



火币科技
Huobi Tech

HUOBI TECHNOLOGY HOLDINGS LIMITED

火币科技控股有限公司

(Incorporated in the British Virgin Islands with limited liability)

(Stock code: 1611)

2021

INTERIM REPORT

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Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Li Lin (*Chairman and Chief Executive Officer*)
Mr. Lan Jianzhong (resigned on 15 April 2021)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Duan Xiongfei
Mr. Yip Wai Ming
Mr. Ngai Matthew Cheuk Yin

AUDIT COMMITTEE

Mr. Yip Wai Ming (*Chairman*)
Mr. Duan Xiongfei
Mr. Ngai Matthew Cheuk Yin

REMUNERATION COMMITTEE

Mr. Ngai Matthew Cheuk Yin (*Chairman*)
Mr. Lan Jianzhong (resigned on 15 April 2021)
Mr. Yip Wai Ming
Mr. Duan Xiongfei (appointed on 15 April 2021)

NOMINATION AND CORPORATE GOVERNANCE COMMITTEE

Mr. Duan Xiongfei (*Chairman*)
Mr. Yip Wai Ming
Mr. Lan Jianzhong (resigned on 15 April 2021)
Mr. Ngai Matthew Cheuk Yin
(appointed on 15 April 2021)

REGISTERED OFFICE

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BVI VG 1110

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PRINCIPAL BANKER

DBS Bank Ltd., Hong Kong Branch

BVI PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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LEGAL ADVISER AS TO HONG KONG LAW

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111 Connaught Road Central
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AUDITOR

BDO Limited
25th Floor, Wing On Centre
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COMPANY SECRETARY

Mr. Ng Kwan Ho

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Huobi Technology Holdings Limited (the "Company" and together with its subsidiaries the "Group"), I am pleased to present the interim report of the Group for the six months ended 31 March 2021.

EXTERNAL ENVIRONMENT

From 1930s to 2020s, the actual average annual growth rate of U.S. economy was about 3.7%, however, the balance of treasury securities on average increased by approximately 8.4% year-on-year; and the growth rate of broad money M2 reached approximately 7.4%. In 2020, M2 in the United States increased by approximately 25% year-on-year; M2 in the Eurozone increased by 11% year-on-year, while M2 in Japan increased by 9.2% year-on-year, the fastest growth rate since record begins, in December alone. **The world economy continues to be immersed in abundant liquidity.**

In contrast to the loose liquidity, the global economy in 2020 hit the lowest growth rate since the 1960s under the impact of the pandemic. While economic activities were hampered by the impact of the pandemic, the approach of "lenient fiscal policy+ lenient monetary policy" instead stimulated an overall increase in assets to a certain extent. **A full recovery of the healthy global economy continues to face some challenges.**

BUSINESS OVERVIEW

Despite the considerable cost growth pressures on the Group's manufacturing business due to the continued substantial rise in global commodity prices, particularly copper prices, the management of the Group made great efforts to safeguard stable production and orderly operation of the Company's manufacturing business, while maintaining a positive development of data centre and cloud-based services for customers from innovative technology sectors including global blockchain, fintech and big data, which have not only successfully offset the negative impact of the perimeter environment, but have also achieved significant growth in all of the Company's businesses and outstanding performance in all business indicators. This demonstrates the effectiveness of the Group's current business direction and strategy.

Having accurately predicted the significant opportunity for marginal expansion of the virtual asset market, the Group firmly grasped the huge demand for traditional institutions of stepping into the virtual asset market and started to layout and expand its virtual asset compliance licensed business as early as 2019. To date, the Group has obtained Type 4 (advising on securities) and Type 9 (asset management) licenses issued by the Hong Kong Securities and Futures Commission ("SFC"), TCSP license, and the trust license in the State of Nevada, United States. Huobi Asset Management (Hong Kong) Limited, a subsidiary of the Company, has been the second company in Asia approved to issue 100% virtual asset funds and the first licensed asset management company in Hong Kong to issue 100% virtual asset active strategy fund products ever since the SFC enforced the regulations for virtual fund managers for compliance in October 2019. The application for registration of Huobi Trust Company Limited, an indirect wholly-owned subsidiary, as a trust company has also been approved by the Companies Registry in Hong Kong in April 2021.

Chairman's Statement

Now, the Group is pleased to announce that **our emerging technology business has laid down a milestone in becoming a "one-stop compliant digital financial service system for virtual assets" that integrates "trust + asset management + cloud services"**. In the future, the Group will continue to pursue financial licenses in global financial centres, and continue to explore, develop and improve a new generation of compliant products and service system tailored to the needs of institutions.

In addition, the Group is planning to submit an application to the SFC in Hong Kong for licensing as a virtual asset trading platform to carry out Type 1 and Type 7 regulated activities under the Securities and Futures Ordinance in Hong Kong. The Group is confident and determined to implement the above application smoothly.

MACROCOSMIC VIEWPOINT

The economy is an expression of technology in essence. The iterative change of technology is behind the economy in essence.

With the assistance of steam engine, the mankind ushers in the era of industrial production. With the assistance of Internet, the mankind ushers in the era of information-based network. With the assistance of blockchain, the mankind will eventually usher in the era of digital assets. A brand new digital earth will be reflected in parallel universe constituted by physical earth, in which all business, government affairs and social behaviors for the mankind may be digitalized and then capitalized; the large-scale production and collaboration for the mankind will be carried out by relying on the trust system based on blockchain; the interaction of value between people and people, people and things, and things and things will realize seamless transfer in terms of blockchain.

It has been the quote from Kevin Kelly that "it takes about a decade for us to build up a social consensus on the meaning and use of a technology upon its introduction." This argument seems to be validated recently in the blockchain technology represented by Bitcoin.

It takes about 12 years for Bitcoin to initially have a total market capitalization of USD one trillion from the launch of genesis block on 3 January 2009 to 20 February 2021. If compare Bitcoin to a stock, it has been the stock of which market capitalization increases to USD one trillion at the fastest pace since record begins.

The 24-hour trading volume of Uniswap which only has hundreds of lines of initial code, over two years of operating history, double-digit employees and a decentralized trading system built on ethereum, has already surpassed that of a number of large-scale centralized exchanges. The DEFI system with the total amount of locked position of approximately 400 million on 1 January 2020, has drastically expanded to a massive ecosystem with the total amount of locked position of over USD120 billion, which represents a valuable innovation and remarkable achievement.

FUTURE PROSPECTS

Looking ahead, despite the risk of repeated emergence, the Group's manufacturing business has successfully recovered from the pandemic impact. Due to limited impacts of the pandemic, as well as benefiting from the continuous development of the blockchain industry across the globe, the Group's emerging technology business will continue to maintain a good development momentum. The Group is optimistic that the "one-stop compliant digital financial service system for virtual assets" that the Company strives to build is expected to better meet the needs from global institutions for access to the virtual asset industry in a long-term development.

The Group believes that its persistence in long-term mentality and the business development strategy will generate reasonable shareholders' returns in the future.

On behalf of the Board,

Li Lin

Chairman

HKSAR

21 May 2021

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 recognize, motivate and provide incentives to those who make contributions to the Company and its subsidiaries (the “Group”). Pursuant to the Share Option Scheme, the option period commences from the date on which a share option (the “Option”) is offered to a grantee to the date to be notified by the board of directors (the “Board”) of the Company in a letter of grant, but shall not exceed 10 years from the date of offer (the “Option Period”). During the Option Period, one-third of the Options shall be vested in the holders of Options on each anniversary of the first 3 years.

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 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 with effect from 17 November 2020. The amendments shall not apply to the outstanding options 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, 22 October 2020, 17 November 2020 and the circular dated 22 October 2020.

Obtained trust company license in United States

Huobi Trust Company (the “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 (1) custodial service agreement; and (2) compliance service agreement

Huobi Trust US entered into a custodial service agreement (the “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 the 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 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

Management Discussion and Analysis

Huobi Trust US entered into a compliance service agreement (the “Compliance Service Agreement”) with Stable Universal, pursuant to which Stable Universal has agreed to engage Huobi Trust US as an agent for the provision the compliance services to Stable Universal in connection with (i) the mandatory process of identifying and verifying the identity of client when opening an account and periodically over time; (ii) the customer identification program in compliance with Section 326 of the USA Patriot Act and its implementing regulations; and (iii) ongoing compliance services including the monitoring and review of onboarded customers to (a) determine continued compliance with applicable anti-money laundering regulations and sanctions, (b) detect suspicious activity and (c) provide Stable Universal with integrated case management services. 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 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 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 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”) to Huobi Global Limited (“Huobi Global (Seychelles)”) under the service agreement dated 24 December 2019 (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 dated 19 March 2020 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 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 (the “Second Supplemental Agreement”).

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 the 1 October 2021 to 30 September 2022	For the period commencing from the 1 October 2022 to 30 September 2023
New terms			
Revised caps	HK\$48,000,000.00	HK\$48,000,000.00	HK\$48,000,000.00

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 ordinary shares in the share capital 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, the Board expects that more investors will be attracted to invest into the Shares and therefore may improve the liquidity of the Shares and broaden the shareholders’ base of the Company.

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

PERFORMANCE REVIEW

The Group recorded a total revenue of approximately HK\$261.7 million for the six months ended 31 March 2021 ("Period 2021"), representing an increase of approximately 122.8% or HK\$144.2 million from HK\$117.5 million for the six months ended 31 March 2020 ("Period 2020").

The gross profit of the Group was HK\$134.0 million for Period 2021, representing an increase of approximately 516.5% or HK\$112.3 million from HK\$21.7 million for Period 2020.

The Group recorded a profit of HK\$54.1 million for Period 2021 compared to the loss of HK\$30.2 million for Period 2020.

Earnings per share of the Group for Period 2021 was HK17.62 cents (Period 2020: loss per share of HK9.89 cents).

BUSINESS REVIEW

Power-related & electrical/electronic products business

The revenue of the Group from power-related & electrical/electronic product business was HK\$160.8 million for Period 2021, representing an increase of approximately HK\$51.0 million or 46.5% as compared for Period 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\$124.4 million for Period 2021, representing an increase of approximately HK\$33.2 million or 36.4% from HK\$91.2 million for Period 2020. The increase was mainly due to the increase in sales.

The gross profit was HK\$36.4 million and HK\$21.7 million, representing a gross profit margin of 22.6% and 16.9% for Period 2021 and Period 2020 respectively. The increase was due to the shift in sales mix to high-margin customers.

Selling and distribution expenses increased by HK\$2.2 million or 118.1% from HK\$1.8 million for Period 2020 to HK\$4.0 million for Period 2021. The increase was mainly attributable to the increase in sales.

Provision of technology solution services

(i) *Technology solution business*

The Group provided 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 Period 2021 and the revenue was approximately HK\$38.6 million, which was mainly attributable to the provision of cloud-based services.

The gross profit of the aforementioned business was HK\$28.2 million during Period 2021, representing a gross profit margin of 73.1%.

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

Management Discussion and Analysis

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

The Group provided 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 customizations to the Software in order to operate a virtual asset trading platform.

