Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: SinoCloud Group Limited

Stock code: 5EK

Meeting details:
Date: 29 October 2021
Time: 10.30 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. On 13 October 2021, the company announced that the independent auditor has issued a disclaimer of opinion on the group's audited financial statements for the financial year ended 30 June 2021.

The basis for the disclaimer of opinion is in relation to (a) impairment assessment of property, plant and equipment, right-of-use asset and prepayments; (b) recoverability of deferred tax asset; and (c) impairment assessment of investment in subsidiaries. The basis for disclaimer of opinion can be found on pages 62 and 63 of the annual report.

The auditor has also highlighted material uncertainty related to going concern, as follows:

> *The group incurred a net loss after tax of $(17,098,000) and negative operating cash flows of $(939,000) for the financial year ended 30 June 2021, and as at that date, the group were in net current liabilities of $(23,491,000). The group's cash and bank balances available for use amounted to $461,000 while its current liabilities amounted to $(53,209,000).*

These matters are also the subject of a SGX RegCo query which the company has responded to on 18 October 2021. The company's responses to SGX RegCo's query can be found here:

https://links.sgx.com/FileOpen/20211018%20SinoCloud%20-%20ann%20on%20response%20to%20SGXqueries%20final.ashx?App=Announcement&FileID=687227

(i) **Can the audit committee (AC) help shareholders understand the level of cooperation given by management to the auditors**? It was disclosed that management could not provide sufficient documentary evidence from third party sources to the auditors on the revenue forecast and the underlying assumptions used in the discounted cash flow projection (DCF). As a result, the auditors were unable to obtain sufficient appropriate audit evidence to assess the reasonableness of the key assumptions used in the determination of the recoverable amount of the group's PPE, right-of-use asset and prepayments, and consequently, the auditors were unable to determine whether any adjustments were necessary in respect of the carrying amounts of these assets as at 30 June 2021. **What did the AC do to facilitate the auditors in their audit of the company? Had the AC been effective and has the AC discharged its duties?**

(ii) **Given that the auditors have stated that they were unable to obtain sufficient appropriate audit evidence to assess the reasonableness of the key assumptions used, can the AC clarify if there is a high risk that the carrying value of the assets could be overstated?**

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(iii) The auditors did not express an opinion on the financial statements due to the significance of the matters described in the basis for disclaimer of opinion. However, in the directors' statement (page 57), the directors have stated that, in their opinion, the statement of financial position of the company and the consolidated financial statements of the group 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 2021 and of the financial performance, changes in equity and cash flows of the group for the financial year then ended. **Can the directors provide the basis for their opinion? Please also help shareholders understand if they have taken note of the auditor's disclaimer of opinion in forming their opinion.**

Q2. Would the board/management provide shareholders with greater clarity on the following operational and financial matters? Specifically:

(i) **Can management help shareholders understand the sentiment on the ground in Guizhou Province? How has the city adapted to living with COVID-19? What is the impact on the group's data centre operation?**

(ii) **Can the chairman elaborate further on the continued "deterioration in the internet data centre ("IDC") market"? What is the profile of its major customers? How is the weakness experienced in the IDC market linked to the lockdown in China?** It has been widely reported that the pandemic accelerated the pace of businesses' digitalisation and have in fact helped many data centre companies achieve better operational and financial performance.

(iii) **Would the board be reviewing the track record of the management team and evaluate if the group has the necessary human resources to execute its growth plans?**

(iv) **Does management see any silver lining during the pandemic/in the next 12-18 months?**

(v) **What is the utilisation rate in FY2021?** Guiyang Tech currently hosts 660 racks which are currently "under-utilised".

(vi) The company appointed Mr. Lam Chun Hei, Justin as executive director and chief operating officer on 12 August 2021. **Can management help shareholders understand Mr. Lam Chun Hei, Justin's experience in running an IDC, especially one that is in China?**

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Q3. On 13 October 2021, the company announced that there are material variances between the unaudited financial statements and the audited financial statements for the financial year ended 30 June 2021 following the finalisation of audit.

The announcement on the unaudited financial results for the financial year ended 30 June 2021 was first released via SGXNet on 28 August 2021. The announcement of material variance came more than 6 weeks after the company first announced the unaudited financial statements.

Following the finalisation of audit, the company's equity decreased by more than HK$10.8 million to just HK$37.62 million as at 30 June 2021 and revenue decreased by 38% to just HK$9.8 million.

Reasons provided by the company for the variances include:

- Adjustment for accrual of additional income tax liabilities and deferred tax assets, which was inadvertently omitted
- Reclassification of related party balance from other receivables to other payables
- Reclassification of bank loan which will fall due within one year from non-current liabilities to current liabilities
- Adjustment for initial recognition of derivative financial instrument to other reserve, which was inadvertently misstated
- Adjustment for accrual of additional income tax liabilities and deferred tax assets, which was inadvertently omitted
- Adjustment to reflect purchase of property, plant and equipment, which was inadvertently omitted

There are several items where the company had either "inadvertently omitted" or "inadvertently misstated".

(i) **Is the group (including its officers) familiar with the International Financial Reporting Standards (IFRS)?**

(ii) **Why are there so many items that were "inadvertently" omitted or misstated?**

(iii) **How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?**

(iv) **Has the AC evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**

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(v) **What role did the AC play in the preparation of the financial statements? Was it adequate?**

(vi) **What changes have been made/will be made to the group's financial reporting systems and processes?**

^On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings ("Meetings Order") would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation)