises three (3) members, all of whom including the NC Chairman, are Independent Directors. The NC comprises the following members:

Mr Alexander Shlaen (Chairman)
Mr Wan Ngar Yin, David
Mr Chau King Fai

Where a Director has multiple board representations in other listed companies and other principal commitments, the NC will evaluate whether or not the Director is able to carry out and has been adequately carrying out his/her duties as a Director of the Company taking into consideration his/her time and resources allocated to the affairs of the Company. The NC is of the view that all the Directors are able to devote to the Company's affairs in light of their other commitments and therefore, the Board has not capped the maximum number of board representations each Director is allowed to hold. The NC and the Board will review the requirement to determine the maximum number of listed Board representations as and when it deemed fits.

The Board and the NC have endeavoured to ensure that the Directors appointed to the Board possess the relevant experience, knowledge and expertise critical to the Group's business.

The NC would take into consideration, amongst other things, the Directors' contributions to the Board (including attendance and participation at meetings, time and effort accorded to the Group's business and affairs), independence, other board representations, and any other factors as may be deemed relevant by the NC.

There is no alternate director being appointed to the Board.

Provision 4.3

Nomination and Selection of Directors

Where a vacancy arises pursuant to an expansion of the Board or such other circumstances as they may occur, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the NC, in consultation with the Board, determines the selection criteria and selects candidates with the appropriate expertise and experience for the position. The search for a suitable candidate is drawn from the contacts and networks of existing Directors. The NC can also approach independent experts to source for a suitable candidate. New Directors will be appointed by way of a Board resolution, after the NC makes the necessary recommendation to the Board and the Board approves such appointment.

When an existing Director chooses to retire or the need for a new Director arises, either to replace a retiring Director or to enhance the Board's strength, the NC, in consultation with the Board, evaluates and determines the selection criteria so as to identify candidates with the appropriate expertise and experience for the appointment as new Director. The selection criterion includes integrity, diversity of competencies, expertise, industry experience and financial literacy.

CORPORATE GOVERNANCE REPORT

Re-election of Directors

Bye-Law 104 of the Company's Bye-Laws provides that at each AGM, at least one-third of the Directors for the time being shall retire from office by rotation and submit themselves for re-election, provided that all Directors shall retire from office at least once every three (3) years. Rule 720(4) of the Catalist Rules also provides that all Directors must submit themselves for re-nomination and re-appointment at least once every three (3) years.

At the forthcoming AGM of the Company, Mr Chau King Fai and Ms Chu Yin Ling, Karen will retire by rotation pursuant to Bye-Law 104 of the Company's Bye-Laws, while Mr Luk Siu Fung, Mark will cease to hold office pursuant to Bye-Law 107(B) of the Company's Bye-Laws.

Mr Chau King Fai has given his consent for re-election and he will, upon re-election as a Director of the Company, remain as the Non-Executive and Independent Director, a member of the AC, the NC and the RC, and will be considered by the Board to be independent for the purpose of Rule 704(7) of the Catalist Rules.

Mr Luk Siu Fung, Mark has given his consent for re-election and he will, upon re-election as a Director of the Company, remain as the Executive Director and Chief Operating Officer.

Ms Chu Yin Ling, Karen has decided not to seek for re-election as a Director. Upon retirement, Ms Chu will remain as the Chief Financial Officer and Company Secretary of the Company.

In making the recommendation, the NC has considered the Directors' overall contributions and performance. Each member of the NC shall abstain from making any recommendation and/or participating in any deliberation of the NC in respect of the assessment of their own performance or re-election as a Director.

Each member of the NC shall abstain from voting, approving or making a recommendation on any resolution of the NC in which he has a conflict of interest in the subject matter under consideration.

Please refer to the section entitled "Additional Information on Director Nominated for Re-election – Appendix 7F to the Catalist Rules" of this report for the information as set out in Appendix 7F to the Catalist Rules relating to Mr Chau King Fai and Mr Luk Siu Fung, Mark.

Provision 4.4

Continuous Review of Directors' Independence

The Company has put in place a process to ensure the continuous monitoring of the independence of the Directors whereby the Directors must immediately report any changes in their external appointments that could affect their independence on the Board.

The NC reviews the independence of each Director annually in accordance with the definition of independence as set out in the Code and Practice Guidance, and taking into consideration whether the Directors falls under any circumstances pursuant to Rule 406(3)(d) of the Catalist Rules. The Independent Directors have submitted their confirmation of independence annually for the NC's reviews. In respect of the Company's current Independent Directors, namely Mr Alexander Shlaen, Mr Wan Ngar Yin, David and Mr Chau King Fai, the Board is of the view that they are independent, taking into account the circumstances set forth in the Code, Rule 406(3)(d) of the Catalist Rules and any other salient factors. For FY2020, the Independent Directors have also confirmed their independence in accordance with the Code and Rule 406(3)(d) of the Catalist Rules.

CORPORATE GOVERNANCE REPORT

Provision 4.5

Listed Company Directorship and Principal Commitments

In addition to the current procedures for the review of the attendance records and analysis of directorships, Directors have to notify the Board of any changes in their external appointments.

Other than the key information regarding the Directors set out below, information pertaining to the Directors' interests in shares, options and other convertible securities are set out in the "Directors' Statement" section of this Annual Report, and information in relation to the background and principal commitments of the Directors are set out in the "Board of Directors" section of this Annual Report.

Name of Director	Date of last re-election/ appointment	Nature of appointment	Functions/Board Committee served	Academic and professional qualifications	Directorships or Chairmanships both present in other listed companies and other principal commitments
Mr Chan Andrew Wai Men	23 October 2019	Executive	Chairman and Chief Executive Officer	– Bachelor's Degree in Mechanical Engineering from the University of Toronto in Canada	Other Principal Commitments – Chairman of JUST MMA Hong Kong – President of the Hong Kong MMA Federation
Mr Luk Siu Fung, Mark	1 April 2020 (to be re-elected at the forthcoming AGM)	Executive	Chief Operating Officer	– Bachelor's and Master's Degree of Arts from the University of Cambridge	Nil
Ms Chu Yin Ling, Karen	27 July 2018 (to retire as a director of the Company at the forthcoming AGM)	Executive	Chief Financial Officer	– Master's Degree in Professional Accounting from the Hong Kong Polytechnic University – Associate Member of the Hong Kong Institute of Certified Public Accountant	Nil
Mr Wan Ngar Yin, David	23 October 2019	Non-Executive and Independent	Chairman of the AC and member of the NC and RC	– Master's Degree in Business Administration from the University of Sydney – Member of Hong Kong Securities Institute – Member of CPA Australia	Other Principal Commitments – Managing Director of Silverbricks Securities Company Limited – Director of Silverbricks Asset Management Company Limited

CORPORATE GOVERNANCE REPORT

Name of Director	Date of last re-election/ appointment	Nature of appointment	Functions/Board Committee served	Academic and professional qualifications	Directorships or Chairmanships both present in other listed companies and other principal commitments
				– Associate Member of the Taxation Institute of Hong Kong – Associate Member of the Hong Kong Institute of Certified Public Accountant – Fellow Member of the Association of Chartered Certified Accountants – Responsible Officer for type 1,4,9 regulated activities under the Hong Kong Securities and Futures Commission	
Mr Alexander Shlaen	23 October 2019	Non-Executive and Independent	Chairman of the NC and RC, and member of the AC	– Executive MBA from the Kellogg School of Management and the Hong Kong University of Science and Technology	Other Principal Commitments – Chief Executive Officer of Panache Management Pte. Ltd.
Mr Chau King Fai	23 October 2019 (to be re-elected at the forthcoming AGM)	Non-Executive and Independent	Member of the AC, NC and RC	– Bachelor's Degree in Business Administration from the Chinese University of Hong Kong. – Responsible Officer for type 6 regulated activities under the Hong Kong Securities and Futures Commission	Other Principal Commitments – Managing Director of Grand Moore Capital Limited

CORPORATE GOVERNANCE REPORT

Board Performance

Principle 5: The Board undertakes a formal annual assessment of its effectiveness as a whole, and that of each of its board committees and individual directors.

Provisions 5.1 and 5.2

Performance Criteria

The Board, through the NC, has used its best effort to ensure that Directors appointed to the Board and Board Committees, whether individually or collectively, possess the background, experience, knowledge in the business, competencies in finance and management skills critical to the Group's business. It has also ensured that each Director, with his or her special contributions, brings the Board an independent and objective perspective to enable sound, balanced and well-considered decisions to be made.

The NC has been tasked to assist the Board to develop a performance evaluation framework for the Board, Board Committees and individual Directors, proposed performance criteria and to assist in the conduct of the evaluation, analyses the findings and reports the results to the Board.

The NC, together with the Board, has established a formal process setting out the performance criteria for assessing the effectiveness of the Board as a whole, and for assessing the contribution by each individual Directors to the effectiveness of the Board to align with the applicable principles and provisions set out in the Code.

On an annual basis, all the Directors are required to complete the following:

- Board Assessment Checklist; and
- Individual Director Self-Assessment Form.

For FY2020, the NC conducted a formal review of the performance evaluation of the Board and individual Directors, by way of circulating the checklist to the Board and self-assessment form to each individual Director for completion. The summary of findings of each evaluation together with the feedback and recommendations from the Board and each individual Director had been discussed and reviewed by the NC.

The NC has, without the engagement of external facilitator, assessed the Board and Board Committees overall performance to-date and is of the view that the performance of the Board as a whole and Board Committees were satisfactory.

CORPORATE GOVERNANCE REPORT

II. REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 6: The Board has a formal and transparent procedure for developing policies on director and executive remuneration, and for fixing the remuneration packages of individual directors and key management personnel. No director is involved in deciding his or her own remuneration.

Provision 6.1

Roles and Duties of Remuneration Committee

The Board established the RC with written terms of reference which clearly set out its authority and duties, and report to the Board directly. The terms of reference of the RC, which was revised and adopted for alignment with the Code and the Catalist Rules, sets out its duties and responsibilities. Amongst them, the RC is responsible for, the following:

- recommending to the Board a framework of remuneration for the Board covering all aspects of remuneration such as Director's fees, salaries, allowances, bonuses, performance shares and benefits-in-kind;
- proposing to the Board, appropriate and meaningful measures for assessing the Executive Directors' performance;
- determining the specific remuneration package for each Executive Director and key management personnel;
- considering the eligibility of Directors for benefits under long-term incentive schemes;
- considering and recommending to the Board the disclosure of details of the Group's remuneration policy, level and mix of remuneration and procedure for setting remuneration and details of the specific remuneration packages of the Directors required by law or by the Code; and
- administering the SinoCloud Group Limited Performance Share Plan.

Provision 6.2

Remuneration Committee Composition

As at the date of this report, the RC comprises three (3) members, all of whom including the RC Chairman, are Independent Directors. The RC comprises the following members:

1. Mr Alexander Shlaen (Chairman)
2. Mr Wan Ngar Yin, David
3. Mr Chau King Fai

CORPORATE GOVERNANCE REPORT

Provision 6.3

Remuneration Packages and Framework

The RC reviews and recommends to the Board the remuneration packages or policies for the Executive Directors and key management personnel based on the performance of the Group, the individual Director and the key management personnel. In reviewing the service agreements of the Executive Directors and key management personnel of the Company, the RC will review the Company's obligations arising in the event of termination of these service agreements, to ensure that such service agreements contain fair and reasonable termination clauses which are not overly generous. The RC aims to be fair and avoid rewarding poor performance.

Provision 6.4

Engagement of Remuneration Consultants

No Director will be involved in determining his or her own remuneration. The RC has full authority to engage any external professional advice on matters relating to remuneration as and when the need arises. The expense of such services shall be borne by the Company. For FY2020, the Board has not engaged any external remuneration consultants to advice on remuneration matters.

Level and Mix of Remuneration

Principle 7: The level and structure of remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value creation of the company, taking into account the strategic objectives of the company.

Provisions 7.1 and 7.3

Remuneration of Executive Directors and key management personnel

The remuneration for the Executive Directors and certain key management personnel comprise a fixed and variable component. The variable component is performance related and is linked to the Group's performance as well as the performance of each individual Executive Director and key management personnel. The performance of the Executive Directors and key management personnel are reviewed periodically by the RC and the Board.

The Executive Directors do not receive any Directors' fees and their remuneration packages are based on their respective service agreements entered into with the Company. Each Executive Director has a service agreement with a fixed appointment period and the RC reviews in particular, termination provisions to ensure that such service agreements contain fair and reasonable termination clauses which are not overly generous. Where possible, the RC will consider the use of contractual provisions to allow the Company to reclaim incentive components. Such service agreements are not excessively long and they do not contain onerous removal clauses. In the event of early termination, the Executive Directors or the Company may, *inter alia*, terminate the service agreements by giving to the other party, *inter alia*, three months' notice in writing, or in lieu of notice in writing.

CORPORATE GOVERNANCE REPORT

The Group adopts performance share plan ("**PSP**"), which is a variable component of granting performance share awards under the PSP. The performance-related component is to align the interests of the Executive Directors with those of the Shareholders, and promote the long-term success of the Group. There were no new shares granted under the PSP during FY2020 and no outstanding performance share awards at the end of FY2020.

Having reviewed and considered the variable components in the remuneration packages of the Executive Director and key management personnel, which are moderate, the RC is of the view that presently there is no urgent need to institute contractual provisions in the terms of employment to reclaim incentive components of their remuneration paid in prior years in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company and the Group.

Provision 7.2

Remuneration of Independent Directors

The remuneration of the Independent Directors comprises a fixed and variable component. Independent Directors generally receive fixed Directors' fees, in accordance with their respective contributions to the Group, taking into account factors such as effort and time spent, and responsibilities of the Independent Directors. Such Directors' fees are subject to approval by the Shareholders at the AGM. The variable component relates to the granting of performance share awards under the PSP so as to better align the interests of the Independent Directors with the interests of the Shareholders. The RC has assessed and is satisfied that the Independent Directors are not overly-compensated to the extent that their independence is compromised.

Directors' fees of HK$360,000 for FY2020 (with payment made quarterly, in arrears) had been approved by Shareholders at the last AGM held on 23 October 2019. In view of the weak global economy arising from the COVID-19 pandemic, the RC and the Board have recommended to maintain and not increase the Directors' fees for the Independent Directors for the current financial year ending 30 June FY2021, as compared to FY2020. Directors' fees of HK$360,000 (equivalent to approximately S$62,600) for FY2021 (with payment to be made quarterly, in arrears) are recommended by the Board and subject to the approval of Shareholders at the forthcoming AGM. Each member of the RC abstains from voting on any resolutions in respect of his remuneration package.

Disclosure on Remuneration

Principle 8: The company is transparent on its remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.

Provision 8.1

The Group's remuneration policy is to provide compensation packages which reward successful performance and to attract, retain and motivate Directors and key management personnel. The compensation packages comprised a fixed component, variable component and benefits-in-kind, where applicable, taking into account the industry practices, the performance of the Group as well as the contribution and performance of each Director and key management personnel when determining remuneration packages. The RC will review the remuneration of the Directors and key management personnel from time to time. In structuring the compensation framework, the RC also takes into account the risk policies of the Group, the need for the compensation to be symmetric with the risk outcomes and the time horizon of risks.

The Group does not have any key management personnel who are not Directors or the CEO. The remuneration paid to the Directors for services rendered during FY2020 are as follows:

Remuneration Bands	Salary	Performance bonus	Directors' fees	Other benefits	Total
	%	%	%	%	%
Directors					
S$250,000 and above	–	–	–	–	–
Below S$250,000					
Mr Chan Andrew Wai Men	–	–	–	–	–
Mr Luk Siu Fung, Mark[(1)]	–	–	–	–	–
Ms Chu Yin Ling, Karen	100	–	–	–	100
Mr Zhang Dai[(2)]	100	–	–	–	100
Mr Alexander Shlaen	–	–	100	–	100
Mr Wan Ngar Yin, David	–	–	100	–	100
Mr Chau King Fai	–	–	100	–	100

Notes:

(1) Mr Luk Siu Fung, Mark was appointed to as an Executive Director and Chief Operating Officer with effect from 1 April 2020.
(2) Mr Zhang Dai resigned as an Executive Director with effect from 24 March 2020.

Save as disclosed above, the Code recommends that the Company should fully disclose the amount and breakdown of remuneration of each individual Director and the CEO on a named basis.

The Board has decided not to disclose the aforementioned details as recommended by the Code, given the competitive business environment and possible negative impact on the Group's business interest, the disclosure of such detailed remuneration could have an adverse effect on working relationships and contributions to the operations of the Group. There was no key management personnel (who is not Director or CEO) being identified by the Group in FY2020.

After taking into account the reasons for non-disclosure stated above, the Board is of the view that the current disclosure of the remuneration presented herein in this report is sufficient to provide Shareholders information on the Group's remuneration policies, as well as the level and mix of remuneration. Accordingly, the Board is of the view that the Company complies with Principle 8 of the Code.

For FY2020, there were no terminations, retirement or post-employment benefits granted to Directors other than the standard contractual notice period termination payment in lieu of service.

Provision 8.2

Disclosure on Remuneration of Immediate Family Member of Substantial Shareholder

There was no employee who is a substantial Shareholder, or is an immediate family member of a Director, the CEO or a substantial Shareholder in FY2020.

CORPORATE GOVERNANCE REPORT

Provision 8.3

Details of SinoCloud Performance Share Plan ("SinoCloud PSP")

The SinoCloud PSP was approved by the Shareholders at the Special General Meeting held on 26 July 2013 for a period of 10 years. The PSP is a share incentive scheme which will allow the Company to, *inter alia*, target specific performance objectives and to provide an incentive for Directors and selected employees (collectively the "**Participants**") to achieve these targets. The Directors believe that the PSP will incentivise Participants to excel in their performance and encourage greater dedication and loyalty to the Company.

No award was granted under the SinoCloud PSP in FY2020. Further information on the PSP is set out in the "Directors' Statement" section of this Annual Report.

The SinoCloud PSP complies with the relevant rules as set out in Chapter 8 of the Catalist Rules. The SinoCloud PSP will provide eligible participants with an opportunity to participate in the equity of the Company and to motivate them towards better performance through increased dedication and loyalty. The SinoCloud PSP is administered by the RC.

III. ACCOUNTABILITY AND AUDIT

Risk Management and Internal Controls

Principle 9: The Board is responsible for the governance of risk and ensures that Management maintains a sound system of risk management and internal controls, to safeguard the interests of the company and its shareholders.

Provision 9.1

The Board acknowledges that it is responsible for establishing, maintaining and reviewing the effectiveness of the Company's overall internal control framework. The Board also recognises that an effective internal control system will not preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The internal controls in place, including the maintenance of proper accounting records and financial information, will address the financial, operational, compliance and information technology risks, and the objectives of these controls are to provide reasonable assurance that there are no material financial misstatements or material loss and assets are safeguarded.

Management is responsible for designing, implementing and monitoring the risk management and internal control systems within the Group. Management regularly reviews the Group's business and operational activities to identify areas of significant risks as well as appropriate measures to control and mitigate these risks. Any significant matters are highlighted to the Board and the AC for their deliberation.

CORPORATE GOVERNANCE REPORT

The Group does not have a Risk Management Committee. However, the Management regularly reviews the Group's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. The Management reviews all significant control policies and procedures and highlights all significant matters to the Directors and the AC.

Provision 9.2

Assurance from Key Management Personnel

In the evaluation of the internal controls, apart from the statutory audits conducted by external auditors, the Company has engaged an independent professional consultancy firm, BT Corporate Governance Limited, formerly known as Baker Tilly Hong Kong Risk Assurance Limited, to carry out internal audits. Based on the reports from the internal and external auditors, the Board, the AC and the Management evaluate the findings of the internal and external auditors on the Group's internal controls annually for their follow up actions. The timely and proper implementation of all required corrective, preventive or improvement measures are closely monitored.

The Board has received assurance from the CEO and the Chief Financial Officer ("**CFO**") that the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances, and the effectiveness of the Group's risk management and internal control systems.

Based on the risk management framework and internal control system established and maintained by the Group, work performed by the internal auditors and external auditors, assurance received from the CEO and the CFO, as well as reviews performed by the Management and the respective Board Committees, the Board, with the concurrence of the AC, is of the opinion that the Group's internal controls, addressing financial, operational, compliance and information technology risks, and risk management systems, are adequate and effective as at 30 June 2020.

The system of internal controls provides reasonable, but not absolute, assurance that the Group will not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. However, the Board notes that no system of internal controls and risk management systems can provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgement in decision-making, human error, losses, fraud or other irregularities.

Management will continue to review and strengthen the Group's control environment and devote resources and expertise towards improving its internal policies and procedures to maintain a high level of governance and internal controls.

Audit Committee

Principle 10: The Board has an Audit Committee which discharges its duties objectively.

Provision 10.1

The terms of reference of the AC, which was revised and adopted for alignment with the Code and the Catalist Rules, sets out its duties and responsibilities. Amongst them, the AC is responsible for:

(a) reviewing with external auditors the audit plan, their evaluation of the system of internal accounting controls and their audit report;

CORPORATE GOVERNANCE REPORT

(b) reviewing the effectiveness and adequacy of the overall internal control system including the financial, operational, compliance and information technology control risks and risk management policies and systems on an annual basis;

(c) reviewing the Group's financial results and the announcements before submission to the Board for approval;

(d) reviewing the assistance given by the Management to external auditors;

(e) reviewing the effectiveness and significant findings of internal audits;

(f) recommending to the Board the appointment, re-appointment and removal of the external auditors, and its remuneration and terms of engagement;

(g) reviewing the scope and results of the external audit, and the independence and objectivity of the external auditors;

(h) ensuring that the Company complies with the requisite laws and regulation;

(i) ensuring that the Company has programmes and policies in place to identify and prevent fraud;

(j) reviewing interested person transactions;

(k) having explicit authority to investigate any matter; and

(l) undertaking such other functions and duties as may be required by the Board under the Code, statute or the Catalist Rules (where applicable).

Provisions 10.2 and 10.3

Audit Committee Composition

The AC comprises three (3) members, all of whom including the AC Chairman, are Non-Executive and Independent Directors. The AC comprises the following members:

Mr Wan Ngar Yin, David (Chairman)
Mr Chau King Fai
Mr Alexander Shlaen

The Board is of the view that the members of the AC, including the AC Chairman are appropriately qualified and possess recent and relevant accounting or related financial management expertise or experience to discharge their responsibilities. All AC members have many years of experience in accounting, financial management and business management.

No former partner or Director of the Company's existing auditing firm is a member or has acted as a member of the AC, and the members of AC also confirmed that they have no financial interest in the Company's existing auditing firm.

CORPORATE GOVERNANCE REPORT

Provision 10.4

Internal Audit Function

The internal audit function of the Group has been outsourced to an independent professional consultancy firm, BT Corporate Governance Limited (formerly known as Baker Tilly Hong Kong Risk Assurance Limited), which reports directly to the Chairman of the AC on internal audit matters, and to the CEO and/or the CFO on administrative matters. The internal auditors have unfettered access to all the Group's documents, records, properties and personnel, including the AC. The AC approves the hiring, removal, evaluation and compensation of the independent professional consultancy firm to which the internal audit function is outsourced.

The internal auditors will submit their annual audit planning for approval by the AC and report their findings to the AC. In FY2020, the internal auditors carried out the review which is consistent with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors on certain key areas to assess and evaluate:

(a) whether adequate systems of internal controls are in place;

(b) whether operations of the business processes under review are conducted efficiently and effectively; and

(c) internal control improvement opportunities.

The AC has reviewed with the internal auditors their audit plan and their evaluation of the system of internal controls and has evaluated their audit findings and Management's responses to those findings, the adequacy and effectiveness of material internal controls, (including financial, operational, compliance and information technology controls) of the Company and the Group for FY2020. The AC is satisfied that the outsourced internal audit function is independent, adequately resourced, effective and has the appropriate standing within the Group. The AC is also of the view that the outsourced internal audit function is adequately staffed with persons with the relevant qualifications and experience and adheres to professional standards including those promulgated by The Institute of Internal Auditors.

The annual audits conducted by the internal auditors aim to assess the adequacy and effectiveness of the Group's internal control procedures and to provide reasonable assurances to the AC and Management that the Group's controls and governance processes are adequate and effective.

On an annual basis, the AC reviews the independence, adequacy and effectiveness of the internal audit function.

External Audit Function

The AC reviews the scope and results of the audit carried out by the external auditors, the cost effectiveness of the audit and the independence and objectively of the external auditors. The AC always seeks to balance the maintenance of objectivity of the external auditors and their ability to provide value-for-money professional services. The AC also recommends to the Board the appointment, re-appointment and removal of external auditors, and approves the remuneration and terms of engagement of the external auditors. The re-appointment of the external auditors is always subject to Shareholders' approval at the AGM.

