

Management Discussion and Analysis

MATERIAL EVENTS

Amendment to the share option scheme

A share option scheme was adopted by the Company on 27 October 2016 (the “Share Option Scheme”) to recognise, motivate and provide incentives to those who make contributions to the Company and its subsidiaries (the “Group”). Pursuant to the Share Option Scheme, one-third of the Options shall be vested in the holders of Options on each anniversary of the first 3 years from the date of grant.

After considering (i) the current remuneration package (including performance bonus) of the management and employees; and (ii) other incentive programme of the Group currently in place, the Board, as a commercial decision, has amended the schedule for vesting of Options under the Share Option Scheme which took effect on 17 November 2020 to the effect that one-fourth of the Options shall be vested in the holders of Options on each anniversary of the first 4 years from the date of grant. The amendments shall not apply to the outstanding options as at 17 December 2020 which have already been granted but remain unexercised under the Share Option Scheme.

For details, please refer to the Company’s announcements dated 19 October 2020, 23 October 2020, 17 November 2020 and the circular dated 23 October 2020.

Obtained Trust Company License in the United States

Huobi Trust Company (“Huobi Trust US”), a company incorporated in the State of Nevada, the United States and an indirectly wholly-owned subsidiary of the Company, was issued with a Trust Company License by the Financial Institutions Division of the Department of Business and Industry in Nevada, the United States, to engage in the trust company business within the meaning of Chapter 669 of the Nevada Revised Statutes and the rules and regulations thereunder.

For details, please refer to the Company’s announcement dated 22 December 2020.

Continuing connected transactions in relation to Huobi Trust US’s signing of (1) custodial service agreement; and (2) compliance service agreement

Huobi Trust US entered into a custodial service agreement with Stable Universal Limited (“Stable Universal”), a connected person of the Company, pursuant to which Stable Universal has agreed to appoint Huobi Trust US as the custodian of its assets. The custodial service agreement is for a term from 26 January 2021 to 30 September 2023 unless terminated by either party by giving to the other notice in writing.

The table below sets out the annual caps for the custodial service agreement for the period from the 26 January 2021 to 30 September 2021 (both days inclusive) and the two years ending 30 September 2022 and 2023:

	Period from the 26 January 2021 to 30 September 2021 (both days inclusive) (US\$)	Year ending 30 September 2022 (US\$)	Year ending 30 September 2023 (US\$)
Amount of asset custody fee under the Custodial Service Agreement	600,000	800,000	800,000

Huobi Trust US entered into a compliance service agreement with Stable Universal, pursuant to which Stable Universal has agreed to engage Huobi Trust US as an agent for the provision of the compliance services to Stable Universal. The compliance service agreement is for a term from 26 January 2021 to 30 September 2023 unless terminated by either party by giving to the other notice in writing.

The table below sets out the annual caps for the compliance service agreement for the period from the 26 January 2021 to 30 September 2021 (both days inclusive) and the two years ending 30 September 2022 and 2023:

	Period from the 26 January 2021 to 30 September 2021 (both days inclusive) (US\$)	Year ending 30 September 2022 (US\$)	Year ending 30 September 2023 (US\$)
Amount of service fee under the compliance service agreement	150,000	200,000	200,000

For details, please refer to the Company's announcement dated 26 January 2021.

Approval granted by Securities and Futures Commission ("SFC") to manage portfolios that invest in virtual assets

The SFC has approved Huobi Asset Management (Hong Kong) Limited ("Huobi Asset Management") to manage portfolios that invest in virtual assets and to continue to conduct Type 4 and Type 9 regulated activities with effect from 3 March 2021. The approval is subject to an additional licensing condition that Huobi Asset Management shall continuously comply with the "Proforma Terms and Conditions for Licensed Corporations which manage portfolios that Invest in Virtual Assets" ("T&C") issued by the SFC on 4 October 2019 and any amendments made to the T&C thereafter.

For details, please refer to the Company's announcement dated 4 March 2021.

Discloseable and continuing connected transactions in relation to Win Techno's signing of the Second Supplemental Agreement

Reference is made to (i) the announcement of the Company dated 24 December 2019 in relation to, among others, the provision of financial assistance regarding payment agent services provided by Win Techno Inc. ("Win Techno"), a wholly-owned subsidiary of the Company, to Huobi Global Limited ("Huobi Global (Seychelles)") under the service agreement (the "Service Agreement"), pursuant to which Win Techno, as the payment agent of Huobi Global (Seychelles) makes payment of usage fees to the Amazon Web Service Group (the "AWS") for and on behalf of Huobi Global (Seychelles), and (ii) the announcement dated 19 March 2020 and the circular dated 23 March 2020 of the Company in relation to the supplemental agreement entered into between Win Techno and Huobi Global (Seychelles) pursuant to which the annual cap in respect of the provision of financial assistance under the Service Agreement was revised (the "First Supplemental Agreement").

Management Discussion and Analysis

By a deed of novation (the “Deed of Novation”) dated 26 February 2021 entered into among Win Techno, Huobi Global (Seychelles) and Huobi Worldwide Limited (“Huobi Worldwide”), Huobi Global (Seychelles) agreed to novate and Huobi Worldwide agreed to assume all rights and obligations of Huobi Global (Seychelles) in and under the Service Agreement (as amended by the First Supplemental Agreement). Save for the said revisions, all other terms under the Service Agreement (as amended by the First Supplemental Agreement) remain the same. Accordingly, Huobi Global (Seychelles) was released from any obligations under the Service Agreement (as amended by the First Supplemental Agreement), to be performed from the effective date of the Deed of Novation (i.e. 1 February 2021). On 11 March 2021, Win Techno entered into the second supplemental agreement (the “Second Supplemental Agreement”) with Huobi Worldwide, pursuant to which the parties agreed to amend the Service Agreement (as amended by the First supplemental agreement and the Deed of Novation) by (i) renewing the terms; (ii) revising the existing caps of the provision of financial assistance in relation to the payment agent services and (iii) Win Techno was granted the absolute right to require Huobi Worldwide to make payment of deposit to Win Techno in such amount and at such time as Win Techno thinks fit before the provision of the payment agent services by Win Techno.

Pursuant to the Second Supplemental Agreement, the maximum financial assistance amount provided by Win Techno to Huobi Worldwide for the respective periods set out below during the term of the Second Supplemental Agreement shall not exceed the cap which has been increased as set out below:

	For the period commencing from 30 April 2021 to 30 September 2021	For the period commencing from 1 October 2021 to 30 September 2022	For the period commencing from 1 October 2022 to 30 September 2023
New terms			
Revised caps	HK\$48,000,000	HK\$48,000,000	HK\$48,000,000

Saved for the above changes, all other terms and conditions under the Service Agreement (as amended by the First Supplemental Agreement, Deed of Novation and the Second Supplemental Agreement) shall remain unchanged. For details, please refer to the Company’s announcements dated 11 March 2021, 1 April 2021 and 30 April 2021 and circular dated 9 April 2021.

Change in board lot size from 2,000 shares to 500 shares

The board lot size of the shares of the Company (the “Shares”) for trading on the main board of The Stock Exchange of Hong Kong Limited was changed from 2,000 Shares to 500 Shares with effect from 9:00 a.m. on 23 April 2021.

Since the reduction in board lot size would lower the value of each board lot, it is expected that more investors will be attracted to invest in the Shares and therefore may improve the liquidity of the Shares and broaden the shareholders’ base of the Company. The change in board lot size will not result in any change in the relative rights of the shareholders of the Company.

For details, please refer to the Company’s announcements dated 29 March 2021 and 8 April 2021.

Registration as a Trust Company in Hong Kong

On 29 April 2021, Huobi Trust Company Limited (“Huobi Trust HK”), a company incorporated in Hong Kong and an indirectly wholly-owned subsidiary of the Company, obtained the approval from the Registrar of Companies for registration as a trust company under section 78(1) the Trustee Ordinance (Cap. 29 of the laws of Hong Kong). A Certificate for Registration under the Trustee Ordinance was issued to Huobi Trust HK on 29 April 2021.

Further details are set out in the Company’s announcement dated 4 May 2021.

Continuing connected transactions in relation to Win Techno’s signing of the database service agreement

On 30 April 2021, Win Techno entered into a database service agreement with Huobi Worldwide to provide database services to Huobi Worldwide for a term commencing from 1 May 2021 and expiring on 30 September 2022 at a monthly service fee calculated on a cost plus 15% premium basis. The particular type of database services provided by Win Techno to Huobi Worldwide under the database service agreement are customized services in relation to data storage and data center maintenance services.

