



Securities Investors Association (Singapore)

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Issuer: SinoCloud Group Limited

Security: SinoCloud Group Limited

Meeting details:

Date: 27 July 2018

Time: 10.00 a.m.

Venue: Room 307, Level 3, 32 Maxwell Road, #03-01, Maxwell Chambers, Singapore 069115

Company Description

SinoCloud Group Limited, an investment holding company, provides Internet data centre management services in the People's Republic of China. The company operates through two segments, Mobile Satellite Services and Internet Data Center Services. It offers Internet data, cloud computing, and big data services, as well as owns the right to distribute mobile satellite voice and data services. The company was formerly known as Armarda Group Limited and changed its name to SinoCloud Group Limited in August 2015. SinoCloud Group Limited was founded in 2003 and is based in Tsim Sha Tsui, Hong Kong.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=5EK)

1. On 25 June 2018, the company announced that the independent auditor had, without qualifying its audit opinion, included in the Independent Auditor's Report a material uncertainty related to going concern in the audited financial statements of the Group for the financial year ended 31 March 2018.

As noted by the auditor, the group incurred a net loss of \$17,473,000 (2017: \$42,235,000) during the year ended 31 March 2018 and, as of that date, the group's cash and cash equivalents available for use amounting to \$724,000 while the current liabilities and capital commitment due in one year amounting to \$159,334,000 and \$174,475,000 respectively.

In addition, the directors have stated that they are of the view that the going concern assumption is appropriate for the preparation of the financial statements and that debts owing will be paid and when they fall due.

The ability of the Group to generate additional positive cash flows in the foreseeable future is largely dependent on the following factors, as provided by the company:

- increase in profit contribution to the Group from the IDC business of Guiyang Zhongdian Gaoxin Digital Technologies Limited ("GYZD");
- the expected improvement in the achievement of certain utilisation rate of IDC services by GYZD;
- obtain financing by GYZD for its operating and investing activities; and
- financial support from a director/shareholder that he will provide continuing financial support to the Group as and when its liabilities fall due.

- (i) Can the board/management help shareholders understand if GYZD is self-sustaining and is capable of raising its own capital needs?**
- (ii) What is the utilisation rate of the IDC services by GYZD?**
- (iii) Has the board/company started negotiations with its director/shareholder to provide continuing financial support to the group?**
- (iv) Is the board considering to review the group's capital structure and to strengthen its financial position that can support the growth of the business?**

2. In Note 9 (page 78 – Trade and other receivables), the group has trade and other receivables consisting of refundable deposits, advances to third parties (unsecured) and earnest deposits to third parties (unsecured).

The breakdown is shown below:

9. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Trade receivables	63,373	35,280	-	-
Less: Allowance of impairment loss	(692)	(692)	-	-
	<u>62,681</u>	<u>34,588</u>	-	-
Other receivables	5,880	319	-	-
Refundable deposits ⁽ⁱ⁾	44,327	2,888	-	-
Advances to third parties (unsecured) ⁽ⁱⁱ⁾	24,700	24,700	24,700	24,700
Earnest deposits to third parties (unsecured) ⁽ⁱⁱⁱ⁾	6,908	19,100	6,908	19,100
Due from a director (non-trade) ^(iv)	-	780	-	-
Trade and other receivables	<u>144,496</u>	<u>82,375</u>	<u>31,608</u>	<u>43,800</u>
Prepayments ^(v)	<u>25,048</u>	<u>7,473</u>	<u>243</u>	<u>246</u>
	<u><u>169,544</u></u>	<u><u>89,848</u></u>	<u><u>31,851</u></u>	<u><u>44,046</u></u>

(Source: Company annual report)

Note 9 further elaborates on the issues the group have with collecting these outstanding receivables.

Further in Note 37 (page 98 – Events after the reporting period), it disclosed that the company entered into supplementary repayment agreements to extend the repayment to the company.

In the letter of intent signed by GYZD in May 2018, it agreed to and have paid a refundable deposit of RMB34,950,000 to ZDZY to facilitate its ongoing discussion of the proposed acquisition, prior to the approval of the acquisition.

- (i) **Can the independent directors, the audit committee and the board explain their efforts at safeguarding the interests of its shareholders, especially the minority shareholders?**
- (ii) **How does the group deal source and select its partners?**
- (iii) **What safeguards are put in place to ensure that the group enters a deal with the proper deal structure that commensurate with the risks of the assets/partners?**
- (iv) **Specifically, for the potential acquisition of an Internet Data Centre in Lian Yun Gang in the PRC, can the board explain in greater detail why a “refundable deposit” amounting to \$43,658,000 was placed to its partners even before approval is obtained and when the group’s financial position is already fairly weak?**

3. Mr Lee Joo Hai and Mr Phuah Lian Heng were first appointed to the board in March 2004. As such, each director has been on the board for more than 14 years and 3 months.

The nominating committee (NC) comprises Mr Alexander Shlaen (as chairman), Mr Lee Joo Hai and Mr Phuah Lian Heng.

- (i) As the independence of the directors was reviewed by the NC, can the NC elaborate further on its effectiveness to carry out its core functions?**
- (ii) Can the NC and the board confirm that no director was involved in the review of his own independence?**

Notwithstanding that the board considers Mr Lee Joo Hai and Mr Phuah Lian Heng independent, Guideline 2.4 of the 2012 Code of Corporate Governance calls for the board to “also take into account the need for progressive refreshing of the Board”.

- (iii) What are the directors’ deliberations on the need to refresh the board?**
- (iv) Can the company disclose its near-term plans to refresh the board membership progressively and in an orderly manner, to avoid losing institutional memory?**