CORPORATE GOVERNANCE REPORT

Crowe Horwath First Trust LLP ("**Crowe**") was appointed as the external auditors of the Company at the AGM held on 23 October 2019 until the conclusion of the forthcoming AGM. The aggregate amount of audit fees paid to Crowe in FY2020 was S$170,000. There were no non-audit fees paid to Crowe in FY2020.

In reviewing the nomination of Crowe for re-appointment for the financial year ending 30 June 2021, the AC has considered the adequacy of the resources, experience and competence of Crowe, and has taken into account the audit engagement level. Consideration was also given to the experience of the engagement partner and key team members in handling the audit. The Board also considered the audit team's ability to work in a cooperative manner with Management whilst maintaining integrity and objectivity and to deliver their services professionally and within agreed timelines.

On the basis of the above, the AC and the Board are satisfied with the standard and quality of work being performed by Crowe, and have recommended the nomination of Crowe for re-appointment as external auditors of the Company at the forthcoming AGM.

For FY2020, the Company confirms that it is in compliance with Rules 712 and 715 of the Catalist Rules in relation to the appointment of audit firms for the Group. The AC and the Board are satisfied with the standards and the effectiveness of the audits performed by the independent external auditors of the subsidiaries and significant associated companies of the Group, other than those of the Company.

Provision 10.5

Meeting Auditors without the Management

In performing its functions, the AC and Management communicate with the external and internal auditors in-person or through other electronic means to discuss and evaluate the internal controls of the Group and review the overall scope of both external and internal audits. The AC also meets regularly with Management, external and internal auditors to keep abreast of any changes to the accounting standards and issues which could have a direct impact on the Group's financial statements. Usually once a year and as and when required, the AC meets with the external and internal auditors without the presence of Management, to review any matters that might be raised privately.

The AC has separately met with the external auditors once in the absence of Management for FY2020. The AC did not meet the internal auditors separately for FY2020. Notwithstanding, the internal auditors is able to reach out to the AC separately without the Management if there are matters which require the attention of the AC.

Whistle Blowing Policy

The Group has developed and implemented a whistle blowing policy in 2006 across the Group. This policy sets out the procedures for employees of the Group to raise concerns and report any suspected wrongdoing within the Group (including criminal activities, failure to comply with laws and regulations, financial malpractice or fraud). Under the policy, employees may report their concerns to either their line managers, or even approach the human resources manager or the CEO, or to the member of the AC. The AC has reviewed arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The AC has also ensured that arrangements are in place for the independent investigation of such matters and for appropriate follow up action.

CORPORATE GOVERNANCE REPORT

Audit Committee Activities

In FY2020, the AC had, among others, carried out the following activities:

(a) reviewed the quarterly, half and full year financial statements announcements of the Group, and recommended to the Board for approval and release to the SGX-ST via SGXNet;

(b) reviewed the adequacy and effectiveness of the Group's internal controls, including financial, operational, compliance and information technology controls;

(c) reviewed IPTs of the Group;

(d) reviewed and approved the annual audit plan of the external auditors;

(e) reviewed and approved the internal audit plan of the internal auditors, having considered the scope of the internal audit procedures;

(f) reviewed the effectiveness of the Group's internal audit function;

(g) reviewed the audit findings of the internal auditors and Management's responses to those findings;

(h) reviewed the independence of the external auditors;

(i) reviewed the annual re-appointment of the external auditors and determined their remuneration, and made a recommendation for the Board's approval; and

(j) met with the external auditors once without the presence of Management.

Key Audit Matters

In the review of the financial statements, the AC has discussed with Management the accounting principles that were applied and their judgment of items that might affect the integrity of the financial statements. The following significant matter impacting the financial statements was discussed with Management and the external auditors, and was reviewed by the AC:

Matter considered	How the AC reviewed this matter and what decisions were made
Impairment of non-financial assets	The AC considered the approach and methodology applied in the basis and appropriateness of the valuation methodologies used in determining the recoverable amounts of the cash-generating units by an independent valuer. The AC also obtained understanding on the work performed by the external auditors, including their assessment on the appropriateness of valuation methodologies used in determining the recoverable amounts of the cash-generating units.

CORPORATE GOVERNANCE REPORT

Matter considered	How the AC reviewed this matter and what decisions were made
	The valuation of non-financial assets was also an area of focus for the external auditors. The external auditors included this item as a key audit matter in its audit report for the FY2020. Please refer to pages 56 to 57 of this Annual Report.
Expected credit losses on receivables and contract assets	The AC obtained the aging analysis and top 4 aging clients to perform debtor-specific assessment of the individual debtors, payment history and status of negotiations with respective debtors and other external information available to Management. The AC also obtained understanding on the work performed by the external auditors, including their assessment of the financial ability to make repayments, whether there are sufficient assessable highly liquid assets and Management's judgement. The expected credit losses on receivables and contract assets was also an area of focus for the external auditors. The external auditors included this item as a key audit matter in its audit report for the FY2020. Please refer to pages 58 to 59 of this Annual Report.

IV. SHAREHOLDER RIGHTS AND ENGAGEMENT

Shareholder Rights and Conduct of General Meetings

Principle 11: The company treats all shareholders fairly and equitably in order to enable them to exercise shareholders' rights and have the opportunity to communicate their views on matters affecting the company. The company gives shareholders a balanced and understandable assessment of its performance, position and prospects.

Provision 11.1

Shareholders' Participation in General Meetings

Shareholders are informed of shareholders' meetings through notices contained in annual reports or circulars sent to all Shareholders. These notices are also published in the Business Times and posted onto the SGXNet.

As required by the Bye-Laws of the Company, the Notice of AGM, together with the Company's Annual Report, are distributed to all Shareholders no less than fourteen (14) days for ordinary resolutions and twenty one (21) days for special resolutions prior to the scheduled AGM date. For the avoidance of doubt, the period of notice shall be exclusive of the day on which it is served or deemed to be served and exclusive of the day on which the meeting is to be held. Shareholders are encouraged to attend the general meetings to ensure a high level of participation and accountability.

CORPORATE GOVERNANCE REPORT

The Bye-Laws of the Company also allow Shareholders to appoint up to two proxies in their absence to attend and vote on their behalf at the general meetings. In addition, Shareholders who hold shares through custodial institutions may attend the general meetings as observers.

Shareholders are invited to attend the general meetings to put forth any questions they may have on the motions to be debated and decided upon.

Shareholders are also informed of the voting procedures prior to the commencement of voting by poll.

Provision 11.2

Conduct of Resolutions and Voting

The resolutions tabled at the general meetings are on each substantially separate issue, unless the issues are interdependent and linked so as to form one significant proposal. If a scenario arises where the resolutions are inter-conditional, the Company will explain the reasons and material implications in the notice of meeting. The Company typically ensures that there are separate resolutions at general meetings on each distinct issue. Detailed information on each resolution is set out in the notice of the general meeting.

Provision 11.3

Interaction with Shareholders

At general meetings of the Company, Shareholders are given the opportunity to raise questions to the Directors and the Management relating to the Company's business or performance.

The Chairman of the AC, the NC and the RC are normally present and available to address questions relating to the work of their respective Board Committees at general meetings. The external auditors are present to assist the Board in addressing any relevant queries from Shareholders, including the conduct of audit and the preparation and content of the auditors' report.

Save for Mr Zhang Dai, the Executive Director of the Company, all Directors were present at the last AGM held on 23 October 2019. All Directors will endeavour to be present at the Company's general meetings of Shareholders to address Shareholders' queries.

Save for the last AGM held on 23 October 2019, there were no other general meetings of the Company held during FY2019.

Provision 11.4

Absentia Voting

The Bye-Laws of the Company do not provide for absentia voting methods. Voting in absentia and by electronic mail may only be possible following careful study to ensure that integrity of the information and authentication of the Shareholders' identities through the web are not compromised.

CORPORATE GOVERNANCE REPORT

Provision 11.5

Minutes are taken of all general meetings, and where appropriate, include all substantial and relevant comments or queries from Shareholders relating to the agenda of the meeting and the responses from the Board and the Management. Such minutes, which are subsequently approved by the Board, will be made available to Shareholders on the Company's website.

Provision 11.6

Dividend Policy

The Company currently does not have a fixed dividend policy. Any future dividends that the Directors may recommend or declare in respect of any particular financial year or period will be subject to the factors outlined below as well as other factors deemed relevant by the Board:

(a) the level of the Group's cash and retained earnings;

(b) the Group's actual and projected financial performance;

(c) the Group's projected levels of capital expenditure and other investment plans;

(d) the dividend yield of similar-sized companies with similar growth listed on the Catalist board of the SGX-ST;

(e) restrictions on payment of dividends imposed on the Company by the Group's financing arrangements or legal and contractual obligations (if any); and

(f) other factors as the Board may deem appropriate.

In view of the Group's loss-making position for FY2020, the Board has not recommended any dividends for FY2020.

Engagement with Shareholders

Principle 12: The company communicates regularly with its shareholders and facilitates the participation of shareholders during general meetings and other dialogues to allow shareholders to communicate their views on various matters affecting the company.

Provisions 12.1, 12.2 and 12.3

Investor Relations Practices

The Company does not have an Investor Relations Policy in place. However, the Board's policy is that all Shareholders should be informed simultaneously in an accurate and comprehensive manner regarding all material developments that impact the Group via SGXNet on an immediate basis, in line with the Group's disclosure obligations pursuant to the Catalist Rules and the Companies Act. There is no dedicated investor relations team in place as the Board was of the view that the current communication channels are sufficient and cost-effective.

CORPORATE GOVERNANCE REPORT

Disclosures of Information

The Company believes in high standards of transparent corporate disclosure by disclosing to its stakeholders, including its Shareholders, the relevant information on a timely basis through SGXNet. The Board makes every effort to comply with continuous disclosure obligations of the Company under the Catalist Rules. Where there is inadvertent disclosure made to a selected group, the Company will make the same disclosure publicly as soon as practicable. Communication to Shareholders is normally made through:

(a) annual reports that are prepared and issued to all Shareholders;

(b) annual and quarter financial statements announcements containing a summary of the financial information and affairs of the Group for the period;

(c) notices and explanatory memoranda for general meetings;

(d) disclosures to the SGX-ST via SGXNet; and

(e) press/media releases.

The Company will put all resolutions to vote by poll and make an announcement of the detailed results showing the number of votes cast for and against each resolution and the respective percentages.

Outside of the financial announcement periods, when necessary and appropriate, the CEO and/or other Directors will meet stakeholders, Shareholders, analysts and media to explain the Group's business.

Dialogue with Shareholders

The AGM is the principal forum for dialogue with Shareholders. The Company recognises the value of feedback from Shareholders. During the general meetings, Shareholders are given ample time and opportunities to air their views and concerns. All the Directors will endeavour to attend the AGMs and special general meetings of the Company, and Shareholders will be given the chance to share their thoughts and ideas, or ask questions relating to the resolutions to be passed or on other corporate and business issues.

V. MANAGING STAKEHOLDINGS RELATIONSHIPS

Engagement with Stakeholders

Principle 13: The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the company are served.

Provisions 13.1 and 13.2

Stakeholders' Engagement

The Company acknowledges the importance for establishing effective communication among the stakeholders through regular engagement and various communication platforms to achieve mutually beneficial goals.

CORPORATE GOVERNANCE REPORT

The Company has identified six stakeholders' groups, namely, the Board, employees, shareholders and investors, customers and government and regulators. The Company's approach to the engagement with key stakeholders and materiality assessment will be disclosed in the Company's Sustainability Report for FY2020, which will be uploaded on the SGXNet no later than 30 November 2020, where the Company would continue to monitor and improve to ensure the best interest of the Company.

Provision 13.3

To promote regular, effective and fair communication with Shareholders, the Company maintains a corporate website at www.sinocloudgroup.com through which Shareholders are able to access up-to-date information on the Group. The website provides annual reports, financial information, profiles of the Group, and contact details of the Group.

VI. INTERESTED PERSON TRANSACTIONS

The Group has adopted internal policy in respect of any transactions with interested persons and has set out the procedures for review and approval of the Company's interested person transactions ("**IPTs**"). All IPTs are reported in a timely manner to the AC and are subject to the review of the AC when a potential conflict of interest arises. The IPTs are carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders. The Director(s) concerned does not participate in discussions and refrains from exercising any influence over other members of the Board. In FY2020, the Company did not enter into any IPTs which require Shareholders' approval under the Catalist Rules.

The Company does not have a general mandate from Shareholders for IPTs pursuant to Rule 920(1)(a)(i) of the Catalist Rules. Notwithstanding, the Group had entered into and will continue to enter into specific IPTs, details of which are set out below:

(a) Mr Chan Andrew Wai Men ("**Mr Chan**") (Chairman and Chief Executive Officer of the Company) provided an interest-free and unsecured long-term advance to the Company. As at 30 June 2020, the amount owing from the Group to Mr Chan amounted to approximately HK$2.4 million.

(b) Mr Lam Cho Ying Terence Joe ("**Mr Lam**") became a controlling shareholder of the Company with effect from 15 November 2019. Prior to and subsequent to Mr Lam becoming a controlling shareholder of the Company, he and his associate collectively provided loans and advances ("**Loans**") to the Group for working capital purposes. The Loans bear interest of 15% per annum and are unsecured with no fixed term of repayment. As at 30 June 2020, the amount (including principal and interests incurred) owing from the Group to Mr Lam amounted to approximately HK$22.6 million. The value at risk of the IPT with Mr Lam (being the interest incurred on Loan) from the date Mr Lam became a controlling shareholder of the Company amounted to HK$2.2 million in FY2020.

(c) Subsequent to the financial year ended 30 June 2020, on 18 August 2020, a subsidiary of the Company in Hong Kong entered into a bond subscription agreement with Mr Lam, in principal amount of HK$15.0 million ("**Bond**"), interest bearing at 6% per annum, and due on 18 August 2021. For the avoidance of doubt, the Bond is not convertible into shares of the Company. The proceeds of the Bond was used for settlement of the Group's outstanding expenses and repayment of certain loans.

CORPORATE GOVERNANCE REPORT

(d) Management and administrative services agreement ("**Service Agreement**") dated 1 April 2019 entered into between SinoCloud Group (HK) Limited ("**SinoCloud HK**") (a wholly-owned subsidiary of the Company) and Canopus Asia Limited ("**Canopus**") (a 25%-owned company of Mr Chan) pursuant to which Canopus will provide SinoCloud HK with management and administrative services at SinoCloud HK's office premises (Unit 1403, 14/F, Kowloon Centre, 33 Ashley Road, Tsim Sha Tsui, Hong Kong) for a management fee of HKD25,000 per month. The Service Agreement has been terminated and waiver has been provided by Canopus to waive all outstanding service fees to be made payable to Canopus as at 31 August 2020.

The aggregate value of the IPTs entered into during FY2020 is as follows:

Name of interested person	Nature of relationship	Aggregate value of all IPTs during FY2020 (excluding transactions less than S$100,000 and transactions conducted under Shareholders' mandate pursuant to Rule 920) (HK$'000)	Aggregate value of all IPTs conducted under Shareholders' mandate pursuant to Rule 920 (excluding transactions less than S$100,000) (HK$'000)
Mr Lam Cho Ying Terence Joe	Mr Lam is a controlling shareholder of the Company since 15 November 2019, with total interests of 23.81% in the Company	2,154[(1)]	–

Note:

(1) The amount relates to aggregate interests payable by the Group to Mr Lam and his associate, from 15 November 2019 (being the date Mr Lam became a controlling shareholder of the Company) to 30 June 2020, on loans and advances extended by Mr Lam and his associate to the Group.

VII. MATERIAL CONTRACTS

Save as disclosed aforesaid in the section entitled "**Interested Person Transactions**", the service agreements between the Company and the Executive Directors and the CEO, and the Directors' Statement and Financial Statements, there were no material contracts (including loans) entered into by the Company or any of its subsidiaries involving the interests of any Director or controlling Shareholder which are either still subsisting as at the end of FY2020 or if not then subsisting, entered into since the end of the previous financial year.

CORPORATE GOVERNANCE REPORT

VIII. DEALINGS IN SECURITIES

To provide guidance to the Directors and the Group's employees on their dealings in the Company's securities, the Company has adopted its own code of best practices on securities transactions, which is in line with Rule 1204(19) of the Catalist Rules on dealings in the Company's securities.

Directors, Management and officers of the Group are not permitted to deal in the Company's securities during the periods commencing two weeks before the announcement of the Group's financial statements for each of the first three quarters of its financial year, or one month before the announcement of the Group's full year financial statements, as the case may be, and ending on the date of announcements of the relevant results, or when they are in possession of unpublished price-sensitive information of the Group. They should not deal in the Company's securities on short-term considerations. They are also advised to observe all applicable insider trading laws at all times even when dealing in securities within the permitted trading period.

IX. NON-SPONSORSHIP FEES

With reference to Rule 1204(21) of the Catalist Rules, there were no non-sponsorship fees payable or paid to the Company's Sponsor, ZICO Capital Pte. Ltd., for FY2020.

CORPORATE GOVERNANCE REPORT

ADDITIONAL INFORMATION ON DIRECTORS NOMINATED FOR RE-ELECTION – APPENDIX 7F TO THE CATALIST RULES

Pursuant to Rule 720(5) of the Catalist Rules, the information as set out in Appendix 7F to the Catalist Rules relating to Mr Luk Siu Fung, Mark and Mr Chau King Fai, being the Directors who are retiring and being eligible, offer themselves for re-election at the forthcoming AGM, is set out below:

Name of Director	**Mr Luk Siu Fung, Mark ("Mr Luk")**	**Mr Chau King Fai ("Mr Chau")**
Date of appointment	1 April 2020	9 May 2019
Date of last re-appointment (if applicable)	–	23 October 2019
Age	31	58
Country of principal residence	Hong Kong	Hong Kong
The Board's comments on this appointment (including rationale, selection criteria, and the search and nomination process)	The re-election of Mr Luk as a Director of the Company was recommended by the NC and the Board has accepted the recommendation, after taking into consideration Mr Luk's qualifications, skills, expertise, past experiences and overall contribution since he was appointed as a Director of the Company.	The re-election of Mr Chau as a Director of the Company was recommended by the NC and the Board has accepted the recommendation, after taking into consideration Mr Chau's qualifications, skills, expertise, past experiences and overall contribution since he was appointed as a Director of the Company.
Whether appointment is executive, and if so, the area of responsibility	Executive. Mr Luk is responsible for overseeing operating activities of the Group, and assisting the CEO in overall strategic planning and business development.	Non-executive
Job Title (e.g. Lead ID, AC Chairman, AC member etc.)	Chief Operating Officer	AC, NC and RC member
Professional qualifications	Nil	Responsible officer for type 6 regulated activities under the Hong Kong Securities and Futures Commission
Working experience and occupation(s) during the past 10 years	<u>1 April 2020-Present</u> Executive Director and Chief Operating Officer of the Company <u>2016-2018</u> Executive Director Affluent Partners Holdings Limited <u>2015-2016</u> Associate Director Alternus Capital Holdings Limited	<u>2017 – current</u> Managing Director, Responsible Officer and Sponsor Principal Grand Moore Capital Limited <u>2009 – 2017</u> Executive Director Value Convergence Holdings Limited

CORPORATE GOVERNANCE REPORT

Name of Director	Mr Luk Siu Fung, Mark ("Mr Luk")	Mr Chau King Fai ("Mr Chau")
	2012-2015 Advisor to the board of directors Zhongyou Century (Beijing) Communications Technology Co. Ltd. 2011-2015 Project Manager Armarda Group Limited (currently known as SinoCloud Group Limited)	2004 – 2017 Managing Director, Responsible Officer and Sponsor Principal VC Capital Limited
Shareholding interest in the listed issuer and its subsidiaries	Mr Luk holds 494,092,992 shares of the Company	Nil
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	Nil	Nil
Conflict of interest (including any competing business)	Nil	Nil
Undertaking (in the format set out in Appendix 7H) under Rule 720(1) has been submitted to the listed issuer	Yes	Yes
Other Principal Commitments* including Directorships# * Principal Commitments has the same meaning as defined in the Code. # These fields are not applicable for announcements of appointments pursuant to Listing Rule 704(8)		
Past (for the last 5 years)	Directorships: Affluent Partners Holdings Limited	Directorships: – VC Asset Management Limited – VC Capital Management Limited – VC Consulting Services Limited – VC Finance Limited – VC Financial Investment Holdings Limited – VC (Nominees) Limited – VC Research Limited – VC Services Limited – VC Capital (China) Limited – VC Financial Group Limited – VC Financial Group (China) Limited

CORPORATE GOVERNANCE REPORT

Name of Director	Mr Luk Siu Fung, Mark ("Mr Luk")	Mr Chau King Fai ("Mr Chau")
Present	Directorships: *Group Companies* – SinoCLoud Asset Management Limited – SinoCLoud 01 (HK) Limited *Other Companies* – Compelling Vision Trading Limited	Directorships: *Group Companies* Nil *Other Companies* – Kenvast International Limited
The general statutory disclosures of the Directors are as follows:		
(a) Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?	No	No
(b) Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	No	No
(c) Whether there is any unsatisfied judgment against him?	No	No

CORPORATE GOVERNANCE REPORT

Name of Director	Mr Luk Siu Fung, Mark ("Mr Luk")	Mr Chau King Fai ("Mr Chau")
(d) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?	No	No
(e) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	No	No
(f) Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	No	No

CORPORATE GOVERNANCE REPORT

Name of Director	Mr Luk Siu Fung, Mark ("Mr Luk")	Mr Chau King Fai ("Mr Chau")
(g) Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	No	No
(h) Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	No	No
(i) Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	No	No
(j) Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:– (i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or (ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or	No	Yes, in 2009, the SFC reprimanded and fined VC Capital Limited HK$1.5 million for failing to keep proper books and records of certain work done when it performed due diligence work as sponsor for a company seeking to be listed on the Hong Kong Stock Exchange. Please refer to the announcement of the Company dated 8 May 2019 for details.

CORPORATE GOVERNANCE REPORT

Name of Director	Mr Luk Siu Fung, Mark ("Mr Luk")	Mr Chau King Fai ("Mr Chau")
(iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or (iv) any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?		
(k) Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	No	No
Any prior experience as a director of an issuer listed on the Exchange? If yes, please provide details of prior experience. If no, please state if the director has attended or will be attending training on the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange.	Prior to Mr Luk's appointment on 1 April 2020, he has no prior experience as a director of a listed issuer on the Exchange. Not applicable. The Company will arrange Mr Luk to attend the relevant training as prescribed under Practice Note 4D of the Catalist Rules.	No Not applicable Mr Chau has attended LED 1 – Listed Entity Director Essentials organised by SID during FY2020. The Company will arrange Mr Chau to attend and complete the remaining training as prescribed under Practice Note 4D of the Catalist Rules.
Please provide details of relevant experience and the nominating committee's reasons for not requiring the director to undergo training as prescribed by the Exchange (if applicable)	Not applicable.	Not applicable.

DIRECTORS' STATEMENT

For the financial year ended 30 June 2020

The directors present their statement to the members together with the audited financial statements of SinoCloud Group Limited (the "Company") and its subsidiaries (the "Group") for the financial year ended 30 June 2020 and the statement of financial position of the Company as at 30 June 2020.

In the opinion of the directors,

(a) the statement of financial position of the Company and the consolidated financial statements of the Group as set out on pages 13 to 97 are drawn up so as to give a true and fair view of the financial position of the Company and the Group as at 30 June 2020 and of the financial performance, changes in equity and cash flows of the Group for the financial year then ended; and

(b) at the date of this statement, with continuing financial support from a related party controlled by a key management personnel of the Group and based on other factors as described in Note 2, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The board of directors has, on the date of this statement, authorised these financial statements for issue.

Directors

The directors of the Company in office at the date of this statement are as follows:

Mr Chan Andrew Wai Men	(Chairman and Chief Executive Officer)
Ms Chu Yin Ling, Karen	(Company Secretary, Chief Financial Officer and Executive Director)
Mr Luk Siu Fung, Mark	(Executive Director and Chief Operating Officer, appointed on 1 April 2020)
Mr Alexander Shlaen	(Independent Director)
Mr Wan Ngar Yin, David	(Independent Director)
Mr Chau King Fai	(Independent Director)

Arrangements to enable directors to acquire shares and debentures

Except as disclosed under "Share options and performance shares" of the Directors' statement, neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of, the Company or any other body corporate. Certain directors received remuneration from related corporations in their capacity as directors of those related corporations.