The annual caps for the database service agreement are set out below:

Period	For the period commencing from 1 May 2021 to 30 September 2021	For the period commencing from 1 October 2021 to 30 September 2022
Maximum transaction amount	JPY35,000,000 (equivalent to approximately HK\$2,520,000)	JPY84,000,000 (equivalent to approximately HK\$6,048,000)

Further details are set out in the Company’s announcement dated 30 April 2021.

Continuing connected transactions in relation to the Huobi Trust HK’s signing of custodial services agreements entered into with Orion Financial and HB Infinite

On 14 July 2021, Huobi Trust HK entered into the custodial services agreements with Orion Financial Technology Limited (“Orion Financial”) and HB Infinite Limited (“HB Infinite”) respectively. Pursuant to which Huobi Trust HK provides custodial services for their assets. Both custodial services agreements are for a term commencing from 14 July 2021 to 31 December 2021 (both dates inclusive).

Management Discussion and Analysis

The table below sets out the annual caps of the total fees (including the custodial fee and withdrawal fee) charged by Huobi Trust HK under the custodial services agreements:

Orion Financial:

Period	For the period from 14 July 2021 to 30 September 2021 (both dates inclusive)	For the period from 1 October 2021 to 31 December 2021 (both dates inclusive)
Maximum Transaction Amount	HK\$4,000,000	HK\$4,000,000

HB Infinite:

Period	For the period from 14 July 2021 to 30 September 2021 (both dates inclusive)	For the period from 1 October 2021 to 31 December 2021 (both dates inclusive)
Maximum Transaction Amount	HK\$2,000,000	HK\$2,000,000

Further details are set out in the Company's announcement dated 14 July 2021.

Memorandum of Understanding (the "MOU") in relation to potential business cooperation

On 22 September 2021, the Company and the Division on Investment and Enterprise of Kyrgyz Republic ("DIAE") entered into a non-legally binding MOU in relation to a potential business cooperation in Kyrgyz Republic, pursuant to which DIAE and the Company have agreed to cooperate on the basis of equality, goodwill, respect and trust to implement cryptocurrency exchange projects, develop mutually beneficial business partnerships and contribute to the digital economy development of Kyrgyz Republic.

Under the MOU, the parties have intended to leverage their respective resources and enter into definitive agreements in relation to the potential business cooperation contemplated under the MOU for the purpose of bringing strong synergy to the parties' businesses.

Further details are set out in the Company's announcement dated 23 September 2021.

PERFORMANCE REVIEW

The Group recorded a total revenue of approximately HK\$610.7 million for the year ended 30 September 2021 (“Year 2021”), representing an increase of approximately 120.8% or HK\$334.1 million from HK\$276.6 million for the year ended 30 September 2020 (“Year 2020”).

The gross profit of the Group was HK\$302.6 million for Year 2021, representing an increase of approximately 288.7% or HK\$224.7 million from HK\$77.9 million for Year 2020.

The Group recorded a net profit of HK\$141.5 million for Year 2021 compared to the loss of HK\$32.6 million for Year 2020.

Basic earnings per share of the Group for Year 2021 was HK46.0276 cents (Year 2020: basic loss per share of HK10.6580 cents).

BUSINESS REVIEW

Power-related & electrical/electronic products business

The revenue of the Group from power-related & electrical/electronic products business was HK\$376.3 million for Year 2021, representing an increase of approximately HK\$134.0 million or 55.3% as compared to HK\$242.3 million for Year 2020. The increase was primarily due to the market recovery from COVID-19 epidemic.

Cost of sales, mainly comprising raw materials, direct labour and manufacturing overheads, amounted to HK\$297.4 million for Year 2021, representing an increase of approximately HK\$107.4 million or 56.5% from HK\$190.0 million for Year 2020.

The gross profit was HK\$78.9 million and HK\$52.3 million, representing a gross profit margin of 21.0% and 21.6% for Year 2021 and Year 2020 respectively.

Selling and distribution expenses increased by HK\$4.0 million or 94.6% from HK\$4.2 million for Year 2020 to HK\$8.2 million for Year 2021. The increase was mainly attributable to the increase in sales.

Provision of technology solution services

(i) *Technology solution business*

The Group provide data centre and cloud-based services to global customers in blockchain, virtual assets, fintech, big data as well as other innovative technology sectors.

The technology solution business grew significantly during Year 2021 and the revenue was approximately HK\$99.2 million, which was mainly attributable to the provision of cloud-based services.

The gross profit of the aforementioned business was HK\$24.1 million during Year 2021, representing a gross profit margin of 24.3%.