During the Period 2021, the business grew dramatically and the revenue has increased by 20,366.7% or HK\$61.1 million from HK\$0.3 million in Period 2020 to HK\$61.4 million in Period 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\$59.4 million during the Period 2021, representing a gross margin of 96.7%.

Virtual Asset Ecosystem

(i) Asset management

The Group has commenced and carried on asset management businesses through Huobi Asset Management (Hong Kong) Limited (“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 fund shall invest into a combination of different asset classes including traditional assets and virtual assets. Huobi Asset Management has provided asset management services during Period 2021 but no securities advisory service during the same period.

As of the date of this interim report, Huobi Asset Management has launched its asset management services to five funds. These funds include a multi asset fund, which invests in traditional assets and virtual assets; a Bitcoin tracker fund, an Ethereum tracker fund, and a multi-strategy virtual asset fund, all of which solely invest in virtual 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.

(ii) Trust and custodian business

This type of business was being carried out through Huobi Trust US during Period 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. During the Period 2021, the revenue generated from the provision of custodian and compliance service was HK\$0.9 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 apply for the SFC 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 the business during the Period 2021.

NON-OPERATING EXPENSES OVERVIEW

Other income

Other income, which includes government grant, certification and inspection fees, sample sales and rework costs recharged to customers, has decreased by approximately HK\$0.3 million from HK\$3.3 million for Period 2020 to HK\$3.0 million for Period 2021. The decrease was mainly due to the decrease of government grant received.

Administrative expenses

Administrative expenses have increased by approximately HK\$6.6 million or 14.2% from approximately HK\$46.6 million for Period 2020 to approximately HK\$53.2 million for Period 2021 which was due to an increase in staff cost of high-calibre personnel during the Period 2021.

Finance costs

Finance costs have decreased by approximately HK\$2.1 million or 23.5% from approximately HK\$9.0 million for Period 2020 to approximately HK\$6.9 million for Period 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 Period 2021 was approximately HK\$73.3 million as compared to the loss before income tax of approximately HK\$30.1 million for Period 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 bloom of virtual asset trading industry.

Income tax expense

Income tax expense increased from approximately HK\$0.2 million for Period 2020 to approximately HK\$19.2 million for Period 2021, representing an increase of approximately HK\$19.0 million.

Profit/(loss) after income tax

The Group's profit after income tax for Period 2021 was approximately HK\$54.1 million as compared to the loss after income tax of approximately HK\$30.2 million for Period 2020.

Dividend

The Directors do not recommend the payment of an interim dividend for Period 2021 (Period 2020: Nil).

Management Discussion and Analysis

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 at 31 March 2021, together with the position as at 30 September 2020 is summarised below:

	31 March 2021 HK\$'000	30 September 2020 HK\$'000
Cash and cash equivalents	397,315	403,684
Less: Interest-bearing bank borrowings	(6,182)	(6,235)
Other borrowings	(315,037)	(309,545)
Net cash	76,096	87,904

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

Besides, cryptocurrencies of approximately HK\$43.3 million were mainly in the form of United States Dollar Tether ("USDT"), a blockchain-based cryptocurrency pegged to US Dollar, which were received by the Company as revenue when providing SaaS and were readily convertible to equivalent US Dollar.

As at 31 March 2021, the effective interest rates on the Group's floating rate borrowing range from 2.1% to 2.2% (30 September 2020: 2.2% to 4.0%) per annum.

CASH FLOW FROM OPERATING ACTIVITIES

Net cash used in operating activities was approximately HK\$1.8 million for Period 2021 (Period 2020: net cash used in operating activities was approximately HK\$0.9 million). The decrease in cash flow in Period 2021 was due to the increase in working capital to HK\$89.8 million.

CASH FLOW FROM INVESTING ACTIVITIES

Net cash used in investing activities was approximately HK\$2.2 million for Period 2021 compared to net cash generated from investing activities of approximately HK\$0.9 million for Period 2020. The outflow for Period 2021 mainly resulted from purchase of property, plant and equipment of HK\$2.1 million.

CASH FLOW FROM FINANCING ACTIVITIES

Net cash used in financing activities was approximately HK\$5.2 million for Period 2021 compared to approximately HK\$41.0 million used in financing activities for Period 2020. The outflow for Period 2021 was mainly due to the repayment of approximately HK\$7.3 million of the lease liabilities.

CAPITAL EXPENDITURE

Capital expenditure in Period 2021, financed by internal resources and credit facilities, amounted to approximately HK\$2.1 million (Period 2020: HK\$1.6 million).

TREASURY MANAGEMENT

During Period 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.

CHARGE ON GROUP ASSETS

As at 31 March 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 31 March 2021, the amount drawn down under the asset-backed lending facility was HK\$6.2 million (30 September 2020: HK\$6.2 million).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During Period 2021, there were no material acquisitions or disposals of subsidiaries and associated companies by the Group.

CONTINGENT LIABILITIES

As at 31 March 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 24.5% and 77.5% of total revenue of the Group for the Period 2021.

Purchases from the largest supplier and the five largest suppliers respectively accounted for 24.9% and 45.4% of total purchases of the Group for Period 2021.

As at the date of this interim report, as far as the Directors were aware of, save and except that one of the five major customers (accounting for 11.4% of the total revenue of the Group for the Period 2021) is an associate of a Director of the Company, 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 31 March 2021, the Group have HK\$164,000 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 Condensed Consolidated Statement of Financial Position as at 31 March 2021 (30 September 2020: HK\$Nil).

Management Discussion and Analysis

FOREIGN CURRENCY RISK

The Group's principal operating subsidiaries carry out their operations in the Mainland China, HKSAR, Japan, Singapore and USA. 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.