DIRECTORS' STATEMENT

For the financial year ended 30 June 2020

Directors' interests in shares or debentures

According to the register kept by the Company, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Direct interests			Deemed interests		
	At 1 July 2019 or date of appointment, if later	At 30 June 2020	At 21 July 2020	At 1 July 2019 or date of appointment, if later	At 30 June 2020	At 21 July 2020
Company						
Ordinary shares of $0.001 (2019: $0.001) each fully paid						
Mr Chan Andrew Wai Men	957,671,000	457,671,000	457,671,000	-	-	-
Ms Chu Yin Ling, Karen	19,000,000	19,000,000	19,000,000	-	-	-
Mr Luk Siu Fung, Mark (appointed on 1 April 2020)	494,092,992	494,092,992	494,092,992	-	-	-
Mr Alexander Shlaen	69,944,000	69,944,000	69,944,000	-	-	-
Mr Wan Ngar Yin, David	64,200,000	64,200,000	64,200,000	6,000,000	6,000,000	6,000,000

Share options and performance shares

(i) Share options

During the financial year, no options to take up unissued shares of the Company or any subsidiaries were granted and no shares were issued by virtue of the exercise of options to take up unissued shares of the Company or any subsidiaries. There were no unissued shares of the Company or any subsidiaries under option at the end of the financial year.

There were no unissued shares of the Company or its subsidiaries under option at the end of the financial year.

(ii) Performance shares

Pursuant to the Special General Meeting held on 26 July 2013, the shareholders approved the adoption of the Company's Performance Share Plan ("PSP") to issue shares ("Performance Shares"), which added to the number of new shares issued and/or issuable and/or existing shares transferred and/or transferrable in respect of all Performance Shares granted under the PSP, and any other share scheme which the Company may implement from time to time shall not exceed fifteen per cent (15%) of the Company's total issued shares from time to time (excluding treasury shares), on the day preceding the grant date.

The PSP is administered by the Company's Remuneration Committee ("RC") which comprise the following directors, at the end of the financial year:

Mr Alexander Shlaen (Independent Director)
Mr Wan Ngar Yin, David (Independent Director)
Mr Chau King Fai (Independent Director)

DIRECTORS' STATEMENT

For the financial year ended 30 June 2020

Share options and performance shares (Continued)

(ii) Performance shares (Continued)

Under the PSP, Performance Shares represent the right of a participant to receive fully paid shares free of charge and are granted to eligible employees upon achieving certain approved performance targets ("Performance Targets"), within the stipulated performance period ("Performance Period"). Performance Targets are set based on medium term corporate objectives and approved by the RC. Performance Shares are released once the RC is satisfied that the Performance Targets have been achieved.

The Company issued and allotted an aggregate of 150,000,000 Performance Shares that were granted and vested in full in prior years. There were no new shares granted under the PSP during the current period and no outstanding Performance Shares at the end of the financial year.

Except for the details of the Directors' Performance Shares set out as follows, none of the directors of the Company were granted Performance Shares since the commencement of the Company's PSP to the end of the financial year:

Participants	Number of Performance Shares granted during the financial year under review	Aggregate number of Performance Shares granted since commencement of the Company's PSP to end of the financial year under review	Aggregate number of Performance Shares vested since commencement of the Company's PSP to end of the financial year under review	Aggregate number of Performance Shares outstanding as at end of the financial year under review
Directors of the Company				
Ms Chu Yin Ling, Karen	-	16,000,000	16,000,000	-

No participant was granted 5% (2019: 5%) or more of the total awards available under the PSP.

No Performance Shares have been granted to the controlling shareholders or their associates since the commencement of the PSP.

The Company does not have a parent company. Therefore, no PSP shares were granted in respect thereof.

Warrants

There were no warrants granted by the Company during the financial year.

Audit committee

The members of the Audit Committee ("AC") at the end of the financial year are as follows:

Mr Wan Ngar Yin, David (Independent Director)
Mr Alexander Shlaen (Independent Director)
Mr Chau King Fai (Independent Director)

DIRECTORS' STATEMENT

For the financial year ended 30 June 2020

Audit committee (Continued)

The AC carried out its function in accordance with the Listing Manual of the Singapore Exchange Securities Trading Limited and the Singapore Code of Corporate Governance.

In performing those functions, the Audit Committee reviewed, amongst others:

- the scope and the results of internal audit procedures with the internal auditors;
- the audit plan of the Company's independent auditors and any recommendations on internal accounting controls arising from the statutory audit;
- the assistance given by the Company's management to the independent auditors;
- the periodic results announcements prior to their submission to the Board for approval;
- the statement of financial position of the Company and the consolidated financial statements of the Group for the financial year end 30 June 2020 prior to their submission to the Board of Directors, as well as the independent auditor's report on the statement of financial position of the Company and the consolidated financial statements of the Group; and
- interested person transactions (as defined in Chapter 9 of the Listing Manual of the Singapore Exchange Securities Trading Limited).

The Audit Committee has full access to the management and is given the resources required for it to discharge its functions. It has full authority and discretion to invite any director or executive officer to attend its meetings.

The Audit Committee has recommended to the Board of Directors that the independent auditors, Crowe Horwath First Trust LLP, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company.

The Audit Committee has conducted an annual review of non-audit services provided by the auditors to satisfy itself that the nature and extent of such services will not affect the independence and objectivity of the external auditors before confirming their re-nomination.

In appointing the external auditors for the Company and subsidiaries, the Company has complied with Rules 712 and 715 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

Further details regarding the Audit Committee are disclosed in the Corporate Governance Report.

Independent auditors

The independent auditors, Crowe Horwath First Trust LLP, have expressed their willingness to accept re-appointment as auditors of the Company.

On behalf of the Board of Directors

CHAN ANDREW WAI MEN
Chairman and Chief Executive Officer

CHU YIN LING, KAREN
Executive Director

29 September 2020

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 13 to 97 which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 30 June 2020, 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 year then ended, 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 2020 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

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 modifying our opinion, we draw attention to Note 2 to the financial statements, which indicates that the Group incurred a net loss of $191,217,000 during the financial year ended 30 June 2020, and as of that date, the Group and the Company were in net current liabilities of $31,626,000 and $21,870,000 respectively. As of 30 June 2020, the Group's cash and bank balances available for use amounted to $303,000 while its current liabilities amounted to $52,756,000 including a short-term bank loan of $4,914,000. The Group is highly dependent on financing from related parties, being companies controlled by a key management personnel of the Group, and from a shareholder of the Company as well as the realisation of cash flows from its 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 Sinocloud Group Limited

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, 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.

<table>
<tr><td colspan="2">Impairment of non-financial assets

Refer to Note 3 “Critical accounting estimates, assumptions and judgements”,
Note 4 “Property, plant and equipment”,
Note 5, “Right-of-use asset”,
Note 6 “Intangible assets - Goodwill”,
Note 7 “Investment in subsidiaries” and
Note 11 “Trade and other receivables - Prepayments”</td></tr>
<tr><td>Key audit matter</td><td>How the matter was addressed in the audit</td></tr>
<tr><td>As at 30 June 2020, management carried out an impairment assessment of the non-financial assets of its key operating subsidiary, Guiyang Zhongdian Gaoxin Digital Technologies Limited (“Guiyang Tech”).

The total carrying amount of the Group’s non-financial assets, subject to impairment test, was $338,106,000 comprising of the following as at 30 June 2020:

• Property, plant and equipment of $181,366,000 (Note 4);
• Right-of-use asset of $31,961,000 (Note 5);
• Intangible assets - Goodwill of $124,779,000 (Note 6); and
• Trade and other receivables - Prepayments of $19,065,000 (Note 11)

In addition, management also performed an impairment assessment for the Company’s cost of investment in subsidiaries of $60,166,000.</td><td>In obtaining sufficient appropriate audit evidence, the following procedures, amongst others, were carried out:

1) We assessed the appropriateness of the recoverable amount determined by management and the method used by the management.

2) We evaluated the objectivity, competence and capabilities of the independent valuer engaged by management.

3) We discussed with management on the business, industry outlook and other external factors, including COVID-19 pandemic, and the implications on the recoverable amount of CGU.

4) We challenged the reasonableness of the revenue growth rates and the discount rate used by management in the discounted cash flows of Guiyang Tech, by comparing against the past and recent financial performances, reviewing new and on-going contracts secured with its customers, performing trends analysis, and discussing with management on the Group’s utilisation of hosting capacity and future expansion plans.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT

To the members of Sinocloud Group Limited

Key Audit Matters (Continued)

Impairment of non-financial assets (Continued)	
Key audit matter	**How the matter was addressed in the audit**
The Group engaged an independent valuer to assess the recoverable amount of the single cash-generating-unit ("CGU"), the "internet data centre services" segment in the PRC, based on fair value less costs to sell. As a result of the impairment assessment, the Group and the Company recognised an impairment loss of $124,779,000 (full impairment of goodwill) and $3,370,000 (impairment loss on the cost of investment in subsidiaries) respectively for the financial year ended 30 June 2020. The impairment assessment involved significant management's judgment and estimation uncertainty that has been heightened by the COVID-19 pandemic. Accordingly, we determine that this is a key audit matter.	5) We performed sensitivity analysis and stress-test to assess the impact on the recoverable amount of the CGU resulting from reasonably possible changes to the revenue growth rates and discount rate. 6) We further assessed the adequacy of the relevant disclosures in Note 6 and Note 7 to the consolidated financial statements. We found management's impairment assessment to be acceptable and the relevant disclosures to be appropriate.

INDEPENDENT AUDITOR'S REPORT

To the members of Sinocloud Group Limited

Key Audit Matters (Continued)

Expected credit losses on receivables and contract assets

Refer to Note 3 "Critical accounting estimates, assumptions and judgements",
Note 10 "Amount due from subsidiaries (non-trade)",
Note 11 "Trade and other receivables",
Note 25(b) "Contract balances" and
Note 35(iii) "Financial Risk Management Objectives and Policies''

Key audit matter	**How the matter was addressed in the audit**
The Group's gross trade receivables and contract assets as of 30 June 2020 are \$22,860,000 and \$35,639,000 respectively, representing 74% of the Group's current assets before allowance for expected credit losses ("ECL") as at 30 June 2020. In addition, approximately 67% of trade receivables and contract assets is due from a single largest customer, contributing 45% of the Group's total revenue during the financial year ended 30 June 2020. The total balance due from this customer amounted to \$39,125,000 as at 30 June 2020. The Group determines ECL of trade receivables and contract assets by: a) performing debtor-specific assessment of the ability of the individual debtors to pay based on the age profile of the balances, payment history, status of negotiations with debtors and other external information available to management. b) determining the default rates to be applied against the gross carrying amount of each debtor, based on the above assessment, and are adjusted for forward-looking factors specific to the debtors and the economic environment, including the potential impact of the COVID-19 pandemic on the industry.	We reviewed management's assessment on the impairment of trade receivables and contract assets. Our audit procedures included, amongst others, the following: 1) We evaluated the Group's processes and key controls relating to the monitoring of trade receivables and contract assets, including the additional measures arising from the COVID-19 pandemic. 2) We requested and obtained confirmations from trade receivables with material balances. 3) We reviewed the aging profile of the trade receivables to identify collection risks, and checked for evidence of receipts, subsequent to year-end for certain customers, including the existence of repayment plans, if any.

INDEPENDENT AUDITOR'S REPORT

To the members of Sinocloud Group Limited

Key Audit Matters (Continued)

<table>
<tr><th colspan="2">Expected credit losses on receivables and contract assets (Continued)</th></tr>
<tr><th>Key audit matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td>c) reviewing the impact of the COVID-19 pandemic on its debtors and the industry and determining if additional ECL is required to be applied to the default rate.

As at 30 June 2020, the Group's aggregate impairment loss for trade receivables and contract assets amounted to $57,965,000 which is mainly recognised in profit or loss during the year as disclosed in Note 35(iii).

In addition, the Company has significant non-trade balances due from its subsidiaries of $215,988,000. As disclosed in Note 1, the financial position of the Company's key operating subsidiary, Guiyang Tech, has significantly deteriorated. As at 30 June 2020, Guiyang Tech is in a net current liability position of $43,306,000, and has significant difficulties to make repayments, including amounts due from intermediate holding companies of Guiyang Tech.

As at reporting date and based on management's future forecasts in the short to medium term, the subsidiaries do not have, and are not expected to generate, sufficient accessible highly liquid assets and net cash inflows for repayment. Accordingly, the amounts due from subsidiaries are assessed to be credit-impaired and, correspondingly, additional ECL impairment of $109,082,000 was recognised in the Company's profit or loss during the year. As at 30 June 2020, the amounts due from subsidiaries are fully impaired.

This assessment requires management to exercise significant judgement in the process. Accordingly, we determined this as a key audit matter.</td><td>4) We evaluated management's determination of the default rates by performing the following:
• discussing with management on the collection status of trade receivables;
• reviewing the debtors' adherence to agreed repayment schedules and correspondences with debtors;
• reviewing management's assessment of customer profiles, historical collection trend and credit risks; and
• reviewing management's estimates of forward-looking factors such as macroeconomic data and external information including the potential impact of the COVID-19 pandemic.

5) We reviewed management's assessment of the financial ability of its subsidiaries to make repayments, including whether there are sufficient accessible highly liquid assets and management's forecast on the ability of its subsidiaries to generate liquid assets.

6) We also assessed the adequacy of the Group's disclosures on the amount due from subsidiaries (non-trade), trade receivables and contract assets and the related credit risk in Note 35(iii) to the financial statements, relating to the ECL of amount due from subsidiaries, trade receivables and contract assets.

We found management's assessment of the impairment of trade receivables and contract assets to be reasonable and the relevant disclosures to be appropriate.</td></tr>
</table>

INDEPENDENT AUDITOR'S REPORT

To the members of Sinocloud Group Limited

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.

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.

INDEPENDENT AUDITOR'S REPORT

To the members of Sinocloud Group Limited

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

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.

- 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 compiled 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.

INDEPENDENT AUDITOR'S REPORT

To the members of Sinocloud Group Limited

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

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

29 September 2020

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2020
(Amounts in thousands Hong Kong dollar ("$'000"))

	Note	Group		Company	
		2020	2019	2020	2019
		$'000	$'000	$'000	$'000
ASSETS					
Non-current assets					
Property, plant and equipment	4	181,366	184,138	-	-
Right-of-use asset	5	31,961	-	-	-
Intangible assets	6	-	139,555	-	-
Investment in subsidiaries	7	-	-	57,112	60,166
Investment in associate	8	-	-	-	-
Deferred tax assets	9	8,185	-	-	-
Amount due from subsidiaries (non-trade)	10	-	-	-	104,507
		221,512	323,693	57,112	164,673
Current assets					
Trade and other receivables	11	20,827	59,625	92	11,604
Contract assets	25	-	36,241	-	-
Amount due from associates (non-trade)	12	-	-	-	-
Cash and bank balances		303	572	-	-
		21,130	96,438	92	11,604
TOTAL ASSETS		242,642	420,131	57,204	176,277

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2020

(Amounts in thousands Hong Kong dollar ("$'000"))

		Group		Company	
	Note	2020 $'000	2019 $'000 (Reclassified) (Note 38)	2020 $'000	2019 $'000 (Reclassified) (Note 38)
LIABILITIES					
Current liabilities					
Trade and other payables	13	36,095	49,984	18,868	10,638
Contract liabilities	25	152	755	-	-
Provision for warranty	14	807	838	-	-
Borrowings	15	8,008	13,220	3,094	13,220
Income tax payable		7,694	7,045	-	-
		52,756	71,842	21,962	23,858
Non-current liabilities					
Trade and other payables	13	2,405	24,109	-	-
Borrowings	15	20,960	14,973	-	-
Lease liabilities	16	57,006	-	-	-
Deferred tax liabilities	9	-	74	-	-
		80,371	39,156	-	-
TOTAL LIABILITIES		133,127	110,998	21,962	23,858
NET ASSETS		109,515	309,133	35,242	152,419

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2020

(Amounts in thousands Hong Kong dollar ("$'000"))

		Group		Company	
	Note	2020	2019	2020	2019
		$'000	$'000	$'000	$'000
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	17	14,311	14,311	14,311	14,311
Share premium	18	473,003	473,003	473,003	473,003
Contributed surplus	19	16,456	16,456	16,456	16,456
Translation deficit	20	(4,782)	(341)	-	-
Statutory reserve	21	7,066	6,454	-	-
Revaluation reserve	22	98	98	-	-
Other reserve	23	15,120	15,120	-	-
Accumulated losses	24	(396,296)	(289,210)	(468,528)	(351,351)
		124,976	235,891	35,242	152,419
Non-controlling interests		(15,461)	73,242	-	-
TOTAL EQUITY		109,515	309,133	35,242	152,419

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 30 June 2020
(Amounts in thousands Hong Kong dollar ("$'000"))

	Note	1 July 2019 to 30 June 2020 $'000	1 April 2018 to 30 June 2019 $'000
Revenue	25	33,253	64,695
Amortisation of intangible assets	6	(3,101)	(12,062)
Depreciation of property, plant and equipment	4	(7,633)	(11,865)
Depreciation of right-of-use assets	5	(2,572)	-
Impairment loss of:			
- financial assets	35(iii)	(58,158)	(1,660)
- prepayments	11(iii)	-	(8,594)
- intangible assets	6	(124,779)	-
Bandwidth fee		(6,842)	(15,611)
Employee benefit expenses	26	(4,491)	(11,124)
Operating lease expenses		-	(4,257)
Other income	27	731	8,890
Other expenses	28(a)	(11,597)	(32,943)
Foreign exchange (loss) / gain		(572)	437
Finance costs – interest expenses	28(b)	(8,536)	(4,199)
Loss before tax	29	(194,297)	(28,293)
Income tax credit / (expense)	30	3,080	(2,415)
Loss for the financial year / period		(191,217)	(30,708)
Other comprehensive loss:			
Items that may be reclassified subsequently to profit or loss			
- Currency translation differences arising from consolidation, representing other comprehensive loss for the financial year / period, net of tax	20	(6,592)	(18,390)
Total comprehensive loss for the financial year / period		(197,809)	(49,098)

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 30 June 2020
(Amounts in thousands Hong Kong dollar ("$'000"))

	Note	1 July 2019 to 30 June 2020 $'000	1 April 2018 to 30 June 2019 $'000
Loss attributable to:			
Equity holders of the Company		(105,385)	(28,193)
Non-controlling interests		(85,832)	(2,515)
		(191,217)	(30,708)
Total comprehensive loss attributable to:			
Equity holders of the Company		(109,826)	(39,428)
Non-controlling interests		(87,983)	(9,670)
		(197,809)	(49,098)
Loss per share (cents)	31		
Basic		(0.74)	(0.20)
Diluted loss per share		(0.74)	(0.20)

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June 2020
(Amounts in thousands Hong Kong dollar ("$'000"))

2020 Group	Attributable to equity holders of the Company									
	Share capital	Share premium	Contributed surplus	Translation deficit	Statutory reserve	Revaluation reserve	Other reserve	Accumulated losses	Non-controlling interests	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance as at 30 June 2019	14,311	473,003	16,456	(341)	6,454	98	15,120	(289,210)	73,242	309,133
Impact of adopting IFRS 16	-	-	-	-	-	-	-	(1,089)	(720)	(1,809)
Balance as at 1 July 2019	14,311	473,003	16,456	(341)	6,454	98	15,120	(290,299)	72,522	307,324
Loss for the financial year	-	-	-	-	-	-	-	(105,385)	(85,832)	(191,217)
Other comprehensive loss, net of tax	-	-	-	(4,441)	-	-	-	-	(2,151)	(6,592)
Total comprehensive loss for the financial year	-	-	-	(4,441)	-	-	-	(105,385)	(87,983)	(197,809)
<u>Contributions by and distributions to owners</u>										
Transfer to statutory reserve, representing total contributions by and distributions to owners	-	-	-	-	612	-	-	(612)	-	-
Balance as at 30 June 2020	14,311	473,003	16,456	(4,782)	7,066	98	15,120	(396,296)	(15,461)	109,515

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June 2020
(Amounts in thousands Hong Kong dollar ("$'000"))

2019	Attributable to equity holders of the Company									
	Share capital	Share premium	Contributed surplus	Translation deficit	Statutory reserve	Revaluation reserve	Other reserve	Accumulated losses	Non-controlling interests	Total equity
Group	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance as at 31 March 2018	14,311	473,003	16,456	10,894	4,961	98	15,120	(259,241)	82,912	358,514
Impact of adopting IFRS 9	-	-	-	-	-	-	-	(283)	-	(283)
Balance as at 1 April 2018	14,311	473,003	16,456	10,894	4,961	98	15,120	(259,524)	82,912	358,231
Loss for the financial period	-	-	-	-	-	-	-	(28,193)	(2,515)	(30,708)
Other comprehensive loss, net of tax	-	-	-	(11,235)	-	-	-	-	(7,155)	(18,390)
Total comprehensive loss for the financial period	-	-	-	(11,235)	-	-	-	(28,193)	(9,670)	(49,098)
Contributions by and distributions to owners										
Transfer to statutory reserve, representing total contributions by and distributions to owners	-	-	-	-	1,493	-	-	(1,493)	-	-
Balance as at 30 June 2019	14,311	473,003	16,456	(341)	6,454	98	15,120	(289,210)	73,242	309,133

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 30 June 2020
(Amounts in thousands Hong Kong dollar ("$'000"))

	Note	1 July 2019 to 30 June 2020 $'000	1 April 2018 to 30 June 2019 $'000
Cash flows from operating activities			
Loss before tax		(194,297)	(28,293)
Adjustments:			
Depreciation of property, plant and equipment	4	7,633	11,865
Property, plant and equipment written off	4	-	4
Depreciation of right-of-use assets	5	2,572	-
Amortisation of intangible assets	6	3,101	12,062
Waiver of liabilities	27	(716)	(1,682)
Software development expenses written off	28(a)	-	16,393
Impairment of prepayments	11(iii)	-	8,594
Impairment of financial assets	35(iii)	58,158	1,660
Impairment of intangible assets	6	124,779	-
Reversal of provision for warranty	14	-	(322)
Interest expenses	28(b)	8,536	4,199
Operating profit before working capital changes		9,766	24,480
Trade and other receivables		3,068	7,991
Trade and other payables		(770)	1,842
Contract assets		(427)	(32,526)
Contract liabilities		(454)	814
Cash generated from operations		11,183	2,601
Income tax paid		(4,339)	(133)
Interest paid		(5,267)	(2,683)
Net cash from / (used in) operating activities		1,577	(215)
Cash flows from investing activities			
Payments to purchase property, plant and equipment	A	(16,092)	(14,747)
Receipt of refundable deposit arising from termination of a potential acquisition		-	41,400
Refund of advances and earnest deposits from vendors of China Satellite Group	11	11,486	20,122
Placement of prepayment for software development		(1,642)	
Net cash (used in) / from investing activities		(6,248)	46,775

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 30 June 2020
(Amounts in thousands Hong Kong dollar ("$'000"))

	Note	1 July 2019 to 30 June 2020 $'000	1 April 2018 to 30 June 2019 $'000
Cash flows from financing activities			
Repayment of borrowings	15	-	(46,868)
Proceeds from borrowings	15	966	9,216
Advances from / (repayment to) directors, net	32	372	(1,847)
Advances from / (repayment to) a related party, net	32	3,068	(7,181)
Net cash from / (used in) financing activities		4,406	(46,680)
Net decrease in cash and bank balances		(265)	(120)
Cash and bank balances at beginning of the financial year / period		572	724
Effects of exchange rate changes in cash and bank balances		(4)	(32)
Cash and bank balances at end of financial year / period		303	572

Note A

	Note	2020 $'000	2019 $'000
Total additions to property, plant and equipment	4	11,849	6,884
Add: Movement of amount included in other payables		5,128	7,863
Less: Reclassification of prepayment to construction in progress		(885)	-
Cash payments on purchase of property, plant and equipment per consolidated statement of cash flows		16,092	14,747

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

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 Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are shown in Note 7 to the financial statements.

The financial statements for the financial year ended 30 June 2020 were authorised for issue in accordance with a resolution of the Board of Directors on 29 September 2020.

Coronavirus (COVID-19) Impact

On 30 January 2020, the World Health Organisation declared the outbreak of COVID-19 as Public Health Emergency of International Concern. COVID-19 was subsequently characterised as a pandemic on 11 March 2020. In response to the pandemic, governments from different countries around the world have implemented containment measures to varying degrees in a bid to curb the spread of the virus. As a result, COVID-19 pandemic created substantial adverse impact on global economy, including the Group's operations, particularly, the internet data centre business in the People's Republic of China ("PRC"), where participation in government related projects and/or contracts are put on hold and the Group's expansion plans are postponed. In addition, COVID-19 pandemic has significant impact to the Group's major customers, in particular, their ability to make prompt payments and to adhere to agreed repayment plans. This has adversely affected the Group's cash flows.