The management is expecting a steady growth in this business in the future.

(ii) *Provision of Software-as-a-Service (“SaaS”)*

The Group provides clients access to and use of the virtual asset trading platform related technology software (the “Software”) in the hosted environment. This includes maintaining, supporting, developing and implementing customisations to the Software in order to operate a virtual asset trading platform.

During the Year 2021, the business grew dramatically and the revenue has increased by 17,400% or HK\$121.8 million from HK\$0.7 million in Year 2020 to HK\$122.5 million in Year 2021. The increase was attributed to the rise of virtual asset price and the consequential growth of virtual asset transaction volume.

The gross profit of the aforementioned business was HK\$111.6 million during the Year 2021, representing a gross margin of 91.1%.

Virtual Asset Ecosystem

(i) *Asset management*

The Group has commenced and carried on asset management businesses through Huobi Asset Management. Huobi Asset Management was incorporated in Hong Kong with limited liability for carrying on businesses in Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (the “SFO”).

Huobi Asset Management’s vision is to bridge the gap between traditional and virtual asset investments and offer integrated investment solutions to professional investors. The products integrate traditional financial assets and virtual assets and cover the primary and secondary markets. Huobi Asset Management has provided asset management services during Year 2021 but has not provided any securities advisory service on securities during the same period.

Currently, Huobi Asset Management is managing five funds containing virtual assets: Bitcoin tracker fund, Ethereum tracker fund, multi-strategy virtual asset fund, multi-asset fund consisting of 10% virtual assets and 90% traditional assets and a private equity fund for blockchain mining-related businesses. Huobi Asset Management shall only provide services to professional investors, as defined in the SFO and its subsidiary legislation.

During the Year 2021, the revenue generated from the provision of asset management services was HK\$6.6 million.

(ii) *Trust and custodian business*

This type of business was being carried out through Huobi Trust US and Huobi Trust HK during Year 2021. Huobi Trust US was issued with a Trust Company License by the Financial Institutions Division of the Department of Business and Industry in Nevada, the United States, to engage in the trust company business within the meaning of Chapter 669 of the Nevada Revised Statutes and the rules and regulations thereunder. Huobi Trust HK, a company incorporated in Hong Kong and an indirectly wholly-owned subsidiary of the Company, obtained a certificate issued by the Registrar of Companies under section 78(1) the Trustee Ordinance (Cap. 29 of the laws of Hong Kong) for registration as a trust company. The trust and custody services provided by the Group typically include the safekeeping, settlement and other customised services of its clients’ assets. During the Year 2021, the revenue generated from the provision of custodial and compliance services was HK\$6.1 million.

The types of assets custodied under the business include virtual asset, fiat currency, financial instrument or any type of other assets.

(iii) Virtual asset trading platform

In Hong Kong, the SFC has implemented a licensing regime for the regulation and licensing of virtual asset trading platform. The Group plans to submit an application to the SFC for licenses to conduct Type 1 and Type 7 regulated activities under the SFO as a virtual asset trading platform in Hong Kong.

In Singapore, the Group has submitted an application to the Monetary Authority of Singapore to be licensed under the Payment Services Act 2019 as a Major Payment Institution providing, amongst other things, digital payment token services.

The applications are subject to vetting and approval by the regulatory authorities and may or may not succeed. The Group has not commenced any relevant business during the Year 2021.

NON-OPERATING EXPENSES OVERVIEW

Other income

Other income, which includes gain on disposal of a subsidiary and government grants has increased by approximately HK\$22.2 million from HK\$6.5 million for Year 2020 to HK\$28.7 million for Year 2021. The significant increase was mainly due to the gain on disposal of a subsidiary of HK\$21.9 million.

Administrative expenses

Administrative expenses have increased by approximately HK\$29.7 million or 30.0% from approximately HK\$98.7 million for Year 2020 to approximately HK\$128.4 million for Year 2021 which was due to an increase in staff costs resulting from recruiting of high-calibre personnel during the Year 2021.

Finance costs

Finance costs have decreased by approximately HK\$3.2 million or 19.1% from approximately HK\$16.9 million for Year 2020 to approximately HK\$13.7 million for Year 2021, which were in line with the decrease in level of borrowings in the Group for the comparable period.

Profit/(loss) before income tax

The Group's profit before income tax for Year 2021 was approximately HK\$181.5 million as compared to the loss before income tax of approximately HK\$32.6 million for Year 2020. The turnaround from loss to profit before income tax was due to the increase in revenue generated from (i) manufacturing business due to the recovery from COVID-19 epidemic and (ii) the provision of technology solution services due to the boom of virtual asset trading industry.

Income tax (expense)/credit

Income tax expense increased from approximately HK\$0.1 million of tax credit for Year 2020 to approximately HK\$40.0 million of tax expense for Year 2021, representing an increase of approximately HK\$40.1 million.

The income tax credit was due to the reversal of overprovision of HK\$2.1 million for finalisation for tax audit in Year 2020, netting off with the income tax expenses for Year 2020.

Management Discussion and Analysis

Profit/(loss) after income tax

The Group's profit after income tax for Year 2021 was approximately HK\$141.5 million as compared to the loss after income tax of approximately HK\$32.6 million for Year 2020.

Dividend

The Directors do not recommend the payment of a final dividend for Year 2021 (Year 2020: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

We finance our operations primarily through cash generated from operations, bank and other borrowings. The Group's net liquidity position as at 30 September 2021, together with the position as at 30 September 2020 is summarised below:

	30 September 2021 HK\$'000	30 September 2020 HK\$'000
Cash and cash equivalents	552,175	403,684
Less: Interest-bearing bank borrowings	(13,987)	(6,235)
Other borrowings	(280,366)	(309,545)
Net cash	257,822	87,904

Cash and cash equivalents were denominated in Hong Kong Dollars, US Dollars, Renminbi, Singapore Dollars and Japanese Yen.

As at 30 September 2021, the effective interest rates on the Group's floating rate borrowing range from 2.1% to 2.6% (30 September 2020: 2.2% to 4.0%) per annum.

CASH FLOW FROM OPERATING ACTIVITIES

Net cash generated from operating activities was approximately HK\$181.6 million for Year 2021 (Year 2020: net cash used in operating activities was approximately HK\$29.8 million). The increase in cash flow in Year 2021 was due to the increase in operating profit.

CASH FLOW FROM INVESTING ACTIVITIES

Net cash generated from investing activities was approximately HK\$9.5 million for Year 2021 compared to net cash generated from investing activities of approximately HK\$0.3 million for Year 2020. The current period inflows mainly resulted from disposal of a subsidiary of HK\$30.8 million, netting off with HK\$14.4 million (Year 2020: HK\$2.6 million) outflow of capital expenditure and investment in unlisted equity and convertible loan receivables of HK\$6.9 million.

CASH FLOW FROM FINANCING ACTIVITIES

Net cash used in financing activities was approximately HK\$45.1 million for Year 2021 compared to approximately HK\$101.0 million used in financing activities for Year 2020. The inflow for Year 2021 includes HK\$3.6 million in relation to the issue of shares on the exercise of share options, HK\$60 million proceeds from other loan from non-controlling shareholder, netting off with HK\$100 million repayments of other loan from a non-controlling shareholder, HK\$16.3 million of repayment of lease liabilities, HK\$7.8 million of export loans and HK\$0.1 million on interest paid on bank borrowings.

CAPITAL EXPENDITURE

Capital expenditure in Year 2021, financed by internal resources and credit facilities, amounted to approximately HK\$14.7 million (Year 2020: HK\$2.7 million).

TREASURY MANAGEMENT

During Year 2021, there has been no material change in the Group's funding and treasury policies. The Group had a sufficient level of cash and banking facilities for the conduct of its trade in the normal course of business.

We closely review our trade receivable balances and any overdue balances on an ongoing basis and only trade with creditworthy parties. To manage liquidity risk, we closely monitor the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

For exchange risk management, the Group's foreign currency risk is mainly concentrated on the fluctuation of the US dollar against the Renminbi and Japanese Yen. While the Group has no formal hedging policy, it seeks to manage its foreign currency exposures by constructing natural hedges as well as entering into certain forward foreign exchange contracts to minimise any currency risks, when necessary.

CAPITAL STRUCTURE

As at 30 September 2021, the Group's gearing ratio was approximately 105.7% (2020: 243.8%). Gearing ratio equals total borrowings divided by net asset value as at the end of the reporting period. The total borrowings of approximately HK\$294.4 million included bank and other borrowings (2020: HK\$315.8 million).