EMPLOYEES

As at 31 March 2021, the Group had 626 employees (30 September 2020: 622 employees) working in mainland China, HKSAR, Japan, Singapore and the USA. The Group has adopted certain bonus programmes, which are determined annually based on certain criteria including performance of the Company and individual employees. The total employment costs (including Directors' remuneration and mandatory provident fund contributions) for Period 2021 amounted to approximately HK\$60.3 million (Period 2020: HK\$43.3 million).

OUTLOOK

From the end of 2020 to the first quarter of 2021, despite the considerable impact of the protracted global pandemic on the global economic development, the Group's business progress and performance have achieved remarkable results, turning the tide against the trend.

During the period, investors actively sought a wide range of investment portfolios, stimulated by easing fiscal policy regarding global financial market. The Group has reviewed the situation, embraced the general trend of the industry development and firmly diversified its business development. With its excellent achievements in the construction of blockchain and virtual asset ecosystem, the Group has substantially realized the application for a number of licenses regarding finance and virtual asset, the businesses under which have been carried out successfully and gradually. At the same time, the geographical distribution of its business covers Asia Pacific and North America and Europe, actively embracing the possibilities of its business development in different regions and achieving good communication and interaction with the regulators in the relevant regions.

Meanwhile, in terms of manufacturing business, benefiting from positive factors such as the easing of the domestic pandemic situation, resumption of work and production, and gradual market recovery, the Group achieved considerable growth in business revenue and gross profit for the period.

In terms of capital market communication, the Company has strengthened its establishment of communication system for capital market to enhance corporate transparency, and has recently been included in the MSCI Hong Kong Small Cap Index, which is expected to receive more attention from the capital market in the future.

Looking ahead, the Group will continue to maintain a healthy and orderly development of its manufacturing business, while firmly establishing its presence in the blockchain and virtual asset. We believe that with an increased recognition from institutional investors and enhanced regulatory clarity, the virtual asset and blockchain industry will continue to expand its blue ocean, which is conducive to the business development of the Company. Meanwhile, we will continue to actively apply for licenses regarding finance and virtual asset in major countries and regions to accelerate the compliance process and strive to build a leading one-stop virtual asset service platform in Asia.

Independent Auditor's Review Report



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永安中心25樓

TO THE BOARD OF DIRECTORS OF HUOBI TECHNOLOGY HOLDINGS LIMITED

(incorporated in the British Virgin Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 16 to 61, which comprise the condensed consolidated statement of financial position of Huobi Technology Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 31 March 2021 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the "interim financial information"). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on the interim financial information based on our review. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

BDO Limited

Certified Public Accountants

Chiu Wing Cheung Ringo

Practising Certificate no. P04434

Hong Kong, 21 May 2021

Condensed Consolidated Statement of Profit or Loss

	Notes	Six months ended 31 March	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Revenue	6	261,722	117,458
Cost of sales and services		(127,683)	(95,716)
Gross profit		134,039	21,742
Other income	7	3,010	3,272
Interest income	8	345	2,359
Selling and distribution expenses		(3,978)	(1,824)
Administrative expenses		(53,200)	(46,593)
Finance costs	9	(6,896)	(9,015)
Profit/(loss) before income tax	10	73,320	(30,059)
Income tax expense	11	(19,214)	(150)
Profit/(loss) for the period		54,106	(30,209)
Profit/(loss) for the period attributable to owners of the Company		54,106	(30,209)

		Six months ended 31 March	
		2021 HK cents (Unaudited)	2020 HK cents (Unaudited)
Earnings/(loss) per share	13		
– Basic		17.62	(9.89)
– Diluted		17.45	(9.89)

Condensed Consolidated Statement of Other Comprehensive Income

	Six months ended 31 March	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Profit/(loss) for the period	54,106	(30,209)
Other comprehensive income		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on the translation of financial statements of foreign operations	4,415	(1,177)
Other comprehensive income for the period, net of tax	4,415	(1,177)
Total comprehensive income for the period attributable to owners of the Company	58,521	(31,386)

Condensed Consolidated Statement of Financial Position

	Notes	31 March 2021 HK\$'000 (Unaudited)	30 September 2020 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	40,798	40,888
Right-of-use assets	14	38,515	41,098
Intangible asset		361	–
Goodwill		174	174
		79,848	82,160
Current assets			
Inventories		41,823	25,231
Trade and other receivables	15	142,505	86,802
Cryptocurrencies		43,309	–
Pledged bank deposit		7,781	7,758
Cash and bank balances		397,315	403,684
		632,733	523,475
Current liabilities			
Trade and other payables	16	123,257	97,231
Contract liabilities		3,808	4,261
Bank and other borrowings	17	104,218	101,856
Lease liabilities		11,140	10,646
Tax payable		24,003	8,145
		266,426	222,139
Net current assets		366,307	301,336
Total assets less current liabilities		446,155	383,496
Non-current liabilities			
Bank and other borrowings	17	217,001	213,924
Lease liabilities		30,027	32,277
Deferred tax liabilities	18	7,366	7,764
		254,394	253,965
Net assets		191,761	129,531
EQUITY			
Share capital	19	307	307
Reserves		191,454	129,224
Total equity attributable to owners of the Company		191,761	129,531

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 March 2021

	Unaudited							Total HK\$'000
	Share capital HK\$'000 (note 19)	Share premium HK\$'000 (note 20)	Share option reserve HK\$'000	Other reserve HK\$'000	Statutory reserve HK\$'000	Translation reserve HK\$'000	(Accumulated losses)/ Retained profits HK\$'000	
At 1 October 2020	307	101,554	5,674	32,565	7,956	(11,003)	(7,522)	129,531
Issue of shares upon exercise of share options (notes 19(ii) and 20(ii))	-*	2,947	(800)	-	-	-	-	2,147
Equity-settled share based compensation expenses (note 21)	-	-	1,562	-	-	-	-	1,562
Transfer of share option reserve upon the forfeiture of share options	-	-	(2,221)	-	-	-	2,221	-
Transactions with owners	-*	2,947	(1,459)	-	-	-	2,221	3,709
Profit for the period	-	-	-	-	-	-	54,106	54,106
Other comprehensive income								
Exchange differences arising on the translation of financial statements of foreign operations	-	-	-	-	-	4,415	-	4,415
Total comprehensive income for the period	-	-	-	-	-	4,415	54,106	58,521
At 31 March 2021	307	104,501	4,215	32,565	7,956	(6,588)	48,805	191,761

* The balance represents an amount less than HK\$1,000.

For the six months ended 31 March 2020

	Unaudited							Total HK\$'000
	Share capital HK\$'000 (note 19)	Share premium HK\$'000 (note 20)	Share option reserve HK\$'000	Other reserve HK\$'000	Statutory reserve HK\$'000	Translation reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	
At 1 October 2019	305	96,237	2,602	27,287	7,956	(12,702)	25,060	146,745
Equity-settled share based compensation expenses (note 21)	-	-	4,340	-	-	-	-	4,340
Loss on loan modification from the immediate holding company, net of deferred tax (note 17)	-	-	-	(4,019)	-	-	-	(4,019)
Transactions with owners	-	-	4,340	(4,019)	-	-	-	321
Loss for the period	-	-	-	-	-	-	(30,209)	(30,209)
Other comprehensive income								
Exchange differences arising on the translation of financial statements of foreign operations	-	-	-	-	-	(1,177)	-	(1,177)
Total comprehensive income for the period	-	-	-	-	-	(1,177)	(30,209)	(31,386)
At 31 March 2020	305	96,237	6,942	23,268	7,956	(13,879)	(5,149)	115,680

Condensed Consolidated Statement of Cash Flows

		Six months ended 31 March	
		2021	2020
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Notes			
Cash flows from operating activities			
	Profit/(loss) before income tax	73,320	(30,059)
	Adjustments for:		
	Amortisation of intangible asset	12	–
	Depreciation of property, plant and equipment	3,151	4,032
	Depreciation of right-of-use assets	6,693	9,767
	Equity-settled share-based payment expenses	1,562	4,340
	Gain on conversion of intangible asset (note (a))	–	(51)
	Imputed interest expense on other loan from a related company (2020: immediate holding company)	3,077	5,052
	Imputed interest expense on other borrowings	2,416	2,298
	Interest expenses on bank borrowings	43	241
	Interest expenses on lease liabilities	1,360	1,424
	Interest income	(345)	(2,359)
	Reversal of impairment loss on inventories	(186)	(105)
	Sundry income	(24)	(288)
		91,079	(5,708)
	Operating profit/(loss) before working capital changes		
	(Increase)/decrease in inventories	(16,406)	3,436
	Increase in cryptocurrencies	(49,186)	–
	Conversion of cryptocurrencies (note (a))	5,877	–
	(Increase)/decrease in trade and other receivables	(55,703)	8,801
	Increase/(decrease) in trade and other payables	26,026	(4,838)
	(Decrease)/increase in contract liabilities	(453)	433
		1,234	2,124
	<i>Cash generated from operations</i>		
	Income tax paid	(3,011)	(3,004)
		(1,777)	(880)
	<i>Net cash used in operating activities</i>		
Cash flows from investing activities			
	Purchase of intangible asset	(373)	–
	Purchase of property, plant and equipment	(2,104)	(1,626)
	(Increase)/decrease in pledged bank deposit	(23)	81
	Interest received on bank deposits and balances	345	2,359
	Other cash flows arising from investing activities	–	66
		(2,155)	880
	<i>Net cash (used in)/generated from investing activities</i>		

Condensed Consolidated Statement of Cash Flows

	Notes	Six months ended 31 March	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Cash flows from financing activities			
Net cash outflow in trust receipts and export loans		(53)	(302)
Repayment of principal portion of lease liabilities		(5,926)	(8,479)
Repayment of interest portion of lease liabilities		(1,360)	(1,424)
Repayment of other loans from the immediate holding company	17	–	(109,000)
Proceeds from conversion of cryptocurrencies (note (a))		–	78,445
Interest paid on bank borrowings		(43)	(241)
Issue of shares on exercise of share options		2,147	–
<i>Net cash used in financing activities</i>		(5,235)	(41,001)
Net decrease in cash and cash equivalents	22	(9,167)	(41,001)
Effect of foreign exchange rate changes		2,798	(1,279)
Cash and cash equivalents at beginning of the period		403,684	474,683
Cash and cash equivalents at end of the period		397,315	432,403
Analysis of the balance of cash and cash equivalents			
Cash and bank balances		397,315	432,403

Note:

- (a) During the six months ended 31 March 2021, cryptocurrencies amounting to approximately US\$758,000 or HK\$5,877,000, in the form of United States Dollar Tether (“USDT”), were converted into fiat currency of approximately HK\$5,877,000.

During the six months ended 31 March 2020, cryptocurrencies as at 30 September 2019 amounting to US\$10,000,000 or HK\$78,394,000 in the form of USDT, were converted into fiat currency of HK\$78,445,000 and a gain on conversion of HK\$51,000 was recognised as sundry income.

MAJOR NON-CASH TRANSACTIONS

During the six months ended 31 March 2021, the Group had non-cash additions to right-of-assets and lease liabilities of HK\$2,763,000 (2020: HK\$24,149,000) and HK\$2,763,000 (2020: HK\$24,149,000) respectively, in respect of the lease arrangements for the leased office properties and factory.

Notes to the Financial Statements

For the six months ended 31 March 2021

1. GENERAL INFORMATION

Huobi Technology Holdings Limited (the “Company”) was incorporated in the British Virgin Islands (the “BVI”) as a limited liability company on 27 December 1990 and its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange of Hong Kong”) on 21 November 2016. The address of the Company’s registered office is Newhaven Corporate Services (BVI) Limited, 3rd Floor, J&C Building, P.O. Box 362, Road Town, Tortola, the BVI and its principal place of business is Room 1404-5, 14/F, Nan Fung Tower, 88 Connaught Road Central, Hong Kong.

The Company is an investment holding company and its subsidiaries (collectively, referred to as the “Group”) are principally engaged in the contract manufacturing, on electronic manufacturing services basis, of a wide range of power-related and electrical/electronic products, the provision of technology solution services, and varieties of services in virtual asset ecosystem, such as asset management, trust and custodian business. These business segments are the basis upon which the Group reports its primary segment information. The ultimate controlling party of the Company is Mr. Li Lin (李林) (“Mr. Li”).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

(a) Basis of preparation

The unaudited condensed consolidated interim financial statements (the “Interim Financial Statements”) have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) and Hong Kong Accounting Standard 34, “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosures required by the Main Board Listing Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong (the “Listing Rules”).

These Interim Financial Statements have been prepared with the same accounting policies adopted in the consolidated financial statements for the year ended 30 September 2020, except for those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 October 2020 and the inclusion of the following additional accounting policies of “Intangible assets (other than goodwill) – Domain name” and “Consultancy services income” as adopted by the Group. Details of the new standards/interpretation adopted for the first time in the current period and their effect on the Group’s accounting policies are set out in note 2(b).

Intangible assets (other than goodwill)

Domain name

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is recognised at fair value at the acquisition date. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

The amortisation expense is recognised in profit or loss and included in administrative expenses. The useful lives and amortisation method are reviewed, and adjusted if appropriate, at the end of each reporting period. The amortisation is provided on a straight-line basis over their estimated useful lives as follows.

Domain name 15 years

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES – *continued*

(a) Basis of preparation – *continued*

Intangible assets (other than goodwill) – *continued*

Domain name – continued

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill, is recognised in profit or loss as incurred.

(iii) Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

(iv) Impairment of intangible assets

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease to the extent of its revaluation surplus.

Consultancy services income

Consultancy services income is recognised over time as those services are provided continuously over the contract period. Invoices for those service income are issued on a regular basis based on the terms stated in the contract.

The Interim Financial Statements are unaudited but, have been reviewed by BDO Limited in accordance with the Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

The Interim Financial Statements do not include all of the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 30 September 2020.

The Interim Financial Statements are presented in Hong Kong Dollars (“HK\$”), which is also the functional currency of the Company. All values are rounded to nearest thousand (“HK\$’000”), unless otherwise stated.

Notes to the Financial Statements

For the six months ended 31 March 2021

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES – *continued*

(b) Adoption of amended HKFRSs – effective from 1 October 2020

In the current period, the Group has applied for the first time the following new or amended HKFRSs issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual financial period beginning on 1 October 2020.

Amendments to HKFRS 3	Definition of Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Conceptual Framework for Financial Reporting 2018	Conceptual Framework for Financial Reporting (Revised)

The adoption of these new or amended HKFRSs did not have any significant impact on the financial performance and financial position of the Group.

Amendments to HKFRS 3 – Definition of a Business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a “substantive process”.

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of “outputs” and a “business” to focus on returns from selling goods and services to customers, rather than on cost reductions. An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is regarded as a business or not.

Amendments to HKAS 1 and HKAS 8 – Definition of Material

The amendments clarify the definition and explanation of “material”, aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

Conceptual Framework for Financial Reporting 2018 – Conceptual Framework for Financial Reporting (Revised)

The revised Framework is not a Standard nor an Accounting Guideline. It does not override any Standard, any requirement in a Standard or Accounting Guideline. The revised Framework includes: new chapters on measurement and reporting financial performance; new guidance on derecognition of assets and liabilities; updated definitions of asset and liability; and clarifications in the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Notes to the Financial Statements

For the six months ended 31 March 2021

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES – *continued*

(c) New or amended HKFRSs that have been issued but are not yet effective

The following new or amended HKFRSs that have been issued but are not yet effective and have not been early adopted by the Group, in the preparation of the Interim Financial Statements.

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2 ¹
Amendments to HKAS 16	Proceeds before Intended Use ³
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ³
Amendments to HKFRS 3	Reference to the Conceptual Framework ⁴
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ⁵
Annual Improvements to HKFRSs	Annual Improvements to HKFRSs 2018–2020 ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Estimates ⁵
Amendments to HKAS 8	Definition of Accounting Estimates ⁵
Amendments to HKFRS 16	COVID-19 – Related Rent Concession beyond 30 June 2021 ²

¹ Effective for annual periods beginning on or after 1 January 2021.

² Effective for annual periods beginning on or after 1 April 2021.

³ Effective for annual periods beginning on or after 1 January 2022.

⁴ Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

⁵ Effective for annual periods beginning on or after 1 January 2023.

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 – Interest Rate Benchmark Reform – Phase 2

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the “Reform”). The amendments complement those issued in November 2019 and relate to (a) changes to contractual cash flows in which an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; (b) hedge accounting in which an entity will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and (c) disclosures in which an entity will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

The Directors of the Company do not anticipate that the application of the amendments will have an impact on the Group’s financial statements.

Notes to the Financial Statements

For the six months ended 31 March 2021

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES – *continued*

(c) New or amended HKFRSs that have been issued but are not yet effective – *continued*

Amendments to HKAS 16 – Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The Directors of the Company are currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements.

Amendments to HKAS 37 – Onerous Contracts – Cost of Fulfilling a Contract

The amendments specify that the “cost of fulfilling a contract” comprises the “costs that relate directly to the contract”. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The Directors of the Company are currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2018–2020

The annual improvements amend a number of standards, including:

- HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, which permits a subsidiary that applies paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to HKFRSs.
- HKFRS 9, Financial Instruments, which clarifies the fees included in the “10 per cent” test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included.
- HKFRS 16, Leases, which amends Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.
- HKAS 41, Agriculture, which removes the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The Directors of the Company do not anticipate that the application of the amendments will have an impact on the Group's financial statements.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES – *continued*

(c) **New or amended HKFRSs that have been issued but are not yet effective** – *continued*

Amendments to HKFRS 3 – Reference to the Conceptual Framework

The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The Directors of the Company do not anticipate that the application of the amendments will have an impact on the Group's financial statements.

Amendments to HKAS 1 – Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

HK Int 5 (2020) was revised as a consequence of the Amendments to HKAS 1 issued in August 2020. The revision to HK Int 5 (2020) updates the wordings in the interpretation to align with the Amendments to HKAS 1 with no change in conclusion and do not change the existing requirements.

The Directors of the Company do not anticipate that the application of the amendments will have an impact on the Group's financial statements.

Amendments to HKAS 1 and HKFRS Practice Statement 2 – Disclosure of Accounting Policies

The amendments to Disclosure of Accounting Policies were issued following feedback that more guidance was needed to help companies decide what accounting policy information should be disclosed. The amendments to HKAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments to HKFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The Directors of the Company do not anticipate that the application of the amendments will have an impact on the Group's financial statements.

Notes to the Financial Statements

For the six months ended 31 March 2021

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES – *continued*

(c) New or amended HKFRSs that have been issued but are not yet effective – *continued*

Amendments to HKAS 8 – Definition of Accounting Estimates

The amendments to HKAS 8 clarify how companies should distinguish changes in accounting policies from changes in accounting estimates. That distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.

The Directors of the Company do not anticipate that the application of the amendments will have an impact on the Group's financial statements.

Amendment to HKFRS 16 – COVID-19-Related Rent Concessions beyond 30 June 2021

The 2021 Amendment to HKFRS 16 extends the availability of the practical expedient in paragraph 46A of HKFRS 16 so that it applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

The Directors of the Company do not anticipate that the application of the amendments will have a significant impact on the Group's financial statements.

3. ESTIMATES

The preparation of Interim Financial Statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the Interim Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those applied to the consolidated financial statements for the year ended 30 September 2020.

4. FINANCIAL RISK MANAGEMENT

Financial Risk Factors

The Group is exposed to a variety of financial risks: market risk (including foreign currency risk), interest rate risk, fair value risk, credit risk and liquidity risk. The Group's overall risk management focuses on unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by key management under the policies approved by the Board of Directors (the "Board"). The Group does not have written risk management policies. However, the Board meets regularly and co-operates closely with key management to identify and evaluate risks and to formulate strategies to manage financial risks.

The Interim Financial Statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 30 September 2020.

4. FINANCIAL RISK MANAGEMENT – continued

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's credit risk primarily relates to the Group's time deposits and bank balances, trade receivables and other receivables. The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at end of the financial period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position. In order to minimise the risk, the Board closely monitors overdue debts. The recoverable amount of each individual debt is reviewed at each reporting period and adequate allowance for doubtful debts has been made for irrecoverable amounts. In this regard, the Board considers that credit risk associated with the Group's trade receivables and other receivables is significantly reduced.

(i) Time deposit and bank balances

The Group expects that there is no significant credit risk associated with cash deposits at banks since they are substantially deposited at state-owned banks and reputable banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

(ii) Trade receivables

The Group applies the simplified approach to provide for expected credit losses ("ECLs") prescribed by HKFRS 9 "Financial instruments" ("HKFRS 9"), which permits the use of the lifetime ECL provision for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The ECLs also incorporate forward-looking information.

As at 31 March 2021, trade receivables of HK\$55,522,000 (30 September 2020: HK\$30,977,000) were contributed by the top five customers. The Group has monitoring procedures to ensure that follow up action is taken to recover overdue debts. The Group applies the simplified approach to provide for ECLs prescribed by HKFRS 9, which permits the use of the lifetime ECL provision for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The ECLs also incorporate forward-looking information. The ECL rate of collectively assessed trade receivables that were neither past due nor impaired is 0.02% (30 September 2020: 0.04%), past due between 0 to 60 days is 0.19% (30 September 2020: 0.21%) and past due more than 60 days is 19% (30 September 2020: 20%). The Directors consider that there are no significant credit risk on trade receivables due to the past payment history and taking into account of the sound financial performance and position of the debtors to meet contractual cash flow obligations in the near term. Accordingly, the ECL rate on trade receivables was assessed to be minimal and no provision was made for the period (30 September 2020: HK\$Nil).

Notes to the Financial Statements

For the six months ended 31 March 2021

4. FINANCIAL RISK MANAGEMENT – *continued*

Credit Risk – *continued*

(iii) Other receivables

The Group has adopted general approach to measure ECLs on financial assets included in prepayments and other receivables, and other financial assets at amortised cost. Under the general approach, the Group applies the “3-stage” impairment model for ECLs measurement based on change in credit risk since initial recognition as follows:

- Stage 1: If the credit risk of the financial instrument has not increased significantly since initial recognition, the financial instrument is included in Stage 1.
- Stage 2: If the credit risk of the financial instrument has increased significantly since its initial recognition but is not deemed to be credit-impaired, the financial instrument is included in Stage 2.
- Stage 3: If the financial instrument is credit-impaired, the financial instrument is included in Stage 3.