There is significant uncertainty as to the duration of the pandemic and its impact on those economies which the Group operates in, hence, it will affect the Group's financial performance in the upcoming financial years.

2. FUNDAMENTAL ACCOUNTING CONCEPT

The Group incurred a net loss of $191,217,000 (2019: $30,708,000) for the financial year ended 30 June 2020, and as of that date, the Group and the Company were in net current liabilities of $31,626,000 and $21,870,000 respectively. As of 30 June 2020, the Group's cash and bank balances available for use amounted to $303,000 (2019: $572,000) while its current liabilities amounted to $52,756,000 (2019: $71,842,000) including a short-term bank loan of $4,914,000.

As disclosed in Note 1, the Group's financial performance and collection from customers had also been adversely impacted by the COVID-19 pandemic. During the year, the Group has made an impairment of goodwill amounting to $124,779,000 (2019: $Nil) and allowance for expected credit losses amounting to $58,158,000 (2019: $1,660,000) for its trade receivables and contract assets as disclosed in Note 6 and Note 35(iii) respectively.

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 $109,515,000 (2019: $309,133,000) as at 30 June 2020.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

2. FUNDAMENTAL ACCOUNTING CONCEPT (Continued)

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 continue as a going concern, given that management is confident that Guiyang Tech is able to enjoy rent-free period extension from landlord and continuous deferment of payments to its key suppliers, in particular, those providing bandwidth and utilities to the IDC business, to extend its credit terms and to defer payments by at least 12 months from the date of financial statements;

(b) The Group continues to rely on the uninterrupted funding from its related party, controlled by a key management personnel of the Group, to enable the Group to operate as a going concern and to meet its obligations as and when they fall due. The balance owing to this key management personnel and companies controlled by him amounted to $4,333,000 as at 30 June 2020 (2019: $245,000) (Note 13 (iv));

(c) A shareholder not calling for payment of the aggregate amount of $20,960,000 owing to him or to a company controlled by him prior to the maturity date in November 2021, as disclosed in Note 15 (Loan 2 and Loan 3(i));

(d) Collection from the Group's trade receivables and contract assets;

(e) The successful roll-over of the Group's short-term bank loan of $4,914,000 (Note 15), which is due for repayment on 26 March 2021 and is guaranteed by the related party as disclosed in (b) above; and

(f) The Group can postpone the development projects including the Phase II development, the construction of a call centre, and certain software development projects, hence postponing the associated capital commitment of $121,770,000, as disclosed in Note 33.

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 respectively, and to provide for further liabilities which may arise. No such adjustments have been made to the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

The preparation of the financial statements in conformity with IFRSs 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 this Note.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of new and revised standards

On 1 July 2019, the Group adopted the new or amended International Financial Reporting Standards (IFRSs) and IFRS Interpretations Committee's Interpretations (IFRIC Interpretations) that are mandatory for application from that date. Changes to the Group's and Company'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 periods, except as disclosed below:

Adoption of IFRS 16 *Leases*

This new standard on leases supersedes the previous standard (IAS 17) and interpretations and brings in a new definition of a lease that will be used to identify whether a contract is, or contains, a lease. For leasees, IFRS 16 reforms leasee accounting by introducing a single model similar to the existing finance lease model. Specifically, lessees are required to recognise all leases on their statements of financial position to reflect their rights to use leased assets and the associated obligations for lease payments, with limited exemptions. However, lessor accounting, with the distinction between operating and finance leases, remains largely unchanged. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, and the Group adopted IFRS 16 retrospectively with any cumulative effect of initially applying the standard as an adjustment to the opening retained earnings at the date of initial application, 1 July 2019. Under this approach, comparatives are not restated.

The Group, as lessee, has leases previously classified under operating leases. Lease liabilities at 1 July 2019 are measured at present value of remaining lease payments discounted using incremental borrowing rate on that date. For all such leases, the Group elect to measure the right-of-use ("ROU") assets at their carrying amounts as if IFRS 16 had been applied since the commencement date but using hindsight of the expected rent-free period as at 1 July 2019, and discounted using applicable incremental borrowing rate at 1 July 2019.

<u>Practical expedients applied</u>

As allowed by IFRS 16, the Group applies definition of leases under IFRS 16 only to contracts entered on or after 1 July 2019 to determine whether or not the contracts contain a lease. For contracts determined to be a lease as at 30 June 2019 using IAS 17 and IFRIC Interpretation 4, the Group applied transition requirements in IFRS 16 as described above.

In addition, the Company also elect to apply the following practical expedients to leases previously classified as operating leases, and hence, the Group

- did not recognise lease liabilities and ROU assets to leases with a lease terms ended during the current financial year or for leases of low value assets

- relied on previous assessments on whether leases are onerous as an alternative to performing an impairment review. There were no onerous contracts as at 1 July 2019

(Amounts in thousands of Hong Kong dollar ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of new and revised standards (Continued)

Adoption of IFRS 16 *Leases* (Continued)

Practical expedients applied (Continued)

The following table explains the differences between the operating lease commitments previously disclosed in the financial statements as at 30 June 2019 and the lease liabilities recognised in the statements of financial position as at 1 July 2019:

Group	$'000
Operating lease commitments as at 30 June 2019, as previously disclosed	83,639
Add: Operating lease payable as at 30 June 2019 (Note 13(i))	28,295
Less: Lease of low-value assets recognised as expense	(53)
Less: Non-lease components of leases contracts	(263)
Less: Effect of discounting at weighted average incremental borrowing rate at 1 July 2019, 8.28%	(53,509)
Lease liabilities as at 1 July 2019	58,109

As at 1 July 2019, the adoption of IFRS 16 resulted in the following key effects at the Group:

Group	$'000
Right-of-use asset	39,680
Intangible assets	(11,675)
Trade and other payables	28,295
Lease liabilities	(58,109)
Accumulated losses	1,089
Non-controlling interests	720

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Standards issued but not yet effective

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 3: *Definition of a Business*	1 January 2020
Amendments to IAS1 and IAS 8: *Definition of a Material*	1 January 2020
Amendments to IFRS 9, IAS 39 and IAS 7*: Interest Rate Benchmark Reform*	1 January 2020
Amendment to IFRS 16: *Covid-19-Related Rent Concessions*	1 June 2020
Amendments to IFRS 3: *Reference to the Conceptual Framework*	1 January 2022
Amendments to IAS 16: *Property, Plant and Equipment—Proceeds before Intended Use*	1 January 2022
Amendments to IAS 37: *Onerous Contracts—Cost of Fulfilling a Contract*	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
- Amendments to IFRS 1 *First-time Adoption of FRS*	
- Amendments to IFRS 9 *Financial Instruments*	
- Amendments to Illustrative Examples accompanying IFRS 16 *Leases*	
- Amendments to IAS 41 *Agriculture*	
IFRS 17: *Insurance Contracts*	1 January 2023
Amendments to IAS 1*: Classification of Liabilities as Current or Non-Current*	1 January 2023
Amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	To be determined

The directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Group accounting

(i) Subsidiaries

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- had power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company losses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the financial year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and any non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Group accounting (Continued)

(i) Subsidiaries (Continued)

(a) Basis of consolidation (Continued)

When the Group losses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9, or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(b) Acquisition of businesses

The acquisition method of accounting is used to account for business combinations entered into by the Group. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent consideration arrangement and any pre-existing equity interest in the subsidiary measured at their fair values at the acquisition date. Acquisition-related costs, other than those associate with issue of debtor equity securities are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

For non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation, the Group elects on an acquisition-by-acquisition basis whether to recognise them either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, at the date of acquisition.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Group accounting (Continued)

(i) Subsidiaries (Continued)

(c) Disposals of subsidiaries or businesses

The assets and liabilities of the subsidiary including any goodwill are derecognised when a change in the Group's ownership interest in a subsidiary results in a loss of control over the subsidiary. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific Standard.

Any retained interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained investment at the date when control is lost and its fair value is recognised in profit or loss. Subsequently, the retained interest is accounted for as an equity-accounted investee or as financial asset depending on the level of influence retained.

(ii) Transactions with non-controlling interests

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with equity owners of the Group. Any difference between the change in the carrying amounts of the non-controlling interests and the fair value of the consideration paid or received is recognised in a separate reserve within equity attributable to the equity holders of the Group.

(iii) Associates

Associates are entities over which the Group exercises significant influence, but not control over the financial and operating policy decision, generally accompanied by a shareholding giving rise to voting rights of 20% and above but not exceeding 50%.

Investment in an associate is accounted for in the consolidated financial statements using the equity method of accounting less impairment losses, if any.

(a) Acquisition of business

Investments in associates are initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Goodwill on associates represents the excess of the cost of acquisition of the associate over the Group's share of the fair value of the identifiable net assets of the associate and is included in the carrying amount of the investments.

(b) Equity method of accounting

In applying the equity method of accounting, the Group's share of its associates' post-acquisition profits or losses are recognised in profit or loss and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. These post-acquisition movements and distributions received from the associates are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals to or exceeds its interest in the associate, including any other unsecured non-current receivables, the Group does not recognise further losses, unless it has legal and constructive obligations to make, or has made, payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Group accounting (Continued)

(iii) Associates (Continued)

(b) Equity method of accounting (Continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associates are changed where necessary to ensure consistency with the accounting policies adopted by the Group.

(c) Disposal of associates

Investments in associates are derecognised when the Group losses significant influence. Any retained interest in the entity is remeasured at its fair value. The difference between the carrying amount of the retained investment at the date when significant influence is lost and its fair value is recognised in profit or loss.

Gains and losses arising from partial disposals or dilutions in investment in associate in which significant influence are retained are recognised in profit or loss.

Subsidiaries and associates

Investments in subsidiaries and associates are carried at cost less accumulated impairment losses in the Company's statement of financial position. On disposal of investments in subsidiaries and associates, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

Currency translation

(i) Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Hong Kong dollar ("$"), which is the functional currency of the Company.

(ii) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity in the consolidated financial statements. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Currency translation (Continued)

(iii) Translation of the Group's financial statements

The assets and liabilities of foreign operations are translated into Hong Kong dollar at the rate of exchange ruling at the reporting date and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For partial disposals of associates or jointly controlled entities that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of property, plant and equipment including subsequent expenditure is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. When significant parts of property, plant and equipment is required to be replaced in intervals, the Group recognises such parts as individual assets with specific lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance expenses are recognised in profit or loss when incurred.

After initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment loss.

Construction in progress includes all cost of construction and other direct costs. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is reclassified to the appropriate category of property, plant and equipment when complete and ready to use.

Depreciation on all items of property, plant and equipment are calculated using the straight-line method to allocate their depreciable amount over their estimated useful lives as follows:

	Useful lives (Years)	Estimated residual value as a percentage of cost (%)
Leasehold improvements	6	-
Software platform	10	-
Plant and machineries	3-15	-
Motor vehicles	5-10	5% to 10%
Furnitures, fixtures, computer and other equipment	5-10	5% to 10%

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

The residual value, estimated useful life and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at the end of each reporting date to ensure that the amount, method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment. Fully depreciated assets are retained in the financial statements until they are no longer in use. The effects of any revision are recognised in profit or loss when the changes arise.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on retirement or disposal is determined as the difference between the disposal proceeds and its carrying amount is recognised in profit or loss within "Other income / (expenses)".

Intangible assets

(i) Goodwill

Goodwill on acquisitions of subsidiaries and businesses on or after 1 January 2010 represents the excess of (i) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over (ii) the fair value of the net identifiable assets acquired.

Goodwill on acquisition of subsidiaries and businesses prior to 1 January 2010 represents the excess of the cost of the acquisition over the fair value of the Group's share of the net identifiable assets acquired.

Goodwill on subsidiaries is recognised separately as intangible assets and carried at cost less accumulated impairment losses (see the accounting policy for impairment in this Note).

Gains and losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group if cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

(i) Goodwill (Continued)

Goodwill and fair value adjustments arising on the acquisition of foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated in accordance with the accounting policy set out in this Note.

Goodwill and fair value adjustments which arose on acquisitions of foreign operation before 1 January 2005 are deemed to be assets and liabilities of the Company and are recorded in Hong Kong dollar at the rates prevailing at the date of the acquisition.

(ii) Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost, which includes the purchase price and other directly attributable cost of preparing the asset for its intended use. The cost of intangible assets acquired in a business combination is their fair values at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually or more frequently if the events or changes in circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

The estimated useful lives are as follows:

	Useful lives (Years)
Customer contract	4.1
Favourable lease	18.6

Amortisation methods and useful lives are reviewed at each reporting date and adjusted as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecasts calculations are generally covering a period of ten years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the tenth year.

Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. This increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

Financial assets and liabilities

(i) Initial recognition and measurement

Trade receivables are initially recognised when they are originated. Other financial assets and financial liabilities are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

Trade receivables without financing component is initially measured at the transaction price in accordance with IFRS 15. Other financial assets or financial liabilities are initially recognised at fair value plus, in the case of financial assets or liabilities not at fair value through profit or loss, directly attributable transaction costs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities (Continued)

(ii) Classification and subsequent measurement

Financial assets

Financial assets are classified and subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, at the following categories:

a) Amortised costs
b) Fair value through Other Comprehensive Income (FVOCI) – Debt investments
c) FVOCI – Equity investments
d) Fair value through profit or loss (FVPL)

Financial assets are not reclassified after initial recognition unless the Group changes its business model for managing financial assets, in which case such reclassification will be applied prospectively from the reclassification date.

Financial assets at amortised costs

Unless designated at FVPL, financial assets are measured at amortised costs if:

- It is held within a business model with an objective to hold the assets to collect contractual cash flows; and
- Its contractual cash flows comprise of solely principal and interest on the principal amount outstanding

These assets, mainly trade and other receivables, as well as cash and bank balances, are subsequently measured at amortised costs using the effective interest rate method, which is reduced by impairment losses. Interest income, foreign exchange differences, and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI

Unless designated at FVPL, a debt investment is measured at FVOCI if:

- It is held within a business model with objectives of both collecting contractual cash flows and selling financial assets; and
- Its contractual cash flows comprise of solely principal and interest on the principal amount outstanding

These assets are subsequently measured at fair value. Interest income calculated on effective interest rate method, foreign exchange differences and impairment are recognised in profit or loss. Other net gains and losses (including changes in fair value) are recognised in OCI. The cumulative amounts in OCI are reclassified to profit or loss upon derecognition.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities (Continued)

(ii) Classification and subsequent measurement (Continued)

Financial assets (Continued)

Equity investments at FVOCI

Unless held-for-trading, the Company may irrevocably elect on initial recognition, on an investment-by-investment basis, to present subsequent changes of fair value of the equity investments in OCI.

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses (including changes in fair value) are recognised in OCI which will never be reclassified to profit or loss.

Financial assets at FVPL

All financial assets not at amortised cost or FVOCI as described above are measured at fair value through profit or loss. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI to be measured at FVPL, if doing so eliminates or significantly reduce accounting mismatch that would otherwise arise.

Financial assets held for trading or are managed and whose performance is evaluated on a fair value basis would be mandatorily measured at FVPL.

These assets are subsequently measured at fair value. Net gains or losses, including any interest income or dividend income are recognised in profit or loss.

As at the reporting date, the Group does not have other categories of financial assets except for financial assets at amortised cost.

Financial liabilities

Financial liabilities are subsequently measured at amortised costs unless it is held for trading (including derivative liabilities), or designated as financial liabilities at FVPL on initial recognition to significantly reduce accounting mismatch or when a group of financial liabilities are managed whose performance is evaluated on a fair value basis.

Financial liabilities at amortised costs are subsequently measured at amortised costs using the effective interest rate method. Interest expense and foreign exchange differences are recognised in profit or loss. These financial liabilities mainly comprise trade and other payables including amount due to related parties, loans and borrowings.

Financial liabilities at FVPL are measured at fair value with net gains and losses (including interest expense) recognised in profit or loss. Directly attributable transaction costs are recognised in profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and liabilities (Continued)

(iii) Derecognition

Financial assets

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial assets. On derecognition of a financial asset in its entirety, the difference between the carrying amount measured at the derecognition date and the sum of the consideration received is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of the assets within the period generally established by regulation or convention in the marketplace concerned.

Financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires. The Group also derecognise a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case, a new financial liability on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished, or transferred and the consideration paid (including non-cash transferred or liabilities assumed) is recognised in profit or loss.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Impairment of financial assets

The Group applies impairment model in IFRS 9 to measure the Expected Credit Losses (ECL) of the following categories of assets:

- Financial assets at amortised costs (including trade receivables)
- Contract assets (determined in accordance with IFRS 15)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

ECLs are probability-weighted estimates of credit losses, which are measured at the present value of all cash shortfalls (difference between the cash flows due to the Group in accordance with the contracts and the cash flows that the Company expects to receive), discounted at effective interest rate of the financial asset. The expected cash flows include cash flows from the sale of collaterals held, if any, or other credit enhancements that are integral to the contractual terms.

Simplified approach

The Group applies simplified approach to all trade receivables and contract assets. Impairment loss allowance is measured at life time ECL, which represents ECLs that result from all possible default events over the expected life of a financial instrument or contract asset ('life-time ECL'). The Group uses qualitative and quantitative information like historical credit loss experience, profile of customers and historical repayment trends to group customers with similar characteristics and adjusted with forward-looking factors for purpose of ECL assessment. The Group computes ECL using probability of default (PD) ratings from an external credit rating agency, multiplied by the exposure at default and loss given default.

General approach

The Group applies general approach on all other financial instruments and recognise a 12-month ECL on initial recognition. 12-month ECL are ECLs that result from possible default events within 12 months after the reporting date or up to the expected life of the instrument, if shorter.

Impairment loss allowance or reversals are recognised in profit or loss. Loss allowance on financial assets at amortised cost and contract assets are deducted from the gross carrying amount of those assets.

<u>Significant increase in credit risk (Stage 2)</u>

For credit exposures for which there has been a significant increase in credit risk since initial recognition, impairment loss allowance is measured at life-time ECL. When a financial asset is determined to have a low credit risk at reporting date, the Group assumes that there has been no significant increase in credit risk since initial recognition. For other cases, the Group uses reasonable and supportable forward-looking information available without undue cost or effort to determine, at each reporting date, whether there is significant increase in credit risk since initial recognition. In assessing whether there has been significant increase in credit risks, the Group takes into account factors such as:

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the debtor's ability to meet its debt obligations
- actual or expected significant adverse change in the regulatory, economic, or technological environment that are expected to cause a significant change in the debtor's ability to meet its debt obligations
- an actual or expected significant change in the operating results of the debtors

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 6 months past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Significant increase in credit risk (Stage 2) (Continued)

If credit risk has not increased significantly since initial recognition or if the credit quality improves such that there is no longer significant increase in credit risk since initial recognition, loss allowance is measured at 12-month ECL.

Credit impaired (Stage 3)

A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Definition of default

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligation in full, without recourse by the Group.

The Group considers a contract asset to be in default when the customer is unlikely to pay the contractual obligations to the Group in full without recourse by the Group.

Write-off policy

The Group writes off the gross carrying amount of a financial asset to the extent that there is no realistic prospect of recovery, for example when the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the Group.

Leases

The Group assess whether a contract is or contains a lease, at inception of the contract. A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Reassessment is only required when the terms and conditions of the contract are changed.

(i) As lessor

Leases where the Group retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. The accounting policy for rental income is set out in this Note. Contingent rents are recognised as revenue in the period in which they are earned.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

(ii) As lessee (IFRS 16, from 1 July 2019 onwards)

At the lease commencement date, the Group recognises a right-of-use ("ROU") asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases and low-value leases as described below.

ROU asset

ROU assets are initially measured at cost, which comprise initial amount of lease liability, any lease payment made at or before commencement date, plus initial direct costs incurred, less lease incentives received. Initial direct costs are costs that would not have been incurred if the lease had not been obtained.

Whenever the Group incurs obligations for costs to dismantle and remove a leased asset, restore the site or the underlying asset to the condition required by the terms and conditions of the lease contract, a provision is recognised and measured under IAS 37; and included in the carrying amount of the ROU assets to the extent that the costs relate to a ROU asset.

ROU assets are subsequently measured at cost less accumulated depreciation and impairment losses. ROU assets are depreciated from commencement date to the earlier of end of lease terms and useful life of the ROU assets. In addition, the ROU assets are also adjusted for certain remeasurement of lease liability.

The useful life of the ROU asset (over the terms of the lease) is as follows:

	Useful lives (Years)
Leasehold property	20

ROU asset is presented as a separate line item in the statement of financial position.

For contract that contains lease and non-lease component, the Group applies the practical expedient allowed in IFRS 16 not to separate non-lease components, and account for the lease and non-lease components as a single lease component.

Lease liability

Lease liability is initially measured at the present value of lease payments discounted using interest rate implicit in the lease, or if that rate cannot be readily determined, the lessee's incremental borrowing rate. Generally, the Group uses the incremental borrowing rate as the discount rate, which is estimated by reference to interest rates from various external financing sources for similar terms such as lease terms, type of assets leases and economic environment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

(ii) As lessee (IFRS 16, from 1 July 2019 onwards) (Continued)

Lease liability (Continued)

The following lease payments are included in the measurement of lease liability:

- Fixed payment (including in-substance fixed payments), less any lease incentives receivables;
- Variable lease payment that are based on an index or rate, initially measured using the index or rate as at the commencement date;
- Amount expected to be payable under residual value guarantees
- The exercise price of a purchase option if is reasonably certain to exercise the option; and
- Payment of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease liability is measured at amortised cost using effective interest method. Remeasurement of lease liability (and corresponding adjustment to ROU asset, or to profit or loss when the ROU asset has been reduced to zero) is required when there is:

- a change in future lease payments arising from changes in an index or rate, in which case the initial discount rate is used;
- a change in the Group's assessment of whether it will exercise an extension or termination option, in which case a revised discount rate is used; or
- modification in the scope or the consideration of the lease that was not part of the original term and not accounted for as separate lease, in which case a revised discount rate at effective date of modification is used.

The Group presents the lease liabilities as a separate line item on the statement of financial position.

Exemption / exclusion

The following leases/ lease payments are not included in lease liabilities and ROU asset:

- The Group has elected not to recognise ROU asset and lease liabilities for short term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For such leases, the Group recognises the lease payments in profit or loss as an operating expense on a straight-line basis over the lease term.

(iii) As lessee (IAS 17, before 1 July 2019)

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

(iii) As lessee (IAS 17, before 1 July 2019) (Continued)

Finance leases, which transfers to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred. Capitalised lease assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased item are classified as operating leases. Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Provisions

General

A provision is recognised when the Group has a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Warranty provision

The Group provides assurance-type warranties ranging from 1 to 3 years, on certain products and undertake to repair or replace items that fail to perform satisfactorily. A provision is recognised at the reporting date for expected warranty claims based on past experience and management's best estimation.

Borrowings

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the end of the reporting date, in which case they are presented as non-current liabilities.

Borrowings are initially recorded at fair value, net of transaction costs and subsequently carried at amortised costs using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings which are due to be settled within 12 months after the end of the reporting date are included in current borrowings in the statement of financial position even though the original term was for a period longer than 12 months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the end of the reporting date and before the financial statements are authorised for issue.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowings (Continued)

Redeemable convertible bonds

When redeemable convertible bonds are issued, the total proceeds are allocated to the liability component and the equity component, which are separately presented on the statement of financial position based on the terms of the contracts. On issuance of the redeemable convertible bonds, the liability component is determined initially at its fair value, using a market interest rate for an equivalent non-convertible bond. It is classified as financial liabilities measured at amortised cost until the liability is extinguished on conversion or redemption of the bonds.

The remainder of the proceeds of redeemable convertible bond issue is allocated to the conversion option (equity component), which is presented in equity, net of transaction costs, if any. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the redeemable convertible bonds based on the allocation or proceeds to the liability and equity components when the instrument is initially recognised. When a conversion option is exercised, the carrying amount of the conversion option will be taken to share capital. When the conversion option is allowed to lapse, the carrying amount of the conversion option will be taken to accumulated losses.

Derivatives embedded in host contracts (other than financial assets) are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Borrowing costs

Borrowing costs are recognised in the profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Share capital and share premium

Proceeds from issuance of ordinary shares are classified as share capital (nominal value) and share premium in equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against share premium.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customers, at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Unless otherwise mentioned, the Group concludes that it is acting as a principal in the provision of goods or services in its contracts with customers.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

When contracts contain multiple performance obligations, the Group allocates the transaction price to the performance obligations in proportion of the relative stand-alone selling price:

a) Revenue from data centre service and outsourcing data centre service income

Revenue from data centre service and outsourcing data centre service income is recognised over time, as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs the services to customers. This performance obligation includes providing space, power capacity, connectivity, required setup, installation services, utilities and technical support to customers. These services are not capable of being distinct from each other and therefore considered one performance obligation. On a monthly basis, the Group delivers services which are substantially similar, and customers can benefit from each individual month of service. Since an individual month of providing data center services is separately identifiable, management assessed that each month of providing data center services is considered a distinct performance obligation.