CHARGE ON GROUP ASSETS

As at 30 September 2021, the banking facilities of the Company's wholly-owned subsidiaries which were based in mainland China and HKSAR amounted to approximately HK\$23.3 million (30 September 2020: HK\$23.3 million), comprising asset-backed lending facility. The facilities were secured against certain bank deposits and corporate guarantees from the Company and in the case of the asset-backed lending facility, an assignment over specific trade receivables. As at 30 September 2021, the amount drawn down under the asset-backed lending facility was HK\$14.0 million (30 September 2020: HK\$6.2 million).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During Year 2021, the Group did not have any material acquisition or disposal of any subsidiaries or associates.

CONTINGENT LIABILITIES

As at 30 September 2021, the Group did not have any material contingent liabilities (30 September 2020: HK\$Nil).

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

Sales to the largest customer and the five major customers respectively accounted for 26.1% and 78.5% of total revenue of the Group for the Year 2021.

Purchases from the largest supplier and the five largest suppliers respectively accounted for 26% and 46% of total purchases of the Group for Year 2021.

As at the date of this report, as far as the Directors were aware of, none of the Directors of the Company, their associates, or any shareholder of the Company had any interest in the customers or suppliers of the Company aforementioned.

COMMITMENTS

As at 30 September 2021, the Group have no capital commitments in respect of purchase of property, plant and equipment (30 September 2020: HK\$Nil). Upon the adoption of HKFRS 16, Leases, the operating lease commitment previously disclosed under previous standards were recognised as lease liabilities in the Consolidated Statement of Financial Position as at 30 September 2021 (30 September 2020: HK\$Nil).

FOREIGN CURRENCY RISK

The Group's principal operating subsidiaries carry out their operations in the Mainland China, HKSAR, Japan, Singapore and United States. Entities in the Group regularly transact in currencies other than their respective functional currencies with regard to the sale and purchase of products. As a consequence, certain trade receivables and borrowings are denominated in foreign currencies. While the Group has no formal hedging policy, it does seek to manage its foreign currency exposures by constructing natural hedges as well as entering into certain foreign exchange contracts to minimise any currency exposure risks, when necessary.

RISKS RELATED TO ANTI-MONEY LAUNDERING

During the Year 2021, the Group has commenced to provide trust and custody services to its clients. Any person who carries on a trust business in Hong Kong has to comply with the relevant requirements of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Chapter 615 of the Laws of Hong Kong) and the guideline issued by the Companies Registry of Hong Kong. To mitigate such risks, the Group has implemented policies and procedures for Anti-Money-Laundering (AML) and Know-Your-Client (KYC) that are initiated during the client onboarding process and are applied by way of continuous monitoring and reporting. In enhancing these policies and procedures, we have also considered industry best-practice and the recommendations of the Financial Action Task Force (FATF).

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2021, the Group had 728 employees (30 September 2020: 622 employees) working in mainland China, HKSAR, Japan, Singapore and the USA. The total employment costs (including Directors' remuneration and mandatory provident fund contributions) for Year 2021 amounted to approximately HK\$141.0 million (Year 2020: HK\$91.4 million). The Company's remuneration policy is set out by the Remuneration Committee on the basis of the employees' merit, qualifications and competence. The Group has also adopted certain bonus programmes, which are determined annually based on certain criteria including performance of the Company and individual employees. Other benefits including share option schemes, insurance policies, retirement benefit plans are offered to eligible employees.

THE COVID-19 PANDEMIC'S IMPACT

The outbreak of COVID-19 has expanded globally and the prevention and control measures to combat the disease have continued to be implemented by different countries. As at the date of this Annual report, there was no material negative impact on the business for the Group due to the outbreak of COVID-19.

The Directors will continue to closely monitor the development of the COVID-19 and assess its impact on the financial position, and operational results of the Group. At present, the Group does not foresee any material change in its exposures to credit risk and liquidity risk. The Group has remained to be financially stable as at 30 September 2021 and experienced no material recovery problem.

EVENTS AFTER THE REPORTING PERIOD

Business updates

After the reporting period, the Group has commenced (i) digital asset lending business to clients and the Group received digital assets collateral under its digital asset lending arrangements with clients; and (ii) the over-the-counter digital asset trading business to trade digital assets with corporate and individual customers through its trading platforms.

Continuing connected transactions in relation to the Custodial Services Agreements entered into with Orion Financial, HB Infinite and Huobi Gibraltar

Reference is made to the announcement of the Company dated 14 July 2021 in relation to, among others, the previous custodial services agreements entered into between Huobi Trust Company Limited ("Huobi Trust HK"), an indirect wholly-owned subsidiary of the Company and each of Orion Financial Technology Limited ("Orion Financial") and HB Infinite Limited ("HB Infinite") on 14 July 2021 respectively (collectively "the parties"). In view of the growing demand for the custodial services provided under the previous custodial services agreements, on 11 October 2021, the parties thereto entered into new custodial services agreements to revise the term of services and the annual caps for the provision of custodial services under the previous custodial services agreements. Further, Huobi Gibraltar Technology Limited ("Huobi Gibraltar") also on 11 October 2021 entered into a custodian services agreement with Huobi Trust HK for appointing Huobi Trust HK as its custodian of Huobi Gibraltar's assets. Under the custodial services agreements dated 11 October 2021 entered into with Orion Financial, HB Infinite and Huobi Gibraltar (each a "Custodial Services Agreement", and collectively the "Custodial Services Agreements"), Huobi Trust HK has been engaged to provide custodial services of the assets of the counterparties for terms commencing from 17 December 2021 to 30 September 2024. The fee charged by Huobi Trust HK as consideration for such custodial services include custodial fee and withdrawal fee. The custodial fee shall accrue daily on a tiered fee structure based on the USDT value of the custodied assets and shall be paid on a monthly basis in arrears. Meanwhile, the withdrawal fee shall be calculated at a percentage of 0.1% of the USDT value of custodied assets transferred out of the custody accounts at Huobi Trust HK and shall be paid upon withdrawal.

In respect of the fees charged by Huobi Trust HK, the annual caps under the Custodial Services Agreement with Orion Financial for each of the period from 17 December 2021 to 30 September 2022 and the financial years ending 30 September 2023 and 30 September 2024 was respectively HK\$73,000,000; the annual caps under the Custodial Services Agreement with HB Infinite for each of the period from 17 December 2021 to 30 September 2022 and the financial years ending 30 September 2023 and 30 September 2024 was respectively HK\$14,000,000; and the annual caps under the Custodial Services Agreement with Huobi Gibraltar for each of the period from 17 December 2021 to 30 September 2022 and the financial years ending 30 September 2023 and 30 September 2024 was respectively HK\$11,600,000.

Management Discussion and Analysis

For details, please refer to the Company's announcements dated 11 October 2021, 2 November 2021, 16 November 2021 and 17 December 2021 and circular dated 29 November 2021.

Continuing connected transactions in relations to the HBIT's signing of Referral Services Framework Agreement

On 30 November 2021, HBIT Limited ("HBIT"), an indirect wholly-owned subsidiary of the Company, and Block Matrix Limited ("Block Matrix"), entered into the referral services framework agreement, pursuant to which HBIT has agreed to provide referral services to Block Matrix for a term commencing from 1 December 2021 and expiring on 30 September 2024 ("Referral Services Framework Agreement"). HBIT shall provide referral services to Block Matrix by way of introduction of borrowers to Block Matrix for the provision of loans of digital assets, and Block Matrix shall pay referral fees to HBIT as consideration for such referral services.

The referral fees payable by Block Matrix to HBIT under the Referral Services Framework Agreement shall be invoiced monthly and calculated at a percentage of 0.2–0.5% of the loan amount based upon the nature and type of the loan to be provided by Block Matrix to the borrowers, such rate to be agreed by the parties from time to time.

The annual caps of the referral fees for each of the period from 1 December 2021 to 30 September 2022, financial years ending 30 September 2023 and 30 September 2024 were respectively HK\$13,000,000.

For details, please refer to the Company's announcement dated 30 November 2021.

OUTLOOK

Going forward, there may be uncertainty in the global economic recovery as a result of COVID-19, but the wave of Web 3.0 is also unstoppable. The big era spurs technological change boom, and every technological change in turn promotes the emergence of new things and new logic. The Group will actively embrace the opportunity given by the era, and will continuously optimise its business layout in the principles of diversification, compliance and professional development of business.

On one hand, we will continue to maintain the healthy and orderly development of manufacturing business; on the other hand, more resources will go to the development of blockchain and virtual asset ecosystem. We are optimistic that the "one-stop virtual asset service platform" the Group has been developing will become a bridge between traditional financial institutions and virtual asset world, thus consolidating and expanding the core competitiveness and achieving long-term development of the Group.

The Group believes that the Group and shareholders will receive reasonable returns as long as we make arrangements in a forward-looking manner and steadily explore the compliance business.