Under IFRS 15, a series of distinct goods or services will be accounted for as a single performance obligation if they are substantially the same, have the same pattern of transfer and both of the following criteria are met:

(i) each distinct good or service in the series represents a performance obligation that would be satisfied over time; and
(ii) the entity would measure its progress towards satisfaction of the performance obligation using the same measure of progress for each distinct good or service in the series.

The principles in IFRS 15 therefore apply to each single performance obligation when the series criteria are met, rather than the individual services that make up the single performance obligation. As a result, revenue is allocated to the relative stand-alone selling price of the series as one performance obligation, rather than to each distinct service within it. When the contract includes leasing of server, revenue is allocated to data centre service based on its stand-alone selling price to other customers, with the residual assigned to operating lease income under "Other revenue" as the Group does not typically lease servers on a stand-alone basis.

Outsourcing data centre service income is derived from similar performance obligation, except when the Group outsources relevant services to third-party subcontractors and acts as a principal.

b) Sales of equipment

The Group recognises the revenue from sales of equipment over time in situation where the customised equipment has no alternative use to the Group and the contract gives the Group enforceable right to payment for performance completed to date. For contracts that does not give the Group enforceable right to payment for performance completed to date, the Group recognises the revenue at a point in time, i.e. when control transferred to the customers and acceptance criteria is met.

c) Project revenue

The Group recognises project revenue based on percentage-of-completion method determined by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs at the reporting date. The revenue is recognised over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance.

The Group has adopted the practical expedient not to recognise any financing element for the contract with 1-year period between transfer of goods or services and the payments received.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

d) Other service fee

Revenue from other services are recognised over time, as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs the services to customers.

Other revenue

Operating lease income, being revenue from server rental service, are recognised in accordance with IFRS 16. The contract is recognised on a straight-line basis over the contract period.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all terms and conditions relating to the grants have been complied with. When the grant relates to an asset, the fair value is recognised as deferred capital grant on the statement of financial position and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Employees' benefits

Retirement benefits

The Group participates in the national schemes as defined by the laws of the countries in which it has operations.

Hong Kong

The subsidiaries, incorporated and operating in Hong Kong are required to contribute to the mandatory provident fund scheme, a defined contribution pension scheme, as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and are charged to profit or loss in the financial year in which they fall due.

The People's Republic of China ("PRC")

The subsidiaries, incorporated and operating in the PRC, are required to provide certain retirement plan contribution to their employees under the existing PRC regulations. Contributions are provided at rates stipulated by the PRC regulations and are managed by government agencies, which are responsible for administering these amounts for the subsidiary's employees.

Obligations for contributions to defined contribution retirement plans are recognised as an expense in the period in which the related service is performed.

Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability as a result of services rendered by employees up to the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employees' benefits (Continued)

Share-based compensation

Performance shares

The performance share plans of the Group are accounted for either as equity-settled share-based payments or cash-settled share-based payments. Equity-settled share-based payments are measured at fair value at the date of grant, whereas cash-settled share-based payments are measured at current fair value at the reporting date. The performance share expense is recognised in profit or loss on a straight-line basis over the vesting period.

At the reporting date, the Group revises its estimates of the number of performance shares that the participants are expected to receive based on non-market vesting conditions. The difference is charged or credited to the income statement, with a corresponding adjustment to equity or liability for equity-settled and cash-settled share-based payments respectively.

Share-based payments transactions with parties other than employees

When the Group enters into equity-settled share-based payment transactions with parties other than employees, the Group measures the goods and services received, and the corresponding increase in equity, directly at the fair value of the goods or services received, unless the fair value cannot be estimated reliably. If the Group cannot estimate reliably the fair value of the goods or services received, the corresponding increase in equity shall be measured by reference to the fair value of the equity instruments granted, measured at the date the Group obtains the goods or the counter party renders service.

Taxation

(i) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using tax rates and tax laws that have been substantively enacted by the reporting date in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

(i) Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow deferred tax assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(ii) Value-added-tax ("VAT")

The Group's sales of goods and service income in the PRC are subject to VAT at the applicable tax rate of 6% for PRC domestic sales. Input tax on purchases can be deducted from output VAT. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Other receivables" or "Other payables" in the statement of financial position.

Contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the statement of financial position of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

Related parties

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and the Company if that person:

- (i) Has control or joint control over the Company;
- (ii) Has significant influence over the Company; or
- (iii) Is a member of the key management personnel of the Group or the Company or of a parent of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) An entity is related to the Group and the Company if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
(iii) Both entities are joint ventures of the same third party.
(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.
(vi) The entity is controlled or jointly controlled by a person identified in (a).
(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker responsible for allocating resources and assessing performance of the operating segments.

Critical accounting estimates, assumptions and judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is measured using discounted cash flow projections. The cash flows are derived from recent financial budgets approved by management for the next 10 years, with a view that 10 years is an appropriate forecast period for the Group to achieve a stable customer base, utilisation rate and selling price. In estimating the future cash flows, management has taken into account past and recent performance, macroeconomic analysis, the Group's marketing plan and progress on obtaining major customer contracts. The recoverable amount is most sensitive to the sales growth rates and discount rate applied for the discounted cash flow model.

The carrying amounts and further details of the key assumptions for the impairment assessment of intangible assets are disclosed in Note 6.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates, assumptions and judgements (Continued)

(i) Critical accounting estimates and assumptions (Continued)

(b) Impairment on investment in subsidiaries

When there is an indication that a subsidiary has suffered an impairment loss, for example the subsidiary is in capital deficit and has suffered operating losses; an assessment is made as to whether the investment in the subsidiary has suffered any impairment, in accordance with the stated accounting policy. An estimate is made of the future profitability of the subsidiary, and the financial health of and near-term business outlook for the subsidiary, including factors such as industry and sector performance, and operating cash flows.

The carrying amounts and further details of the key assumptions for the impairment assessment of investment in subsidiaries are disclosed in Note 7.

(c) Impairment of financial assets

Impairment allowance for financial assets measured at amortised costs are applied using the ECL model, which requires assumptions of risk of default and expected loss rates. The Group uses judgement in making these assumptions, and measures ECL on trade receivables on individual basis, using information such as the age of the balances, payment history, status of negotiations with debtors and other external information available to management. The default rates are based on the Group's historical credit loss experience, profiling customers by credit risk characteristics and are adjusted for forward-looking factors specific to the debtors and the economic environment. As the Group and Company does not hold any collateral to the financial assets, the expected loss rates will be the full amount of the financial assets if there are certain risk of default.

The carrying amounts and further details of the key assumptions for the ECL assessment are disclosed in Note 35(iii).

(ii) Critical judgements in applying the entity's accounting policies

In the process of applying the Group's accounting policies, management has made the following judgments, other than those arising from the estimates described above, which have the most significant effect on the amounts recognised in the consolidated financial statements:

<u>*Significant influence over an associate*</u>

The Group has determined that it does not control, but has significant influence over China Satellite Mobile Communications Group Limited and its subsidiaries ("China Satellite Group"), based on an evaluation under IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*.

The Group holds 45% (2019: 45%) of the voting rights of China Satellite Group and the remaining 55% (2019: 55%) is held by 11 (2019: 11) individual shareholders, each holding 1.1% to 9.1% (2019: 1.1% to 9.1%) individually.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical accounting estimates, assumptions and judgements (Continued)

(ii) Critical judgements in applying the entity's accounting policies (Continued)

Significant influence over an associate (Continued)

Notwithstanding that the Group is the single largest shareholder, the management has determined that the Group is not able to exercise control over China Satellite Group due to the following:

- a contractual agreement among the 11 individual shareholders to act in concert during shareholders' meetings; and
- the board composition of China Satellite Group, of which there are 2 directors in office, comprising a representative from the Group and another representative from the 11 individual shareholders (who is also appointed as the chairman of China Satellite Group). According to the memorandum and articles of association of China Satellite Group, the chairman is entitled to a second or casting vote in case of an equality in votes during board meetings. Accordingly, management concluded that the 11 individual shareholders control China Satellite Group.

The carrying amount of the investment in China Satellite Group is disclosed in Note 8.

The management is of the opinion that any instances of judgements, other than those described in "critical accounting estimates and assumptions" above, are not expected to have significant effect on the amounts recognised in the financial statements.

4. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold improvements	Software platform	Plant and machineries	Motor vehicles	Furniture, fixtures, computer and other equipment	Construction in progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost							
As at 1 April 2018	22,141	7,754	65,091	698	687	152,096	248,467
Additions	375	-	350	-	174	5,985	6,884
Written off	(31)	-	-	-	(8)	-	(39)
Currency translation differences	(1,986)	(693)	(5,811)	(62)	(84)	(13,757)	(22,393)
As at 30 June 2019	20,499	7,061	59,630	636	769	144,324	232,919

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

4. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group	Leasehold improvements	Software platform	Plant and machineries	Motor vehicles	Furniture, fixtures, computer and other equipment	Construction in progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cost							
As at 1 July 2019	20,499	7,061	59,630	636	769	144,324	232,919
Additions	-	-	-	-	1,253	10,596	11,849
Currency translation differences	(773)	(266)	(2,249)	(24)	(42)	(5,554)	(8,908)
As at 30 June 2020	19,726	6,795	57,381	612	1,980	149,366	235,860
Accumulated depreciation							
As at 1 April 2018	11,990	1,593	26,762	248	315	-	40,908
Depreciation during the financial period	4,360	906	6,328	80	191	-	11,865
Written off	(31)	-	-	-	(4)	-	(35)
Currency translation differences	(1,185)	(165)	(2,553)	(26)	(28)	-	(3,957)
As at 30 June 2019	15,134	2,334	30,537	302	474	-	48,781
As at 1 July 2019	15,134	2,334	30,537	302	474	-	48,781
Depreciation during the financial year	3,322	686	3,256	59	310	-	7,633
Currency translation differences	(605)	(95)	(1,186)	(12)	(22)	-	(1,920)
As at 30 June 2020	17,851	2,925	32,607	349	762	-	54,494
Net carrying amount							
As at 30 June 2020	1,875	3,870	24,774	263	1,218	149,366	181,366
As at 30 June 2019	5,365	4,727	29,093	334	295	144,324	184,138

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

5. RIGHT-OF-USE ASSET

	Property
	$'000
Cost	
As at 1 July 2019	-
Initial adoption of IFRS 16	39,680
Decrease arising from reassessment of lease liabilities	(3,676)
Currency translation differences	(1,497)
As at 30 June 2020	34,507
Accumulated depreciation	
As at 1 July 2019	-
Depreciation during the financial year	2,572
Currency translation differences	(26)
As at 30 June 2020	2,546
Net carrying amount	
As at 30 June 2020	31,961

The right-of-use asset represents a leasehold property located at Guizhou province of the PRC. In May 2014, a subsidiary, Guiyang Zhongdian Gaoxin Digital Technologies Limited ("Guiyang Tech") entered into operating lease agreement with the landlord, a state-owned enterprise, to lease the internet data centre ("IDC") premises for 20 years. As set out in the lease agreement, Guiyang Tech is entitled to a rental-free period since 2014 until receipt of notice from the landlord. The Group estimates future lease payments to the landlord, based on management's best estimates which are revised half-yearly. As at date of this report, the Group has not received payment notice from the landlord.

The Group is restricted from sub-leasing, operating the premises for other purposes. There are no other restrictions or covenants imposed by the lease contracts.

The corresponding lease liabilities is disclosed in Note 16.

As required by IFRS 16, upon date of initial adoption, the Group has derecognised favourable lease (Note 6) arising from business combination in accordance with IFRS 3 and made a corresponding adjustment to the carrying amount of the right-of-use asset.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

6. INTANGIBLE ASSETS

Group	Goodwill	Customer contract	Favourable lease	Total
	$'000	$'000	$'000	$'000
Cost				
As at 1 April 2018 and 30 June 2019	124,779	36,338	14,623	175,740
Derecognition upon initial adoption of IFRS 16 [(i)]	-	-	(14,623)	(14,623)
As at 1 July 2019 and 30 June 2020	124,779	36,338	-	161,117
Accumulated amortisation				
As at 1 April 2018	-	22,158	1,965	24,123
Charge for the financial period	-	11,079	983	12,062
As at 30 June 2019	-	33,237	2,948	36,185
Derecognition upon initial adoption of IFRS 16 [(i)]	-	-	(2,948)	(2,948)
As at 1 July 2019	-	33,237	-	33,237
Charge for the financial year	-	3,101	-	3,101
As at 30 June 2020	-	36,338	-	36,338
Accumulated impairment loss				
As at 1 April 2018, 30 June 2019, and 1 July 2019	-	-	-	-
Impairment loss	124,779	-	-	124,779
As at 30 June 2020	124,779	-	-	124,779
Net carrying amount				
As at 30 June 2020	-	-	-	-
As at 30 June 2019	124,779	3,101	11,675	139,555

[(i)] As required by IFRS 16, upon date of initial adoption, the Group has derecognised favourable lease arising from business combination in accordance with IFRS 3 and made a corresponding adjustment to the carrying amount of the right-of-use assets (Note 5).

Goodwill on acquisition

Goodwill arose from the acquisition of the Group's subsidiary, Guiyang Tech in October 2015, and is allocated to the Group's IDC business as a cash-generating unit ("CGU").

Other intangibles - customer contract and favourable lease

Upon acquisition of Guiyang Tech, the management appointed an independent valuer to carry out a purchase price allocation exercise and identified certain intangible assets as follow:

(a) Customer contract – Using the multi-period excess earnings method, a major customer of Guiyang Tech was valued based on a projected average monthly recurring revenue and an estimated useful life of the customer contract of 4.1 years.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

6. INTANGIBLE ASSETS (Continued)

Other intangibles - customer contract and favourable lease (Continued)

(b) Favourable lease – Using an incremental cash flow method to compare Guiyang Tech's contractual lease rates of its land and buildings to future market rates for comparable leases, the life of the favourable lease term is 18.6 years, based on the contractual expiry date.

These intangible assets have finite useful lives and are amortised on a straight-line basis. The amortisation expense has been included in the line item "amortisation of intangible assets" in the profit or loss.

Impairment assessment

At the reporting date, management performed an impairment test for Guiyang Tech's non-financial assets, which includes property, plant and equipment (Note 4), right-of-use asset (Note 5) and intangible assets - Goodwill (Note 6), classified as 1 single CGU – the IDC segment in the PRC. The total carrying amount of these non-financial assets, which is subject to impairment test, was $338,106,000 (2019: $323,693,000) which includes the following as at 30 June 2020:

- Property, plant and equipment of $181,366,000;
- Right-of-use asset of $31,961,000;
- Goodwill of $124,779,000; and
- Prepayments of $19,065,000.

As a result of the impairment assessment, the Group recognised an impairment loss on goodwill amounting to $124,779,000 for the financial year ended 30 June 2020.

The recoverable amount of the relevant CGU was based on fair value less costs of disposal, which is determined based on discounted cash flow ("DCF") projections approved by management. There has been no change to the valuation technique during the financial year. The fair value hierarchy of the valuation is Level 3.

Key assumptions used for valuation (Level 3) fair value hierarchy:

	Group	
	2020	2019
Average sales growth		
- Year 1 to 2	-10%	14%
- Year 3 to 5	30%	53%
- Year 6 to 10	37%	57%
- After Year 10	2%	2%
Post-tax discount rate	17.0%	16.5%

(Amounts in thousands of Hong Kong dollar ("$'000"))

6. INTANGIBLE ASSETS (Continued)

Sales growth rate
The sales growth rate is forecasted based on current year results, expected utilisation rate of hosting capacity, which are derived from management's expectations to secure key contracts from certain state-owned enterprises in the PRC, economic environment of the IDC sector, and management's assessment of the adverse impact arising from COVID-19.

- Year 1 to 2: Sales are expected to decline, resulting in negative sales growth rate, due to the adverse effect of COVID-19, as new customers delayed the commencement of IDC services.
- Year 3 to 5: Sales growth rate is projected to increase by an average of 30% based on management's assessment of the economic recovery from COVID-19. Accordingly, management expects secured contracts with state-owned enterprises in the PRC to commence and existing sales contracts with its major customers to be successfully renewed.
- Year 6 to 10: Higher sales growth rate is forecasted based on management's plans to increase hosting capacity and to increase the number of racks.

Post-tax discount rate
Discount rate represents the post-tax weighted average cost of capital (WACC) considering market participants' view on the CGU regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates.

Sensitivity analysis

2020
Management has performed sensitivity analysis of the sales growth rate and discount rate:

	Changes in rate	Effect on the impairment increase / (decrease) [i] $'000
Sales growth rate	+10%	(27,374)
	-10%	27,289
Post-tax discount rate	+1%	14,829
	-1%	(17,606)

Management estimates sales amount of the Group will be recovered to pre-COVID-19 in year 4. In addition to sensitivity analysis above, management has performed further analysis below on the impact of changes in the sales growth rate between Year 1 and 4, both inclusive, with all other estimates and variables remain constant.

	Changes in rate	Effect on the impairment increase / (decrease) [i] $'000
Sales growth rate between year 1 and year 4, both inclusive	+50%	(15,778)
	-50%	13,269

[i] As at 30 June 2020, intangible assets are fully impaired or amortised and have zero carrying values. Accordingly, any additional impairment arising from the sensitivity analysis above shall be allocated to other non-current assets (property, plant and equipment and right-of-use asset) on a pro rata basis.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

7. INVESTMENT IN SUBSIDIARIES

	Company	
	2020	2019
	$'000	$'000
Unquoted equity shares, at cost	60,166	60,166
Impairment loss	(3,054)	-
	57,112	60,166

Impairment assessment

During the financial year, management performed an impairment test for the Company's cost of investment in SinoCloud Investment Holdings Limited, an intermediate holding company of Guiyang Tech, of $60,166,000, because of the facts and circumstances described in Note 1 and Note 2 to the financial statements. As a result of the impairment assessment, an impairment loss amounting to $3,370,000 is recognised for the financial year ended 30 June 2020. The key assumptions of the fair value are disclosed in Note 6.

Sensitivity analysis

2020
As disclosed in Note 6, the key assumptions include sales growth rate and discount rate. Accordingly, management has performed sensitivity analysis as follows:

	Changes in rate	Effect on the impairment increase / (decrease) * $'000
Sales growth rate	+10%	(3,054)
	-10%	16,424
Post-tax discount rate	+1%	8,897
	-1%	(3,054)

Management estimates sales amount of the Group will be recovered to pre-COVID-19 in year 4. In addition to sensitivity analysis above, management has performed further analysis below on the impact of changes in the sales growth rate between Year 1 and 4, both inclusive, with all other estimates and variables remain constant.

	Changes in rate	Effect on the impairment increase / (decrease) * $'000
Sales growth rate between year 1 and year 4, both inclusive	+50%	(3,054)
	-50%	9,466

* The effect on the decrease of impairment is capped at $3,054,000, the amount of impairment recognised during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

7. INVESTMENT IN SUBSIDIARIES (Continued)

Details of the subsidiaries are as follows:

Name of subsidiaries	Principal activities	Country / Region of incorporation and place of business	Proportion (%) of ownership interest	
			2020 %	2019 %
Held by the Company				
SinoCloud Investment Holdings Limited (i) (ii)	Investment holding	BVI, Hong Kong	100	100
Held by SinoCloud Investment Holdings Limited				
SinoCloud Group (HK) Limited (ii)	Management services	Hong Kong	100	100
SinoCloud Assets Management Company Limited (i) (ii)	Investment holding	BVI, Hong Kong	100	100
SinoCloud 01 Limited (i) (ii)	Investment holding	BVI, Hong Kong	100	100
Armarda International Inc (i) (ii)	Dormant	BVI, Hong Kong	100	100
Held by SinoCloud Assets Management Company Limited				
SinoCloud Asset Management Limited (ii)	Investment holding	Hong Kong	100	100
Zhong Yun Shi Dai Data Technology (Beijing) Co., Ltd. (中云时代数据科技(北京)有限公司) (ii)	Management services	PRC	100	100
Held by SinoCloud 01 Limited				
SinoCloud 01 (HK) Limited (ii)	Investment holding	Hong Kong	100	100
SinoCloud Data (Guiyang) Limited(ii)	Investment holding	PRC	100	100
Guiyang Zhongdian Gaoxin Digital Technologies Limited ("贵阳中电高新数据科技有限公司) (Guiyang Tech") (ii)	Internet data centre services	PRC	60	60

(i) Not required to be audited by law of the country / region of incorporation.

(ii) Audited by Crowe Horwath First Trust LLP for the purpose of expressing an opinion on the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

7. INVESTMENT IN SUBSIDIARIES (Continued)

Interest in subsidiary with non-controlling interests

The summarised financial information below represents amounts of non-wholly owned subsidiary of the Group that has material non-controlling interests before intragroup eliminations:

	Guiyang Zhongdian Gaoxin Digital Technologies Limited	
	2020	2019
	$'000	$'000
Statement of Financial Position		
Current assets	20,491	83,800
Non-current assets	221,512	184,138
Current liabilities	63,797	69,552
Non-current liabilities	57,006	25,104
Net assets	121,200	173,282

	Guiyang Zhongdian Gaoxin Digital Technologies Limited	
	1 July 2019 to 30 June 2020	1 April 2018 to 30 June 2019
	$'000	$'000
Statement of Profit and Loss		
Revenue	33,253	64,695
Other income	376	7,442
Expenses	(92,356)	(78,426)
Loss for the financial year / period	(58,727)	(6,289)
Loss attributable to owners of the company	(35,236)	(3,774)
Loss attributable to the non-controlling interests	(23,491)	(2,515)
Other comprehensive loss attributable to owners of the company	(4,207)	(11,128)
Other comprehensive loss attributable to non-controlling interests	(2,151)	(7,155)
Other comprehensive loss for the financial year / period	(6,358)	(18,283)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

7. INVESTMENT IN SUBSIDIARIES (Continued)

	Guiyang Zhongdian Gaoxin Digital Technologies Limited	
	1 July 2019 to 30 June 2020 $'000	1 April 2018 to 30 June 2019 $'000
<u>Other Comprehensive Income</u>		
Total comprehensive loss attributable to owners of the company	(39,443)	(14,902)
Total comprehensive loss attributable to non-controlling interests	(25,642)	(9,670)
Total comprehensive loss for the financial year / period	(65,085)	(24,572)
<u>Statement of Cash Flows</u>		
Net cash inflow from operating activities	6,092	6,628
Net cash (outflow) / inflow from investing activities	(6,248)	34,516
Net cash inflow / (outflow) from financing activities	372	(41,446)
Net cash inflow / (outflow)	216	(302)

8. INVESTMENT IN ASSOCIATE

Details of the Group's associate is as follows:

Name of associate	Principal activities	Country / Region of incorporation and place of business	Proportion of the Group's effective interest (%) 2020 %	2019 %
<u>Held by the Company</u>				
China Satellite Mobile Communications Group Limited ("CSMCG") [(i)(ii)]	Dormant	BVI, Hong Kong	45	45
<u>Held by CSMCG</u>				
China Mobile Satellite Communications Group Ltd ("CMSCG") [(ii)]	Dormant	Hong Kong	45	45
China Satellite Mobile (HK) Limited [(ii)]	Dormant	Hong Kong	45	45

(i) Not required to be audited by law of the country / region of incorporation of the Group.

(ii) Reviewed by Crowe Horwath First Trust LLP for the purpose of expressing an opinion on the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

8. INVESTMENT IN ASSOCIATE (Continued)

The summarised financial information of the associate, not adjusted for the proportion of ownership interest held by the Group, is as follows. The associate is dormant since 2018.

	China Satellite Mobile Communications Group Limited and its subsidiaries	
	2020	2019
	$'000	$'000
Current assets	273	273
Current liabilities	36,868	36,868
Revenue	-	-
Total comprehensive loss for the financial year / period	-	-

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

	Group	
	2020	2019
	$'000	$'000
Net liabilities	(36,595)	(36,595)
Proportion of the Group's ownership interest	45%	45%
Share of net liabilities	(16,468)	(16,468)
Goodwill on acquisition	158,750	158,750
Impairment loss	(142,282)	(142,282)
	-	-

The associate has remained dormant since the financial year ended 31 March 2018, which the Group has fully impaired the investment. There is no unrecognised share of losses.

(Amounts in thousands of Hong Kong dollar ("$'000"))

9. DEFERRED TAX ASSETS / (LIABILITIES)

The components and movement of deferred tax assets and liabilities during the financial year / period prior to offsetting are as follows:

Deferred tax assets / (liabilities)	At beginning of the financial year / period	Recognised in profit or loss	Currency translation differences	At end of the financial year / period
	$'000	$'000	$'000	$'000
30 June 2020				
Net difference between net carrying amount of property, plant and equipment and their tax base	(658)	(130)	26	(762)
Capitalised expenditures	(1,185)	(252)	48	(1,389)
Allowance for impairment	1,643	8,724	(152)	10,215
Provision for warranty	126	-	(5)	121
	(74)	8,342	(83)	8,185
30 June 2019				
Net difference between net carrying amount of property, plant and equipment and their tax base	(549)	(162)	53	(658)
Capitalised expenditures	(938)	(340)	93	(1,185)
Allowance for impairment	112	1,581	(50)	1,643
Provision for warranty	190	(48)	(16)	126
	(1,185)	1,031	80	(74)

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised.

10. AMOUNT DUE FROM SUBSIDIARIES (NON-TRADE)

	Company	
	2020	2019
	$'000	$'000
Non-current		
Due from subsidiaries	215,988	211,413
Less: Expected credit losses [1] (Note 35(iii))	(215,988)	(106,906)
	-	104,507

Amounts due from subsidiaries that are not expected to be realised within twelve months after the reporting period are classified as non-current. These amounts are interest free, unsecured and do have fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

10. AMOUNT DUE FROM SUBSIDIARIES (NON-TRADE) (Continued)

(1) Any expected credit losses recognised are based on the assumption that the repayment of the amount is not likely, if demanded at the reporting date. As disclosed in Note 1, the financial position of the Company's key operating subsidiary, Guiyang Tech, has significantly deteriorated. As at 30 June 2020, Guiyang Tech is in a net current liability position of $43,306,000 (2019: net current asset position of $14,248,000), and has significant difficulties to make repayments, including amounts due from intermediate holding companies of Guiyang Tech.

As at reporting date and based on management's future forecasts in the short to medium term, the subsidiaries do not have accessible highly liquid assets and are not expected to generate sufficient net cash inflows for repayments. Accordingly, the amounts due from subsidiaries are assessed to be credit-impaired (Stage 3) and, correspondingly, additional ECL of $109,082,000 was recognised in the Company's profit or loss during the year. As at 30 June 2020, the amounts due from subsidiaries are fully impaired.

11. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Trade receivables				
- Third parties	16,908	24,068	-	-
- A related party	5,952	6,186	-	-
Less: Expected credit losses (Note 35(iii))	(22,326)	(2,347)	-	-
	534	27,907	-	-
Other receivables	1,175	1,117	-	-
Refundable deposits	-	4	-	-
Advances to Vendors (unsecured) (i)	-	11,486	-	11,486
Due from related parties (non-trade) (ii)	53	53	-	-
	1,762	40,567	-	11,486
Prepayments(iii)	19,065	19,058	92	118
	20,827	59,625	92	11,604

(i) Advances to Vendors (unsecured)

As disclosed in prior year's report, advances 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. This balance has been fully recovered.

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

These amounts are due from companies controlled by a key management personnel of the Group. These non-trade balances are interest-free, unsecured and repayable on demand.

(iii) 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 29) on prepayment for server equipment, due to uncertainty of recoverability as a result of change of business plan in 2019.

(Amounts in thousands of Hong Kong dollar ("$'000"))

12. AMOUNT DUE FROM ASSOCIATE (NON-TRADE)

	Group	
	2020	2019
	$'000	$'000
Due from associate	22,719	22,719
Less: Expected credit losses	(22,719)	(22,719)
	-	-

13. TRADE AND OTHER PAYABLES

	Group		Company	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Current				
Trade payables (i)	7,628	17,232	-	-
Other payables (ii)	13,184	18,097	1,940	5,001
Accruals	9,794	10,201	883	969
Amount due to directors (non-trade) (iii)	1,156	4,209	-	-
Amount due to related parties (non-trade) (iv)	4,333	245	-	-
Amount due to a subsidiary	-	-	16,045	4,668
	36,095	49,984	18,868	10,638
Non-current				
Trade payables (i)	-	24,109	-	-
Amount due to a director (non-trade) (v)	2,405	-	-	-
	2,405	24,109	-	-
	38,500	74,093	18,868	10,638

(i) As at 30 June 2019, included in current trade payables is an amount relating to the current portion of operating lease payables of $4,186,000, representing the maximum estimated contractual operating lease liabilities within 12 months after the reporting date, assuming rent-free period ends on 30 June 2020. The remaining operating lease payables as at 30 June 2019 amounting to $24,109,000 are classified as non-current trade payables. Upon initial adoption of IFRS 16 on 1 July 2019, the combined balance of operating lease payables amounting to $28,295,000 has been reclassified to lease liabilities.

(ii) Other payables consist of construction costs for the IDC in PRC amounting to approximately $1,431,000 (2019: $6,559,000), interest payable of $2,127,000 (2019: $3,683,000), and salary payable to employees of $235,000 (2019: $371,000).

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

13. TRADE AND OTHER PAYABLES (Continued)

(iii) Amount due to directors (non-trade) pertains to remuneration due to directors / former directors of the Company. These non-trade balances are interest-free, unsecured and repayable on demand. As disclosed in Note 37, the Company has repaid $75,000 in August 2020.

(iv) Amount due to related parties (non-trade) pertains to balances due to a key management personnel of the Group and companies controlled by this key management personnel. These balances are interest-free, unsecured and repayable on demand.

(v) Amount due to a director of the Company (non-trade) is interest-free, unsecured and repayable after 30 June 2021. As disclosed in Note 37, the Group has fully repaid this balance in August 2020.

Reconciliation of liabilities arising from financing activities

			Non-cash changes	
2020	**As at 1 July 2019**	**Financing cash flows**	**Others ***	**As at 30 June 2020**
	$'000	**$'000**	**$'000**	**$'000**
Amount due to directors (non-trade)				
- current	4,209	(253)	(2,800)	1,156
- non-current	-	625	1,780	2,405
Amount due to related parties				
- current	245	3,068	1,020	4,333
	4,454	3,440	-	7,894

			Non-cash changes	
2019	**As at 1 April 2018**	**Financing cash flows**	**Foreign exchange movement**	**As at 30 June 2019**
	$'000	**$'000**	**$'000**	**$'000**
Amount due to directors (non-trade)				
- current	6,085	(1,847)	(29)	4,209
Amount due to related parties				
- current	7,426	(7,181)	-	245
	13,511	(9,028)	(29)	4,454

* This relates to the reclassification of current portion of liabilities amounting to $1,780,000 due to the extension of the repayment date as disclosed in (v). An amount of $1,020,000 was reclassified as amount due to related parties as result of the resignation of a director during the year.

(Amounts in thousands of Hong Kong dollar ("$'000"))

14. PROVISION FOR WARRANTY

	Group	
	30 June 2020	30 June 2019
	$'000	$'000
At beginning of the financial year / period	838	1,266
Reversal	-	(322)
Currency translation differences	(31)	(106)
At end of the financial year / period	807	838

15. BORROWINGS

	Interest rate	Due within 1 year	Due after 1 year but less than 5 years	Total
		$'000	$'000	$'000
Group				
2020				
Loan 1 (Unsecured) – Fixed rate	8.28%	4,914	-	4,914
Loan 2 (Unsecured) – Fixed rate	15.00%	-	10,887	10,887
Loan 3(i) (Unsecured) – Fixed rate	15.00%	-	10,073	10,073
Loan 3(ii) (Unsecured) – Fixed rate	12.00%	3,094	-	3,094
		8,008	20,960	28,968
2019 (Reclassified) (Note 38)				
Loan 1 (Unsecured) – Fixed rate	8.28%	-	5,106	5,106
Loan 2 (Unsecured) – Fixed rate	15.00%	-	9,867	9,867
Redeemable convertible bond	12.00%	13,220	-	13,220
		13,220	14,973	28,193
Company				
2020				
Loan 3 (Unsecured) – Fixed rate	12.00%	3,094	-	3,094
2019				
Redeemable convertible bond	12.00%	13,220	-	13,220

Loan 1

This loan is obtained by a subsidiary, Guiyang Tech, from a PRC bank to finance its working capital, and is guaranteed by a related party, which provides continuous financial support to the Group and is controlled by a key management personnel of the Group. The Group is in the process of negotiations with the bank to roll over this loan before the repayment date of 26 March 2021.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

15. BORROWINGS (Continued)

Loan 2
The loan is due to a company controlled by a substantial shareholder of the Company ("Shareholder A"). The loan is unsecured and repayable on 30 November 2021 (2019: repayable from March to June 2021). As disclosed in Note 37, the Group has repaid $7,420,000 in August 2020.

Loan 3 and Redeemable convertible bonds

a) Redeemable convertible bonds

In November 2017, the Company issued redeemable convertible bonds (the "Bonds") at 12% interest per annum, denominated in Singapore dollar, at S$2,256,000 ("Nominal Value") to 2 individuals. In accordance with the terms of the agreement, the redemption price of the Bonds is agreed, using a fixed exchange rate between Hong Kong dollar and Singapore dollar. Consequently, the Nominal Value and redemption price are both agreed at $13,200,000 at inception. Interests shall be repayable quarterly or on a deferred due date up to maturity date. The Bonds are due for repayment two years from the issue date at their Nominal Value, together with interests, or conversion into shares of the Company at the holders' option at any time within the period commencing seven months from the issue date until the maturity date at agreed conversion rate of S$0.002 per ordinary share. The Company has the right, at any time within the period commencing thirteen months from issue date until the maturity date, 26 November 2019, to redeem all of the Bonds then outstanding at 100% of their Nominal Value, together with interests accumulated to date ("Redemption Right").

The fair value of the liability component is determined using a market interest rate for an equivalent non-convertible bond at the date of issue. The residual amount, representing the value of the equity conversion component, is immaterial as the 12% interest rate approximates market interest rate at date of inception. Management carried out an independent valuation of the redemption feature and concluded that the Redemption Right is not significant at inception and at 30 June 2019.

Upon maturity date of the Bonds, on 26 November 2019, the Company and the 2 individuals mutually agreed to restructure the Bonds into HKD denominated loans (Loan 3(i) and Loan 3(ii)) with zero transaction costs.

b) Loan 3

Loan 3(i) and 3(ii) are entered with the holders of the Bonds (the "Bond Holders"), of which Loan 3(i) is due to Shareholder A and Loan 3(ii) is due to another shareholder ("Shareholder B"). Both loans are unsecured, not convertible and repayable on 27 May 2020.

In March 2020, Shareholder A, the Company and a subsidiary, SinoCloud Group (HK) Limited ("SGHK"), have entered into a tripartite agreement to assign Loan 3(i) from the Company to SGHK and extended the repayment date to 30 November 2021 while other terms and conditions remain unchanged. Management has assessed and concluded that the effect of discounting is not material.

Loan 3(ii) was due on 27 May 2020 but the balance was fully repaid and settled in August 2020 without any penalty. Upon repayment in August 2020, Shareholder B has also granted the Company with a waiver of outstanding interests of the Bonds and Loan 3(ii) amounting to $245,000 and $277,000 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

15. BORROWINGS (Continued)

Reconciliation of liabilities arising from financing activities

2020	As at 1 July 2019 $'000	Financing cash flows $'000	Non-cash changes: Foreign exchange movement $'000	Non-cash changes: Reclassification from convertible bond to loan $'000	Non-cash changes: Others * $'000	As at 30 June 2020 $'000
Redeemable convertible bonds						
- current	13,220	-	-	(13,220)	-	-
Loans						
- current	-	-	-	3,094	4,914	8,008
- non-current	14,973	966	(191)	10,126	(4,914)	20,960
	28,193	966	(191)	-	-	28,968

2019 (Reclassified)	As at 1 April 2018 $'000	Financing cash flows $'000	Non-cash changes: Foreign exchange movement $'000	Non-cash changes: Others * $'000	As at 30 June 2019 $'000
Redeemable convertible bonds					
- current	-	-	-	13,220	13,220
- non-current	13,220	-	-	(13,220)	-
Loans					
- current	51,967	(46,868)	(3,099)	(2,000)	-
- non-current	4,074	9,216	(317)	2,000	14,973
	69,261	(37,652)	(3,416)	-	28,193

* "Others" relates to the reclassification of non-current portion of the liabilities due to the passage of time based on the maturity dates.

16. LEASE LIABILITIES

	Group 2020 $'000	Group 2019 $'000
Lease liabilities		
- Non-current	57,006	-

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

16. LEASE LIABILITIES (Continued)

In May 2014, a subsidiary, Guiyang Tech, entered into operating lease agreement with the landlord, a state-owned enterprise, to lease the IDC premises for 20 years. As set out in the lease agreement, rental charges for the first 10 years are fixed ("Fixed Rent") and rental charges for 11th year and beyond will be based on prevailing market rent and subject to mutual agreement ("Revised Rent"). In principal, the Revised Rent shall be no more than 50% higher than the Fixed Rent. In addition, Guiyang Tech is also entitled to a rental-free period since 2014 until receipt of notice from the landlord. The Group recognises right-of-use assets (Note 5) and corresponding lease liabilities according to IFRS16, based on management's best estimates which are revised half-yearly. As at 30 June 2020, management has yet to receive notice and expects the rent-free period to continue until 31 March 2021 (2019: 31 October 2020) onwards. Consequently, the Group reassessed the lease liabilities by reducing an amount of $3,676,000 with a corresponding decrease in ROU assets during the year.

The lease expenses amounting to $53,000 recognised in the profit or loss (Note 28(a)) during the year represents low value asset lease contracts.

Other than above mentioned, there is no potential exposure of future cash flows that are not included in lease liabilities as at 30 June 2020.

Reconciliation of liabilities arising from financing activities

			Non-cash changes			
2020	**Initial adoption of IFRS 16 as at 1 July 2019**	**Financing cash flows**	**Accretion of interest**	**Lease reassessment**	**Foreign exchange movement**	**As at 30 June 2020**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Lease liabilities						
- non-current	58,109	-	4,825	(3,676)	(2,252)	57,006

17. SHARE CAPITAL

	30 June 2020		30 June 2019	
Group and Company	Number of ordinary shares of $0.001 each	$'000	Number of ordinary shares of $0.001 each	$'000
Authorised				
At beginning and end of the financial year / period	100,000,000,000	100,000	100,000,000,000	100,000
Issued and fully paid				
At beginning and end of the financial year / period	14,310,670,617	14,311	14,310,670,617	14,311

As at 30 June 2020, the ordinary shares of the Company carry par value of $0.001 each (2019: $0.001 each). The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

(Amounts in thousands of Hong Kong dollar ("$'000"))

18. SHARE PREMIUM

	Group and Company	
	30 June 2020	30 June 2019
	$'000	$'000
At beginning and end of the financial year / period	473,003	473,003

19. CONTRIBUTED SURPLUS

	Group and Company	
	30 June 2020	30 June 2019
	$'000	$'000
Capital Reorganisation 2010 (i)		
At beginning and end of the financial year / period	43,348	43,348
Capital Reorganisation 2015 (ii)		
At beginning and end of the financial year / period	(26,892)	(26,892)
Total contributed surplus	16,456	16,456

(i) Capital Reorganisation 2010

By a special resolution passed on 30 April 2010, the authorised share capital of the Company was changed from 900,000,000 shares at par value of $0.20 each to 3,600,000,000 shares at par value of $0.05 each. The issued and paid up share capital of the Company was reduced from $112,928,000 (564,640,474 shares at par value of $0.20 each) to $28,232,000 (564,640,474 shares at par value of $0.05 each). As a result of the capital reduction, the difference of $84,696,000 arising from the capital reorganisation was credited to the contributed surplus account of which $41,348,000 was utilised in 2010 to set off against the accumulated losses.

(ii) Capital Reorganisation 2015

By a special resolution passed on 7 November 2014, the authorised share capital of the Company was changed from 10,000,000,000 shares of par value of $0.05 each to 100,000,000,000 shares of par value of $0.001 each. The issued and paid up share capital of the Company was reduced from $263,476,000 (5,269,523,474 shares at par value of $0.05 each) to $5,270,000 (5,269,523,474 shares at par value of $0.001 each). As a result of the capital reduction, the difference of $258,206,000 arising from the capital reorganisation was credited to the contributed surplus account, resulting in a total amount of $301,554,000 in the contributed surplus account, of which approximately $285,098,000 was utilised to set off against accumulated losses.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

20. TRANSLATION DEFICIT

	Group	
	30 June 2020	30 June 2019
	$'000	$'000
At beginning of the financial year / period	(341)	10,894
Currency translation difference	(6,592)	(18,390)
Less: Non-controlling interests	2,151	7,155
At end of the financial year / period	(4,782)	(341)

21. STATUTORY RESERVE

	Group	
	30 June 2020	30 June 2019
	$'000	$'000
At beginning of the financial year / period	6,454	4,961
Allocation of 10% of statutory after-tax profit (PRC) (Note 24)	612	1,493
At end of the financial year / period	7,066	6,454

In accordance with the Company Law applicable to the subsidiaries in the PRC, the subsidiaries are required to make an appropriation to a statutory reserve ("SR"). At least 10% (2019: 10%) of the statutory after-tax profits, as determined in accordance with the applicable PRC accounting standards and regulations, must be allocated to the SR.

If the cumulative total of the SR reaches 50% (2019: 50%) of the subsidiaries' registered capital, the subsidiaries will not be required to make any further appropriation. Subject to approval from the relevant PRC authorities, the SR may be used to offset any accumulated losses or increase the registered capital of the subsidiaries. The SR is not available for dividend distribution to shareholders. The SR is non-distributable and the transfer to the SR must be made before the distribution of dividends to shareholders.

22. REVALUATION RESERVE

	Group	
	30 June 2020	30 June 2019
	$'000	$'000
At beginning and end of the financial year / period	98	98

23. OTHER RESERVE

	Group	
	30 June 2020	30 June 2019
	$'000	$'000
At beginning and end of the financial year / period	15,120	15,120

(Amounts in thousands of Hong Kong dollar ("$'000"))

23. OTHER RESERVE (Continued)

In the financial year ended 31 March 2018, the Company acquired additional equity interest of 19% in non-controlling interest of SinoCloud 01 Limited which was completed on 6 October 2017 and become a wholly owned subsidiary of the Group.

24. ACCUMULATED LOSSES

	Group		Company	
	30 June 2020 $'000	30 June 2019 $'000	30 June 2020 $'000	30 June 2019 $'000
At beginning of the financial year / period	(289,210)	(259,241)	(351,351)	(329,914)
Loss for the financial year / period	(105,385)	(28,193)	(117,177)	(21,437)
Allocation of 10% of statutory after- tax profit (PRC) (Note 21)	(612)	(1,493)	-	-
Effect of initial adoption of IFRS 9	-	(283)	-	-
Effect of initial adoption of IFRS 16	(1,089)	-	-	-
At end of the financial year / period	(396,296)	(289,210)	(468,528)	(351,351)

25. REVENUE

(a) Disaggregation of revenue

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major type of goods and services.

		Group	
		1 July 2019 to 30 June 2020 $'000	1 April 2018 to 30 June 2019 $'000
Revenue from contracts with customers			
Revenue from data centre service	Over time	32,341	58,739
Outsourcing data centre service income	Over time	-	3,617
Sales of equipment	Point in time	25	-
Project revenue	Over time	352	-
Other service fee	Over time	191	-
		32,909	62,356
Other revenue			
Operating lease income		344	2,339
		33,253	64,695

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

25. REVENUE (Continued)

(a) Disaggregation of revenue (Continued)

Contracts with customers are signed for initial terms of 12 to 24 months with fixed consideration, and are renewed or modified upon expiry, unless the contracts are terminated. Payment is typically due quarterly or half yearly when the service is provided. No upfront fee is received from customers.

All revenues are derived from PRC.

(b) Contract balances

Information about contract balances with customers is disclosed as follows:

	Group	
	2020	2019
	$'000	$'000
Trade receivables	534	27,907
Contract assets (i)	-	36,241
Contract liabilities (ii)	152	755

(i) Contract assets

Contract assets relate primarily to the Group's right to consideration for work completed but not billed at the reporting date in respect of its business. The contract assets are transferred to trade receivables when the rights become unconditional. This usually occurs when the Group invoices the customer.

Management assessed that the gross balance of $35,639,000 is credit-impaired and full ECL allowance (2019: $237,000) has been made (Note 35(iii)).

(ii) Contract liabilities

Contract liabilities are mainly advances received from customers.

The contract liabilities are recognised as revenue when the Group fulfils its performance obligation under the contract with the customer. The significant changes in the contract liabilities during the financial period are as follows:

	Group	
	30 June 2020	30 June 2019
	$'000	$'000
Revenue recognised that was included in contract liabilities at the beginning of the financial year / period	755	4,972

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

26. EMPLOYEE BENEFIT EXPENSES

	Group	
	1 July 2019 to 30 June 2020 $'000	1 April 2018 to 30 June 2019 $'000
Salaries and allowances *	4,440	11,022
Contributions to defined contribution plans *	18	45
Other welfare and benefits	33	57
	4,491	11,124

* Employee benefit expenses include directors' remuneration as disclosed in Note 32.

27. OTHER INCOME

	Group	
	1 July 2019 to 30 June 2020 $'000	1 April 2018 to 30 June 2019 $'000
Government grants	11	7,202
Waiver of liabilities*	716	1,682
Others	4	6
	731	8,890

* Amount includes the reversal of provision for directors' salary and directors' fees amounting to $355,000 (2019: $1,682,000), as 3 (2019: 2) of the Company's directors have agreed to reduce their remuneration for prior years. In addition, other payables amounting to $361,000 has been waived by a creditor during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

28(a). OTHER EXPENSES

	Group	
	1 July 2019 to 30 June 2020 $'000	1 April 2018 to 30 June 2019 $'000
Entertainment expenses	13	233
Software development expenses written off [i]	-	16,393
Subcontracting fee	-	956
Marketing expenses	-	2,349
Property, plant and equipment written off	-	4
Reversal of provision for warranty	-	(322)
Legal and professional fees	1,194	2,000
Travelling expenses	542	732
Audit fees	1,107	1,204
Utilities	7,536	7,943
Low value asset lease expenses	53	-
Others	1,152	1,451
	11,597	32,943

[i] In 2019, the Group terminated several contracts relating to software development with its respective vendors. Consequently, the Group had written off certain software development expenses of $16,393,000 in the statement of profit or loss.

28(b). FINANCE COST

	Group	
	1 July 2019 to 30 June 2020 $'000	1 April 2018 to 30 June 2019 $'000
Interest expense on		
- Redeemable convertible bonds	1,195	1,982
- Loans	2,516	2,217
- lease liabilities	4,825	-
	8,536	4,199

(Amounts in thousands of Hong Kong dollar ("$'000"))

29. LOSS BEFORE TAX

This is determined after charging the following:

	Group	
	1 July 2019 to 30 June 2020 $'000	1 April 2018 to 30 June 2019 $'000
Directors' remuneration		
- directors of the Company	720	2,693
Directors' fees		
- directors of the Company	360	985
Audit fees		
- auditors of the Company	960	1,029
- other auditors	147	174

30. INCOME TAX CREDIT / EXPENSE

Major components of income tax (credit) / expense for the financial period / year ended were:

	Group	
	1 July 2019 to 30 June 2020 $'000	1 April 2018 to 30 June 2019 $'000
Current income tax		
- current year	1,135	3,446
- under provision in the previous financial period	4,127	-
Deferred tax (Note 9)		
- current year	(8,342)	(1,031)
	(3,080)	2,415

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

30. INCOME TAX CREDIT / EXPENSE (Continued)

The reconciliation of the income tax (credit) / expense and the product of accounting loss multiplied by the applicable rate is as follows:

	Group	
	1 July 2019 to 30 June 2020 $'000	1 April 2018 to 30 June 2019 $'000
Loss before tax	(194,297)	(28,293)
Tax at the applicable tax rate of 16.5% (2019: 16.5%)	(32,059)	(4,668)
Tax effect of		
- different tax rates in other countries	939	203
- losses incurred in tax free jurisdiction	839	3,547
- expenses non-deductible for tax purposes	23,486	6,296
- non-taxable income	(412)	(2,963)
- under provision in the previous financial period	4,127	-
Tax (credit) / expense	(3,080)	2,415

The Company was incorporated under the laws of Bermuda. It has received an undertaking from the Ministry of Finance in Bermuda pursuant to the provisions of the Exempted Undertakings Tax Protection Act, 1966. This Act exempts the Company and its shareholders, other than shareholders ordinarily residing in Bermuda, from any Bermuda taxes computed on profit, income or any capital asset gain or appreciation, or any tax in the nature of estate duty or inheritance tax, at least until year 2035.

Hong Kong

The Group's profits derived in Hong Kong are subject to Hong Kong statutory tax at 16.5% (2019: 16.5%). No tax provision for Hong Kong profits was made, as there was no assessable profit derived in Hong Kong in the current and preceding years.

PRC

The subsidiaries in PRC are subject to corporate income tax of 25% (2019: 25%). One of the subsidiaries, Guiyang Zhongdian Gaoxin Digital Technologies Limited is entitled to 10% of tax rebate for taxable profit from its business activities in PRC according to the prevailing tax rules and regulation in PRC. The tax rebate will be subject to renewal. As the date of this report, the renewal application is in progress. Deferred tax provision is calculated based on the preferential tax rate at 15% which is expected to continue in the foreseeable future.

BVI

Subsidiaries incorporated under the laws of BVI are exempted from income tax.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

31. LOSS PER SHARE

(i) Basic loss per share

Basic loss per share is calculated by dividing the net loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year / period (Note 17):

	Group	
	1 July 2019 to 30 June 2020	1 April 2018 to 30 June 2019
Net loss attributable to equity holders of the Company ($'000)	(105,385)	(28,193)
Weighted average number of ordinary shares outstanding for basic loss per share for the financial year / period ('000)	14,310,671	14,310,671
Basic loss per share (cents)	(0.74)	(0.20)

(ii) Diluted loss per share

For the purpose of calculating diluted loss per share, loss attributable to equity holders of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares. There are no dilutive potential ordinary shares issued and / or granted during the current financial year.

There have been no transactions involving ordinary shares or potential ordinary shares subsequent to reporting date and before the authorisation of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

32. RELATED PARTY INFORMATION

Some of the arrangements with related parties (as defined in Note 3 above) and the effects of these bases determined between the parties are reflected elsewhere in this report. Transactions between the Company and its subsidiaries, which are related companies of the Company, have been eliminated on consolidation and are not disclosed in this Note. Details of transactions between the Group and other related parties are disclosed below.

	Group	
	1 July 2019 to 30 June 2020 $'000	1 April 2018 to 30 June 2019 $'000
Revenue from a related party *	5,869	10,319
Payment on behalf of a related party *	-	53
Advances to a key management personnel	156	-
Advances from / (repayment to) directors, net	372	(1,847)
Advances from / (repayment to) a related party *, net	3,068	(7,181)
Key management personnel compensation		
Directors of the Company		
- Salary and related costs	720	2,648
- Contribution to defined contribution plans	18	45
- Directors' fee	360	985
Other key management personnel		
- Salary and related costs	1,446	1,340
	2,544	5,018
Categories of total compensation:		
- Short-term employment benefits	2,526	4,973
- Post-employment benefits	18	45
	2,544	5,018

* Related parties pertain to companies controlled by a key management personnel of the Group.

The remuneration of directors is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. All directors of the Company and certain key employees of the Group are considered key management personnel.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

33. COMMITMENTS

(i) Future capital expenditure

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

	Group	
	2020	2019
	$'000	$'000
In respect of property, plant and equipment		
- less than one year	-	7,748
- later than one year but not later than two years	121,770	134,184
	121,770	141,932

(ii) Other contractual commitments

<u>As lessee</u>
As at 30 June 2020, the Group is committed to the following lease payments not included in lease liabilities:

	Group
	2020
	$'000
Short term leases	160

<u>As lessor</u>
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	
	2020	2019
	$'000	$'000
Future minimum lease receivables		
- Not later than 1 year	24	330

(iii) Non-cancellable operating lease commitments as at 30 June 2019 (IAS 17)

<u>As lessee</u>
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
	2019
	$'000
Future minimum lease payments:	
- Less than one year	5,915
- Later than one year and not later than five years	28,104
- Later than five years	49,620
	83,639

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

34. SEGMENT INFORMATION

The Group has 1 reportable segment, as described below, which is the Group's strategic business unit. The Group's CEO (the chief operating decision maker) reviews internal management reports on a quarterly basis. The following summary describes the operation in the Group's reportable segments:

- Internet data centre services: Provision of a high-performance internet data centre, cloud computing and big data services in the PRC.
- Other business operations include investment holding and is categorised as "All other segments".

Information regarding the results of each reportable segment is included below. Performance is measured based on segment results as included in the internal management reports that are reviewed by the Group's CEO. All other segments' items include the followings:

- Expenses comprise mainly head office expenses.
- Assets comprise mainly other receivables (2019: other receivables and deposits paid for a proposed acquisition).
- Liabilities comprise mainly borrowings, amount due to directors and salary and other head office expenses payables.

Business segments

2020	Internet data centre services	All other segments	Total
	$'000	$'000	$'000
Revenue from external parties	33,253	-	33,253
Segment loss	(180,018)	(5,743)	(185,761)
Finance costs			(8,536)
Loss before tax			(194,297)
Income tax credit			3,080
Loss for the financial period			(191,217)
Segment assets	242,003	639	242,642
Segment liabilities	101,245	31,882	133,127
Other segment items			
Capital expenditure	11,849	-	11,849
Depreciation of property, plant and equipment	7,633	-	7,633
Depreciation of right-of-use asset	2,572	-	2,572
Amortisation of intangible assets	3,101	-	3,101
Impairment loss of:			
- financial assets	58,158	-	58,158
- intangible assets	124,779	-	124,779
Other income - waiver of liabilities	-	716	716

(Amounts in thousands of Hong Kong dollar ("$'000"))

34. SEGMENT INFORMATION (Continued)

Business segments (Continued)

2019	Internet data centre services	All other segments	Total
	$'000	$'000	$'000
Revenue from external parties	64,695	-	64,695
Segment loss	(12,722)	(11,372)	(24,094)
Finance costs			(4,199)
Profit / (Loss) before tax			(28,293)
Income tax			(2,415)
Profit / (Loss) for the financial period			(30,708)
Segment assets	407,493	12,638	420,131
Segment liabilities	78,378	32,620	110,998
Other segment items			
Capital expenditure	6,884	-	6,884
Depreciation of property, plant and equipment	11,865	-	11,865
Amortisation of intangible assets	12,062	-	12,062
Software development expenses written off	16,393	-	16,393
Impairment loss of:			
- financial assets	1,660	-	1,660
- prepayments	8,594	-	8,594
Other income - waiver of liabilities	-	1,682	1,682

Information about major customers – internet data centre services segment

Revenue of approximately $15,025,000 (2019: $38,890,000), or 45% (2019: 60%) of the Group's total revenue, is derived from a single external customer. As disclosed in Note 32, the Group generated revenue from internet data centre services rendered to a related party, amounting to approximately $5,869,000 (2019: $10,319,000). In addition, revenue from two other major customers amounted to $3,913,000 (2019: $5,159,000) and $3,652,000 (2019: $4,815,000) respectively.

Geographical information

The Group's two business segments operate in the following geographic areas:

- Hong Kong – The operations in this area include investment holding, treasury functions and provision of administrative and management services.
- PRC – The operations in this area are the provision of internet data centre service.

All the revenue and non-current assets are derived from and held by a subsidiary located in PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

35. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include market risk (including foreign exchange risk and interest rate risk), liquidity risk and credit risk. The Board of Directors reviews and agrees policies and procedures for the management of these risks. The Audit Committee provides independent oversight to the effectiveness of the risk management process. It is the Group's policy not to trade in derivative contracts.

(i) Market risk

(a) Foreign exchange risk

The Group operates mainly in Hong Kong and PRC and the Group has transactional currency exposures arising from borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily with respect to Singapore dollar.

Currently, the PRC government imposes control over foreign currencies. Chinese Renminbi, the official currency in the PRC, is not freely convertible. Enterprises operating in the PRC can enter into exchange transactions through the People's Bank of China or other authorised financial institutions.

The Group is also exposed to currency translation risk arising from its net investments in foreign operations mainly in China. The Group's net investments in China are not hedged as currency position in Chinese Renminbi are considered to be long term in nature.

Group **30 June 2020**	Hong Kong dollar	Chinese Renminbi	Singapore dollar	United States dollar	Total
	$'000	$'000	$'000	$'000	$'000
Financial assets					
Trade and other receivables	1,228	534	-	-	1,762
Cash and bank balances	47	255	-	1	303
	1,275	789	-	1	2,065
Financial liabilities					
Trade and other payables	6,519	30,672	1,309	-	38,500
Borrowings	24,054	4,914	-	-	28,968
Lease liabilities	-	57,006	-	-	57,006
	30,573	92,592	1,309	-	124,474
Net financial (liabilities) / assets	(29,298)	(91,803)	(1,309)	1	(122,409)
Less: Net financial liabilities denominated in the respective entities' functional currencies	29,298	91,803	245[(i)]	-	121,346
Foreign currency exposure	-	-	(1,064)	1	(1,063)

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

35. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Group **30 June 2019 (Reclassified)**	Hong Kong dollar	Chinese Renminbi	Singapore dollar	United States dollar	Total
	$'000	$'000	$'000	$'000	$'000
Financial assets					
Trade and other receivables	12,660	27,907	-	-	40,567
Contract assets	-	36,241	-	-	36,241
Cash and bank balances	501	70	-	1	572
	13,161	64,218	-	1	77,380
Financial liabilities					
Trade and other payables	5,208	65,339	3,546	-	74,093
Borrowings	9,867	5,106	13,220	-	28,193
	15,075	70,445	16,766	-	102,286
Net financial (liabilities) / assets	(1,914)	(6,227)	(16,766)	1	(24,906)
Less: Net financial liabilities denominated in the respective entities' functional currencies	1,914	6,227	16,558[i]	-	24,699
Foreign currency exposure	-	-	(208)	1	(207)

[i] Redeemable convertible bonds (Note 15) were issued at a total amount of S$2,256,000, which the Group has agreed with the bond holders to settle the amount, at a fixed exchange rate, of $13,220,000. As a result, redeemable convertible bonds amounting to $13,220,000 and the corresponding interest payables will not be subjected to foreign exchange risk.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

35. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Company **30 June 2020**	Hong Kong dollar	Singapore dollar	Total
	$'000	$'000	$'000
Financial liabilities			
Trade and other payables	17,559	1,309	18,868
Borrowings	3,094	-	3,094
	20,653	1,309	21,962
Net financial liabilities	(20,653)	(1,309)	(21,962)
Less: Net financial liabilities denominated in the Company's functional currency	20,653	245[(i)]	20,898
Foreign currency exposure	-	(1,064)	(1,064)

Company **30 June 2019 (Reclassified)**	Hong Kong dollar	Singapore dollar	Total
	$'000	$'000	$'000
Financial assets			
Other receivables	11,486	-	11,486
Amount due from subsidiaries	104,507	-	104,507
	115,993	-	115,993
Financial liabilities			
Trade and other payables	7,092	3,546	10,638
Borrowings	-	13,220	13,220
	7,092	16,766	23,858
Net financial assets / (liabilities)	108,901	(16,766)	92,135
Less: Net financial (assets) / liabilities denominated in the Company's functional currency	(108,901)	16,558[(i)]	(92,343)
Foreign currency exposure	-	(208)	(208)

(Amounts in thousands of Hong Kong dollar ("$'000"))

35. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

Foreign exchange risk sensitivity

The following table details the sensitivity to a 10% (2019: 10%) increase and decrease in the Hong Kong dollar against the relevant foreign currencies. 10% (2019: 10%) represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the financial period end for a 10% (2019: 10%) change in foreign currency rates.

If the Hong Kong dollar strengthens by 10 % (2019: 10%) against the relevant foreign currency (Singapore dollar), with all other variables held constant, loss for the financial year / period, net of tax will increase / (decrease) by:

	Group	Company
	$'000	$'000
2020		
Loss for the financial year	(89)	(89)
2019		
Loss for the financial period	(17)	(17)

A 10% (2019: 10%) weakening of Hong Kong dollar against the relevant foreign currency at the reporting date would have had the equal but opposite effect on the above currencies to the amount shown above, on the basis that all other variables remains constant.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

35. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(b) Interest rate risk

The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure. The Group constantly monitors its interest rate risk and does not utilise interest rate swap or other arrangements for trading or speculative purposes. As at 30 June 2020, there were no such arrangements, interest rate swap contracts or other derivative instruments outstanding.

Other than the cash and bank balances, borrowings, and lease liabilities, the Group and the Company do not have financial instruments exposed to interest rate risk as at 30 June 2020. The Group adopts a policy of ensuring that over 90% of its exposure to changes in interest rates on borrowings is on a fixed rate basis. The Group's finance lease obligations are on fixed rate basis for the financial year presented.

The following table sets out the carrying amount, of the Group's financial instruments, that are exposed to interest rate risk:

	Group		Company	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
		(Reclassified)		(Reclassified)
		(Note 38)		(Note 38)
Later than 5 years – fixed rates				
Financial liabilities				
Lease liabilities (Note 16)	47,812	-	-	-
Between 2 to 5 years – fixed rates				
Financial liabilities				
Borrowings (Note 15)	20,960	14,973	-	-
Lease liabilities (Note 16)	9,194	-	-	-
Within 1 year – fixed rates				
Financial liabilities				
Borrowings (Note 15)	8,008	13,220	3,094	13,220
Within 1 year – floating rates				
Financial assets				
Cash and bank balances	303	572	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

35. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(i) Market risk (Continued)

(b) Interest rate risk (Continued)

Interest in financial instruments subject to floating interest rates is repriced regularly. Interests on financial instruments at fixed rates are fixed until the maturity of the instruments. The other financial instruments of the Group that are not included in the above table are not subject to interest rate risks.

As the impact of changes in interest rates on the Group's financial instruments is minimal, sensitivity analysis is not being prepared.

(ii) Liquidity risk

The Group monitors its liquidity risk and maintains a level of cash and bank balances deemed adequate by management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows. Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. Management monitors rolling forecasts of the Group's and the Company's liquidity reserve, cash and bank balances on the basis of expected cash flows.

As at 30 June 2020, the Group has cash and bank balances deposited with banks in the PRC denominated in RMB amounting to $225,000 (equivalent to RMB 205,000) (2019: $451,000 (equivalent to RMB 361,000)). The RMB is not freely convertible into other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of settlement, sale and payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks that are authorised to conduct currency exchange business.

The following tables detail the remaining contractual maturity for financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and Company can be required to pay.

Group	On demand or not later than 1 year	Between 1 and 2 years	Between 2 and 5 years	Later than 5 years	Total
	$'000	$'000	$'000	$'000	$'000
2020					
Non-derivative instruments					
Trade and other payables	36,095	2,405	-	-	38,500
Borrowings	11,459	22,397	-	-	33,856
Lease liabilities	4,028	8,056	24,168	66,462	102,714
	51,582	32,858	24,168	66,462	175,070

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

35. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(ii) Liquidity risk (Continued)

Group	On demand or not later than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	$'000	$'000	$'000	$'000
2019 (Reclassified)				
Non-derivative instruments				
Trade and other payables	49,984	8,372	15,737	74,093
Borrowings	20,202	12,523	-	32,725
	70,186	20,895	15,737	106,818

Company	On demand or not later than 1 year
	$'000
2020	
Non-derivative instruments	
Trade and other payables	18,868
Borrowings	3,094
	21,962
2019 (Reclassified)	
Non-derivative instruments	
Trade and other payables	10,638
Borrowings	13,220
	23,858

(Amounts in thousands of Hong Kong dollar ("$'000"))

35. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group.

The carrying amounts of contract assets, trade and other receivables, and cash and bank balances, represent the Group's maximum exposure to credit risk in relation to financial assets. No other financial assets carry a significant exposure to credit risk.

Cash and bank balances are placed with reputable financial institutions. Therefore, credit risk arises mainly from the inability of its customers to make payments when due. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit history. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties.

The Group's trade receivables are non-interest bearing and are generally on 30 days (2019: 30 days) term. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

At the end of the reporting date, the Group has trade receivables and contract assets (gross carrying amount) amounting to $7,005,000 and $32,120,000 (2019: $17,062,000 and $35,767,000) respectively that are due from the Group's single largest customer, representing a significant credit risk exposure to the Group.

The Group and Company do not hold any collateral, the maximum exposure to credit risk for each class of financial instrument is the carrying amount of that class of financial instruments presented on the statement of financial position.

The credit risk for trade receivables, contract assets and other receivables (excluding prepayments), net of allowance for impairment loss, based on the information provided to key management is as follows:

	Group	
	2020	2019
	$'000	$'000
By geographical areas		
- Hong Kong	467	96
- People's Republic of China	1,295	76,712
	1,762	76,808

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

35. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

Expected Credit Losses

The Group manages credit losses based on Expected Credit Losses (ECL) model.

(A) Trade receivables, contract assets and amount due from associate

The Group's exposure to credit risk from trade receivables and contract assets are linked to the individual characteristics of each customer, and also influenced by the default risk specific to the industry brought about by the general economic condition.

The Group uses qualitative and quantitative information like historical credit loss experience, profile of customers and historical repayment trends and adjusted with forward-looking factors, to assess ECL for individual customers / counterparties.

A summary of the Group's exposures to credit risk for trade receivables, contract assets and amount due from associate is as follows:

	Gross carrying amount					
Group **30 June 2020**	Trade receivables $'000	Contract assets $'000	Total $'000	Probability of default rate %	ECL allowance $'000	Total $'000
Trade						
Major customers (credit impaired)						
- Customer A	7,005	32,120	39,125	100.00	(39,125)	-
- Customer B	5,952	3,519	9,471	100.00	(9,471)	-
- Customer C	6,176	-	6,176	100.00	(6,176)	-
- Customer D	3,193	-	3,193	100.00	(3,193)	-
Other customers	534	-	534	-	-	534
	22,860	35,639	58,499		(57,965)	534
Non-trade						
Amount due from associate			22,719	100.00	(22,719)	-
			81,218		(80,684)	534

35. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

Expected Credit Losses (Continued)

(A) Trade receivables, contract assets and amount due from associate (Continued)

Customer A

In June 2019, the Group entered into a repayment plan with the Customer A to settle the total balance due from this customer of $52,829,000, comprise of trade receivables of $17,062,000 and contract assets of $35,767,000 by 30 June 2020 ("Repayment Agreement"). Due to the negative impact of COVID-19 and financial difficulties suffered by Customer A, Customer A defaulted on the repayment schedule since February 2020. As of date of this report, there are no receipts from this customer subsequent to year end, and the Group is in the process of negotiating a revised repayment schedule and has not reached an agreement with Customer A. Accordingly, management provided full impairment on the credit impaired balances due from Customer A amounting to $39,125,000 (2019: $343,000) as at 30 June 2020.

Customer B

As at 30 June 2020 and date of this report, balance due from Customer B, a related party, amounted to $9,471,000 (2019: $6,896,000), comprise of trade receivables of $5,952,000 (2019: $6,186,000) and contract assets of $3,519,000 (2019: $710,000). In March 2020, as a result of COVID-19 impact, the Group entered into a termination contract and ended the Group's Internet data centre services on 31 March 2020. The progress of recovery is unsatisfactory and the Group and Customer B have yet to agree on a definite date for repayment. Consequently, management provided full impairment on the credit impaired balances due from Customer B amounting to $9,471,000 (2019: $45,000) as at 30 June 2020. As of date of this report, there are no receipts from this customer subsequent to year end.

Customer C and Customer D

Both Customer C and Customer D have exceeded historical collection trend and failed to engage in repayment plans with the Group. The default rates are based on the Group's historical credit loss experience, management's profiling of customers by credit risk characteristics, and are adjusted for forward-looking factors specific to the debtors and the economic environment. In addition, management has also considered forward-looking adjustment to the historical default rate arising from COVID-19. As of date of this report, there are no receipts from these customers subsequent to year end.

Other customers

Management is of the view that ECL on trade receivables due from other customers is minimal as at 30 June 2020.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

35. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

Expected Credit Losses (Continued)

(A) Trade receivables, contract assets and amount due from associate (Continued)

Group **30 June 2019**	Gross carrying amount $'000	Probability of default rate %	ECL allowance $'000	Total $'000
Trade receivables - credit impaired [(i)]	2,161	100.00	(2,161)	-
Trade receivables - others [(ii) (iii)]	28,093	0.65 – 0.79	(186)	27,907
	30,254		(2,347)	27,907
Contract assets [(iii) (iv)]	36,478	0.65	(237)	36,241
Amount due from associate	22,719	100.00	(22,719)	-
	89,451		(25,303)	64,148

(i) Trade receivables classified as credit impaired are customers, who have exceeded historical collection trend and failed to engage in repayment plans with the Group.

(ii) Other than classified as credit impaired, the Group computes ECL using probability of default (PD) ratings from an external credit rating agency, multiplied by the exposure at default and loss given default.

The Group considers a trade receivable or contract asset to be in default when the customer is unlikely to pay its credit obligation in full, without recourse by the Group.

(iii) In June 2019, the Group has entered into a repayment agreement with the Group's single largest customer to fully settle all outstanding balance of trade receivables of $17,062,000 and contract assets of $35,767,000 by 30 June 2020.

(iv) The contract assets relate to unbilled receivables, which have substantially the same credit risk characteristics as the trade receivables. The Group has therefore concluded that the expected loss rates for trade receivables are reasonable approximation of the loss rates for the contract assets.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

35. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

Expected Credit Losses (Continued)

(A) Trade receivables, contract assets and amount due from associate (Continued)

The movement of the ECL on trade receivables, contract assets and amount due from associate are as follows:

	Group		
	Individual impairment - Not credit impaired $'000	Individual impairment - Credit impaired $'000	Total $'000
As at 1 April 2018	283	23,469	23,752
ECL allowance recognised during the financial period			
- new assets originated	140	1,520	1,660
Currency translation differences	-	(109)	(109)
As at 30 June 2019	423	24,880	25,303
As at 1 July 2019	423	24,880	25,303
ECL allowance recognised during the financial year			
- new assets originated	-	29,371	29,371
- changes in credit risk	-	28,787	28,787
- transfer	(423)	423	-
- bad debt written off	-	(2,161)	(2,161)
Currency translation differences	-	(616)	(616)
As at 30 June 2020	-	80,684	80,684
<u>Allowance for impairment loss consist of:</u>			
- trade receivables (Note 11)	186	2,161	2,347
- amount due from associate (Note 12) *	-	22,719	22,719
- contract assets (Note 25)	237	-	237
As at 30 June 2019	423	24,880	25,303
- trade receivables (Note 11)	-	22,326	22,326
- amount due from associate (Note 12) *	-	22,719	22,719
- contract assets (Note 25)	-	35,639	35,639
As at 30 June 2020	-	80,684	80,684

(Amounts in thousands of Hong Kong dollar ("$'000"))

35. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iii) Credit risk (Continued)

Expected Credit Losses (Continued)

(A) Trade receivables, contract assets and amount due from associate (Continued)

* Fully impaired since financial year ended 31 March 2018 as the associate is in net liabilities position with no revenue generating activities.

(B) Amount due from subsidiaries

The table below details the credit quality of the amount due from subsidiaries of the Company:

Company	Stage 2 / Stage 3 ECL	Gross carrying amount	Loss allowance	Net carrying amount
		$'000	$'000	$'000
2020				
Amount due from Guiyang Tech and its intermediate holding companies	Stage 3	200,571	(200,571)	-
Amount due from other subsidiaries	Stage 3	15,417	(15,417)	-
		215,988	(215,988)	-
2019				
Amount due from Guiyang Tech and its intermediate holding companies	Stage 2	197,569	(93,062)	104,507
Amount due from other subsidiaries	Stage 3	13,844	(13,844)	-
		211,413	(106,906)	104,507

As disclosed in Note 10, due to significant deterioration of financial performance and net liabilities position, the amounts due from Guiyang Tech and its intermediate holding companies are considered credit-impaired as at 30 June 2020.

(C) Other receivables and cash and bank balances

In 2019, management assessed ECL on advances and earnest deposits to vendors of China Satellite Group as at 30 June 2019 (Note 11), making reference to statistical data of the delinquency rates of personal loans in the PRC. Based on the ECL assessment, management concluded the credit risk is insignificant and did not provide for ECL. In 2020, these balances are fully recovered.

In addition to above, management assessed that other receivables and cash and bank balances have minimal credit risks and the ECL on these financial assets are insignificant for both 30 June 2020 and 30 June 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

35. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

(iv) Financial instruments by category

The carrying amount of the different categories of financial instruments is as follows:

	Group		Company	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Financial assets				
Financial assets at amortised cost	2,065	77,380	-	115,993
Financial liabilities				
Financial liabilities at amortised cost	124,474	102,286	21,962	23,858

Capital risk management policies and objectives

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes borrowings, lease liabilities and loans from related parties disclosed in Note 15 and Note 16, net of cash and bank balances, and equity attributable to equity holders of the Company, comprising issued capital, reserves and accumulated losses as disclosed in Note 17 to Note 24. The Group's and Company's strategies, which were unchanged from 2019, are to maintain a strong capital base so as to maintain market confidence and to sustain future development of the business.

The Board of Directors reviews the capital structure on an annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debts.

Except as mentioned above and disclosed in Note 21, neither the Company nor any of the subsidiaries are subject to externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2020
(Amounts in thousands of Hong Kong dollar ("$'000"))

36. FAIR VALUES OF FINANCIAL INSTRUMENTS

(i) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value

As at 30 June 2019, except for disclosed in (ii) below, and as at 30 June 2020, the fair values of financial assets and liabilities carried at amortised cost approximate their carrying amounts.

(ii) Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are not reasonable approximation of fair value

Group	$'000
2019	
Non-current operating lease payables (under IAS 17)	
- Carrying value (Note 13)	24,109
- Fair value	18,414

The fair value of the non-current operating lease payables (under IAS 17) is estimated by discounting expected future cash flows at market interest rate as at 30 June 2019.

37. EVENTS AFTER THE REPORTING PERIOD

A) Impact of COVID-19 outbreak

The impact of the COVID-19 outbreak on public life and industry in various countries, including the jurisdictions in which the Group operates, affects the demand of the Group's services and results in a negative impact on the financial performance of the Group in the current financial year and is not expected to reverse / improve in coming financial years. Despite signs of China's economy slowly opening as COVID-19 situation is brought under control, it is not possible to estimate the full impact of the outbreak's near-term or longer effects. The scale and duration of these developments remain uncertain as at the date of this report as it remains challenging to predict the financial impact of the COVID-19 pandemic to the business.

Other than COVID-19 impact disclosed in Note 1 to the financial statements, there are no subsequent significant developments which would materially affect the Group's and the Company's operating and financial performance or any adjusting events that provide evidence of conditions that existed at 30 June 2020, as of the date of this report.

The Group will closely monitor the development of the pandemic and continuously assess the potential impact on its operations.

B) Subsequent issuance of SGHK Bonds

In August 2020, the Group, through its subsidiary, SGHK, entered into a bond subscription agreement with Shareholder A and issued bonds of $15,000,000 at 6% interest per annum ("SGHK Bonds"). Interest on the SGHK Bonds shall be payable annually, commencing 12 months after the date of issue. The SGHK Bonds are unsecured, non-convertible and mature on 18 August 2021 ("Maturity Date"). There is no right of redemption prior to the Maturity Date. SGHK has the right, with at least fifteen days' notice to Shareholder A, to redeem all or part of the outstanding SGHK Bonds at 100% of the principal amount, together with all accrued and unpaid interests accumulated to date ("SGHK Redemption Right").

(Amounts in thousands of Hong Kong dollar ("$'000"))

37. EVENTS AFTER THE REPORTING PERIOD (Continued)

C) Subsequent settlement of loans

In August 2020, the proceeds received from SGHK Bonds were utilised to repay balances due to directors (current) and due to a director (non-current), amounting to $75,000 and $2,405,000 respectively (Note 13) and to repay Loan 2 and Loan 3(ii) amounting to $7,420,000 and $3,094,000 respectively (Note 15).

38. PRIOR YEAR RECLASSIFICATION

To enhance comparability with the current year's financial statements, certain line items have been amended on the face of the consolidated statement of financial position of the Group and the statement of financial position of the Company, the consolidated statement of profit or loss and other comprehensive income, and the related notes to the financial statements. Comparative figures have been adjusted to conform with the current period's presentation.

The key impact on consolidated statement of financial position of the Group and the statement of financial position of the Company are as follows:

Group **2019**	As previously reported	Prior year reclassifications	As reclassified
	$'000	$'000	$'000
Statement of financial position			
Borrowings – current (Note 15)	-	13,220	13,220
Redeemable convertible bonds - current	13,220	(13,220)	-
Borrowings - non-current (Note 15)	5,106	9,867	14,973
Loans from a shareholder - non-current	9,867	(9,867)	-

Company **2019**	As previously reported	Prior year reclassifications	As reclassified
	$'000	$'000	$'000
Statement of financial position			
Borrowings - current (Note 15)	-	13,220	13,220
Redeemable convertible bonds - current	13,220	(13,220)	-

STATISTICS OF SHAREHOLDINGS

As at 15 September 2020

Share Capital

Authorised share capital	– HK$100,000,000
Issued and fully paid-up share capital	– HK$14,310,670.62
No. of ordinary shares (excluding treasury shares)	– 14,310,670,617
No. of treasury shares held	– Nil
No. of subsidiary holdings	– Nil
Class of shares	– Ordinary shares of HK$0.001 each
Voting rights	– On a show of hands: 1 vote for each shareholder
	– On a poll: 1 vote for each ordinary share

Percentage of Shareholdings in hands of Public

Based on information available to the Company as at 15 September 2020, approximately 57.84% of the issued ordinary shares of the Company was held by the public as defined in the Singapore Exchange Securities Trading Limited Listing Manual Section B: Rules of Catalist ("**Catalist Rules**"). Accordingly, the Company has complied with Rule 723 of the Catalist Rules which requires at least 10% of the total number of issued ordinary shares to be held by the public.

Analysis Of Shareholdings

Range of shareholdings	No. of shareholders	%	No. of shares	%
1 – 99	1	0.02	88	0.00
100 – 1,000	55	1.33	45,898	0.00
1,001 – 10,000	581	14.06	3,573,000	0.02
10,001 – 1,000,000	2,991	72.37	704,902,848	4.93
1,000,001 and above	505	12.22	13,602,148,783	95.05
	4,133	**100.00**	**14,310,670,617**	**100.00**

Twenty Largest Shareholders

No.	Name	No. of shares	%
1	DBS Vickers Securities (S) Pte Ltd	5,950,643,602	41.58
2	Lim And Tan Securities Pte Ltd	2,658,328,532	18.58
3	Raffles Nominees (Pte) Limited	280,429,800	1.96
4	Zhang Dai	260,000,000	1.82
5	Phillip Securities Pte Ltd	244,428,834	1.71
6	Qin Rupeng	217,500,000	1.52
7	Bi Wei Na	156,250,000	1.09
8	Citibank Nominees Singapore Pte Ltd	136,387,700	0.95
9	UOB Kay Hian Pte Ltd	133,888,283	0.94
10	Wong Yu Chiu	105,000,000	0.73
11	Stephen Kang Yew Jin	100,500,000	0.70
12	Chan Wong Dora Wing May	100,000,000	0.70
13	OCBC Securities Private Ltd	94,106,000	0.66
14	Koh Wee Meng	90,000,000	0.63
15	Ong Puay Hoon Irene	85,900,000	0.60
16	Xu Yong	80,357,143	0.56
17	Low Poh Kuan	76,800,500	0.54
18	Xu Yu Chi	75,056,000	0.52
19	Maybank Kim Eng Securities Pte. Ltd	73,507,500	0.51
20	DBS Nominees Pte Ltd	69,151,951	0.48
		10,988,235,845	**76.78**

STATISTICS OF SHAREHOLDINGS

As at 15 September 2020

Substantial Shareholders

	Direct interest		Deemed interest	
Name	**No. of shares**	**% of issued share capital**(1)	**No. of shares**	**% of issued share capital**(1)
Lam Cho Ying Terence Joe	2,180,731,668	15.24	1,227,605,150(2)	8.58
Alternus Capital Holdings Limited	1,227,605,150	8.58	–	–
Xu Hong Na	1,516,249,000	10.60	–	–

Notes:

(1) Based on the Company's issued share capital of 14,310,670,617 shares as at 15 September 2020.

(2) Lam Cho Ying Terence Joe is deemed to be interested in the 1,227,605,150 shares held by Alternus Capital Holdings Limited by virtue of Section 4 of the Securities and Futures Act (Chapter 289) of Singapore.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2020 Annual General Meeting of SinoCloud Group Limited (the "**Company**") will be held by way of electronic means (via LIVE WEBCAST and LIVE AUDIO STREAM) on Friday, 30 October 2020 at 10.30 a.m. (Singapore time) (the "**AGM**") to transact the following businesses:

As Ordinary Business

1 To receive and adopt the Directors' Statement and the Audited Financial Statements of the Company for the financial year ended 30 June 2020 together with the Independent Auditor's Report thereon. **(Resolution 1)**

2 (a) To re-elect Mr Chau King Fai as a director of the Company ("**Director**"), who will retire by rotation pursuant to Bye-Law 104 of the Company's Bye-Laws and who, being eligible, will offer himself for re-election as a Director.

See Explanatory Note (i) **(Resolution 2)**

(b) To note the retirement of Ms Chu Yin Ling, Karen as a Director, who will retire pursuant to Bye-Law 104 of the Company's Bye-Laws and has decided not to seek for re-election as a Director.

3 To re-elect Mr Luk Siu Fung, Mark as a Director, who will cease to hold office pursuant to Bye-Law 107(B) of the Company's Bye-Laws and who, being eligible, will offer himself for re-election as a Director.

See Explanatory Note (ii) **(Resolution 3)**

4 To approve the payment of Directors' fees of HK$360,000 for the financial year ending 30 June 2021, to be paid quarterly in arrears. **(Resolution 4)**

Note: The Directors' fees for the period 1 April 2019 to 30 June 2019 and for the period 1 July 2019 to 30 June 2020, which were approved during the 2019 Annual General Meeting of the Company, were S$49,000 and HK$360,000 respectively.

5 To re-appoint Crowe Horwath First Trust LLP as the Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 5)**

6 To transact any other business that may be transacted at an Annual General Meeting of the Company.

As Special Business

7 To consider and if thought fit, pass the following as a special resolution, with or without modifications:

Authority to allot and issue shares and make or grant instruments that might or would require shares to be issued with no sub-limit for non *pro rata* issues

"That pursuant to Rule 806(2) of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual Section B: Rules of Catalist ("**Catalist Rules**"), authority be and is hereby given to the Directors to:

(a) (i) allot and issue ordinary shares in the capital of the Company ("**Shares**") whether by way of rights, bonus or otherwise; and/or

(ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require Shares to be issued, including but not limited to, the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into Shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may, in their absolute discretion deem fit; and

(b) (notwithstanding the authority conferred by this Resolution 6 may have ceased to be in force) issue Shares in pursuance of any Instrument made or granted by the Directors while the authority conferred by this Resolution 6 is in force,

provided that:

(1) the aggregate number of Shares to be issued pursuant to this Resolution 6 (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution 6) does not exceed 100% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) (as calculated in accordance with sub-paragraph (2) below), whether on a *pro rata* or non *pro rata* basis;

(2) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of Shares (including Shares to be issued pursuant to the Instruments) that may be issued under sub-paragraph (1) above, the percentage of issued Shares and Instruments (excluding treasury shares and subsidiary holdings, if any) shall be calculated based on the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) at the time of passing this Resolution 6, after adjusting for:

(a) new Shares arising from the conversion or exercise of the Instruments or any convertible securities outstanding at the time this Resolution 6 is passed;

(b) (where applicable) new Shares arising from the exercise of share options or vesting of share awards, provided that such share options or share awards (as the case may be), were granted in compliance with Part VIII of Chapter 8 of the Catalist Rules; and

(c) any subsequent bonus issue, consolidation or sub-division of Shares,

adjustments in accordance with sub-paragraph 2(a) or 2(b) above are only to be made in respect of new Shares arising from convertible securities, share options or share awards which were issued and outstanding or subsisting at the time of the passing of this Resolution 6;

(3) in exercising the authority conferred by this Resolution 6, the Company shall comply with the requirements imposed by the SGX-ST from time to time and the provisions of the Catalist Rules for the time being in force (in each case, unless such compliance has been waived by the SGX-ST), all applicable legal requirements under the Companies Act 1981 of Bermuda (as amended) and otherwise, and the Company's Bye-Laws for the time being; and

NOTICE OF ANNUAL GENERAL MEETING

(4) (unless revoked or varied by the Company in general meeting) the authority conferred by this Resolution 6 shall continue in force (i) until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier, or (ii) in the case of Shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution 6, until the issuance of such Shares in accordance with terms of the Instruments."

See Explanatory Note (iii) **(Resolution 6)**

8 In the event that Resolution 6 is not approved by shareholders of the Company, to consider and if thought fit, pass the following as an ordinary resolution, with or without modifications:

Authority to allot and issue shares and make or grant instruments that might or would require shares to be issued with a sub-limit for non *pro rata* issues

"That pursuant to Rule 806(2) of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual Section B: Rules of Catalist ("**Catalist Rules**"), authority be and is hereby given to the Directors to:

(a) (i) allot and issue ordinary shares in the capital of the Company ("**Shares**") whether by way of rights, bonus or otherwise; and/or

(ii) make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require Shares to be issued, including but not limited to, the creation and issue of (as well as adjustments to) options, warrants, debentures or other instruments convertible into Shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may, in their absolute discretion deem fit; and

(b) (notwithstanding the authority conferred by this Resolution 7 may have ceased to be in force) issue Shares in pursuance of any Instrument made or granted by the Directors while the authority conferred by this Resolution 7 is in force,

provided that:

(1) the aggregate number of Shares to be issued pursuant to this Resolution 7 (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution 7) does not exceed 100% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) (as calculated in accordance with sub-paragraph (2) below), of which the aggregate number of Shares to be issued other than on a *pro rata* basis to shareholders of the Company (including Shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution 7) does not exceed 50% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) (as calculated in accordance with sub-paragraph (2) below);

NOTICE OF ANNUAL GENERAL MEETING

(2) (subject to such manner of calculation as may be prescribed by the SGX-ST) for the purpose of determining the aggregate number of Shares (including Shares to be issued pursuant to the Instruments) that may be issued under sub-paragraph (1) above, the percentage of issued Shares and Instruments (excluding treasury shares and subsidiary holdings, if any) shall be calculated based on the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) at the time of passing this Resolution 7, after adjusting for:

(a) new Shares arising from the conversion or exercise of the Instruments or any convertible securities outstanding at the time this Resolution 7 is passed;

(b) (where applicable) new Shares arising from the exercise of share options or vesting of share awards, provided that such share options or share awards (as the case may be) were granted in compliance with Part VIII of Chapter 8 of the Catalist Rules; and

(c) any subsequent bonus issue, consolidation or sub-division of Shares,

adjustments in accordance with sub-paragraph 2(a) or 2(b) above are only to be made in respect of new Shares arising from convertible securities, share options or share awards which were issued and outstanding or subsisting at the time of the passing of this Resolution 7;

(3) in exercising the authority conferred by this Resolution 7, the Company shall comply with the requirements imposed by the SGX-ST from time to time and the provisions of the Catalist Rules for the time being in force (in each case, unless such compliance has been waived by the SGX-ST), all applicable legal requirements under the Companies Act 1981 of Bermuda (as amended) and otherwise, and the Company's Bye-Laws for the time being; and

(4) (unless revoked or varied by the Company in general meeting) the authority conferred by this Resolution 7 shall continue in force (i) until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier, or (ii) in the case of Shares to be issued in pursuance of the Instruments, made or granted pursuant to this Resolution 7, until the issuance of such Shares in accordance with terms of the Instruments."

See Explanatory Note (iv) **(Resolution 7)**

NOTICE OF ANNUAL GENERAL MEETING

9 To consider and if thought fit, pass the following as an ordinary resolution, with or without modifications:

Authority for the Directors to grant awards and allot and issue Shares under the SinoCloud Group Limited Performance Share Plan

"That the Directors or a committee of the Directors be authorised and empowered to grant awards in accordance with the provisions of the SinoCloud Group Limited Performance Share Plan (formerly known as Armarda Group Limited Performance Share Plan) (the "**Plan**") and to allot and issue from time to time such number of Shares as may be required to be allotted and issued pursuant to the vesting of awards granted by the Company under the Plan, whether granted during the subsistence of this authority or otherwise, provided always that the aggregate number of additional ordinary shares to be issued pursuant to the Plan and other share scheme which the Company may implement from time to time, shall not exceed 15% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) from time to time and such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier. For the avoidance of doubt, shareholders' pre-emptive right under Bye-Law 10 of the Company's Bye-Laws does not apply."

See Explanatory Note (v) **(Resolution 8)**

By Order Of The Board

Chu Yin Ling, Karen
Executive Director and Company Secretary
7 October 2020

Explanatory Notes

(i) Mr Chau King Fai ("**Mr Chau**") will, upon re-election as a Director, remain as an Independent Director of the Company and a member of the Audit Committee, the Nominating Committee and the Remuneration Committee. There are no relationships (including family relationships) between Mr Chau and the other Directors, the Company, its related corporations, its officers or its substantial shareholders, which may affect his independence. The Board considers Mr Chau to be independent for the purpose of Rule 704(7) of the Catalist Rules. Further detailed information on Mr Chau can be found under the sections entitled "Board of Directors", "Corporate Governance Report", and "Directors' Statement" of the Company's 2020 Annual Report.

(ii) Mr Luk Siu Fung, Mark ("**Mr Luk**") will, upon re-election as a Director, remain as an Executive Director and Chief Operating Officer of the Company. Further detailed information on Mr Luk can be found under the sections entitled "Board of Directors", "Corporate Governance Report", and "Directors' Statement" of the Company's 2020 Annual Report.

(iii) Resolution 6 (to be passed as a special resolution) is to empower the Directors, from the date of the passing of Resolution 6 to the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier, to issue Shares and to make or grant instruments (such as options, warrants or debentures) convertible into Shares, and to issue Shares in pursuance of such Instruments, up to an aggregate number not exceeding 100% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) whether on a *pro rata* or non *pro rata* basis. For the purpose of determining the aggregate number of Shares that may be issued, the percentage of issued Shares shall be based on the number of issued Shares (excluding treasury shares and subsidiary holdings, if any) at the time that Resolution 6 is passed, after adjusting for new Shares arising from the conversion or exercise of the Instrument or any convertible securities, the exercise of share options or the vesting of share awards which are outstanding or subsisting at the time when Resolution 6 is passed, and any subsequent bonus issue, consolidation or sub-division of Shares. In exercising the authority conferred by Resolution 6, the Company shall comply with the requirements of the SGX-ST (unless waived by the SGX-ST), all applicable legal requirements and the Company's Bye-Laws.

NOTICE OF ANNUAL GENERAL MEETING

(iv) Resolution 7 (to be passed as an ordinary resolution) is to empower the Directors, in the event that Resolution 6 is not passed, from the date of the passing of Resolution 7 to the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier, to issue Shares and to make or grant instruments (such as options, warrants or debentures) convertible into Shares, and to issue Shares in pursuance of such Instruments, up to an aggregate number not exceeding 100% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) with a sub-limit of 50% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) for issues other than on a *pro rata* basis to shareholders. For the purpose of determining the aggregate number of Shares that may be issued, the percentage of issued Shares shall be based on the number of issued Shares (excluding treasury shares and subsidiary holdings, if any) at the time that Resolution 7 is passed, after adjusting for new Shares arising from the conversion or exercise of the Instruments or any convertible securities, the exercise of share options or the vesting of share awards which are outstanding or subsisting at the time when Resolution 7 is passed, and any subsequent bonus issue, consolidation or sub-division of Shares. In exercising the authority conferred by Resolution 7, the Company shall comply with the requirements of the SGX-ST (unless waived by the SGX-ST), all applicable legal requirements and the Company's Bye-Laws.

(v) Resolution 8 (to be passed as an ordinary resolution) is to empower the Directors or a committee of the Directors to grant awards and to allot and issue Shares pursuant to the Plan provided that the aggregate number of Shares to be issued pursuant to the Plan and other share scheme which the Company may implement from time to time, shall not exceed 15% of the total number of issued Shares (excluding treasury shares and subsidiary holdings, if any) from time to time and such authority shall, unless revoked or varied by the Company in a general meeting, continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

Notes

(1) The AGM is being convened, and will be held, by way of electronic means pursuant to the First Schedule of the COVID-19 (Temporary Measures) (Alternative Arrangements for Meetings for Companies, Variable Capital Companies, Business Trusts, Unit Trusts and Debenture Holders) Order 2020. Printed copies of this Notice of AGM will NOT be sent to shareholders of the Company. Instead, the Notice of AGM will be sent to shareholders of the Company by electronic means via publication on SGXNet and the Company's website at the URL https://www.sinocloudgroup.com.

(2) Alternative arrangements relating to attendance at the AGM via electronic means (including arrangements by which the AGM can be electronically accessed via "live" audio-visual webcast ("**LIVE WEBCAST**") or "live" audio stream ("**LIVE AUDIO STREAM**")), submission of questions in advance of the AGM, addressing of substantial and relevant questions, are set out in the Company's Letter to Shareholders dated 7 October 2020 (the "**Letter**"), which has been uploaded together with this Notice of AGM on SGXNet on the same day. The Letter may also be accessed on the Company's website at the URL https://www.sinocloudgroup.com For the avoidance of doubt, the Letter is circulated together with and forms part of this Notice of AGM.

(3) A shareholder of the Company (whether individual or corporate) must appoint the Chairman of the AGM as his/her/its proxy to attend, speak and vote on his/her/its behalf at the AGM, if such shareholder wishes to exercise his/her/its voting rights at the AGM. In appointing the Chairman of the AGM as proxy, a shareholder of the Company (whether individual or corporate) must give specific instructions as to voting, or abstentions from voting, in respect of each resolution to be proposed at the AGM in the form of proxy, failing which the appointment of the Chairman of the AGM as proxy for that resolution will be treated as invalid.

(4) The Chairman of the AGM, as proxy, need not be a shareholder of the Company.

(5) The instrument appointing the Chairman of the AGM as a proxy must be submitted to the Company in the following manner:

(a) if submitted by post, be lodged with the Company's Singapore Share Transfer Agent, M & C Services Private Limited, at 112 Robinson Road, #05-01, Singapore 068902; or

(b) if submitted electronically, via email to the Company's Singapore Share Transfer Agent, M & C Services Private Limited, at gpb@mncsingapore.com,

in either case, **by 10.30 a.m. on 28 October 2020** (being not less than forty-eight (48) hours before the time appointed for the holding of the AGM).

In view of the current COVID-19 situation and the related safe distancing measures which may make it difficult for shareholders to submit completed proxy forms by post, the Company strongly encourages shareholders to submit completed proxy forms electronically via email.

(6) Investors who hold Shares under the Supplementary Retirement Scheme ("**SRS Investors**") and who wish to vote at the AGM should approach their SRS operators to submit their votes at least seven (7) working days before the date of the AGM (i.e. **by 10.30 a.m. on 21 October 2020**). SRS Investors are requested to contact their SRS operators for any queries they may have with regard to the appointment of the Chairman of the AGM as proxy for the AGM.

NOTICE OF ANNUAL GENERAL MEETING

Personal Data Privacy

By (a) submitting an instrument appointing the Chairman of the AGM as proxy to vote at the AGM and/or any adjournment thereof, and/or (b) registering to attend the AGM via LIVE WEBCAST or LIVE AUDIO STREAM, and/or (c) submitting any question prior to the AGM in accordance with this Notice of AGM, a shareholder of the Company consents to the collection, use and disclosure of the shareholder's personal data by the Company (or its agents or service providers) for the following purposes:

(a) processing, administration and analysis by the Company (or its agents or service providers) of the appointment of the Chairman of the AGM as proxy for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, proxy lists, minutes and other documents relating to the AGM (including any adjournment thereof);

(b) processing the pre-registration forms for purposes of granting access to shareholders (or their corporate representatives in the case of shareholders who are legal entities) to the LIVE WEBCAST or LIVE AUDIO STREAM to observe the proceedings of the AGM and providing them with any technical assistance, where necessary;

(c) addressing relevant and substantial questions from shareholders received before the AGM and if necessary, following up with the relevant shareholders in relation to such questions;

(d) preparation and compilation of the attendance lists, proxy list, minutes and other documents relating to the AGM (including any adjournment thereof); and

(e) enabling the Company (or its agents or service providers) to comply with any applicable laws, listing rules, regulations and/or guidelines by the relevant authorities.

Photographic, sound and/or video recordings of the AGM may be made by the Company for record keeping and to ensure the accuracy of the minutes prepared of the AGM. Accordingly, the personal data of a shareholder of the Company (such as his/her name, his/her presence at the AGM and any questions he/she may raise or motions he/she propose/second) may be recorded by the Company for such purpose.

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*This notice 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 notice has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this notice, including the correctness of any of the statements or opinions made or reports contained in this notice.

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.

SINOCLOUD GROUP LIMITED

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