The ECLs for financial instruments in Stage 1 are measured at an amount equivalent to 12-month ECLs whereas the ECLs for financial instruments in Stage 2 or Stage 3 are measured at an amount equivalent to lifetime ECLs.

When determining whether the risk of default has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit risk assessment and including forward-looking information.

Having regard to industry practice and relevant regulation, as well as the background and behaviour of the debtors/counterparties, the Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise. In addition, the Group considers that a financial asset to be in default when: (i) the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is more than 90 days past due, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criteria is more appropriate.

4. FINANCIAL RISK MANAGEMENT – *continued*

Credit Risk – *continued*

(iii) Other receivables – *continued*

At the end of the reporting period, the Group assesses whether a financial asset is credit-impaired. A financial asset is considered as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- (a) significant financial difficulty of the debtor;
- (b) a breach of contract, such as a default or past due event;
- (c) granting a concession to the debtors that the debtor would not otherwise consider for economic or contractual reasons relating to the debtor's financial difficulty; or
- (d) it is becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

The Group makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience as well as ECL assessment. The Directors believe that there is no material credit risk inherent in the Group's outstanding balances of deposits and other receivables. Accordingly, the ECL rate on deposits and other receivables was assessed to be minimal and no provision was recognised for the period (30 September 2020: HK\$Nil).

Liquidity Risk

The Group's objective is to ensure that adequate funds are available to meet commitments associated with its financial liabilities.

The Group manages its liquidity needs by carefully monitoring short-term and long-term cash outflows on a regular basis. The Group mainly utilises cash to meet its liquidity requirements for periods up to 30 days. Funding for long-term liquidity needs will be considered when liquidity requirements in the long term are identified.

Notes to the Financial Statements

For the six months ended 31 March 2021

4. FINANCIAL RISK MANAGEMENT – continued

Liquidity Risk – continued

The table below analyses the Group's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contracted maturity date. The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities and the earliest date the Group can be required to pay.

	Carrying amount HK\$'000	Total contractual undiscounted cash flows HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year but not exceeding 2 years HK\$'000	More than 2 years but not exceeding 5 years HK\$'000	More than 5 years HK\$'000
As at 31 March 2021 (Unaudited)						
Non-derivative financial liabilities:						
Trade and other payables	123,257	123,257	123,257	-	-	-
Bank borrowings	6,182	6,182	6,182	-	-	-
Other borrowings	315,037	332,971	100,000	-	232,971	-
Lease liabilities	41,167	47,509	13,451	9,088	24,970	-
	485,643	509,919	242,890	9,088	257,941	-

As at 30 September 2020 (Audited)

Non-derivative financial liabilities:						
Trade and other payables	97,231	97,231	97,231	-	-	-
Bank borrowings	6,235	6,235	6,235	-	-	-
Other borrowings	309,545	332,971	100,000	-	232,971	-
Lease liabilities	42,923	50,236	13,099	9,292	25,677	2,168
	455,934	486,673	216,565	9,292	258,648	2,168

Fair Value Estimation

The fair values of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short-term maturity of these financial assets and liabilities.

The fair values of non-current financial liabilities as at 31 March 2021 and 30 September 2020 for disclosure purposes are estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

5. SEGMENT INFORMATION

The Group has determined its operating segments and prepared segmental information based on regular internal financial information reported to the chief operating decision makers, i.e. the Executive Directors of the Company, who are responsible for making strategic decisions. The Executive Directors review the Group's internal reporting in order to assess performance and allocate resources and have determined the operating segments based on these reports. The Group's reportable and operating segments during the six months ended 31 March 2021 are as follows:

- (i) Contract manufacturing;
- (ii) Provision of technology solution services; and
- (iii) Virtual asset ecosystem.

Each of these operating segments is managed separately as each of them requires different resources.

The chief operating decision makers assess the performance of the operating segments based on a measure of operating profit. The measurement policies used by the Group for reporting segment results are consistent with those used in its financial statements prepared under HKFRSs, except for income tax expense, and corporate income and expenses which are not directly attributable to the business activities of any operating segment and are not included in arriving at the operating results of the operating segment.

Segment assets include all assets other than unallocated corporate assets (mainly comprising certain property, plant and equipment, right-of-use assets, other receivables, and cash and bank balances).

Segment liabilities include all liabilities other than unallocated corporate liabilities (mainly comprising certain other payables, tax payable, other borrowings, lease liabilities and deferred tax liabilities).

Notes to the Financial Statements

For the six months ended 31 March 2021

5. SEGMENT INFORMATION – continued

Information regarding the Group's reportable segments is set out below:

For the six months ended 31 March 2021

	Contract manufacturing HK\$'000 (Unaudited)	Provision of technology solution services HK\$'000 (Unaudited)	Virtual asset ecosystem HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Revenue from external customers	160,796	100,006	920	261,722
Segment results	18,047	87,169	(11,299)	93,917
Unallocated corporate income				
Interest income				10
Sundry income				405
Unallocated corporate expenses				
Administrative expenses				(15,943)
Finance costs				(5,069)
Profit before income tax				73,320

For the six months ended 31 March 2020

	Contract manufacturing HK\$'000 (Unaudited)	Provision of technology solution services HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Revenue from external customers	109,810	7,648	117,458
Segment results	5,275	(2,422)	2,853
Unallocated corporate income			
Interest income			1,707
Sundry income			295
Unallocated corporate expenses			
Administrative expenses			(27,476)
Finance costs			(7,438)
Loss before income tax			(30,059)

Notes to the Financial Statements

For the six months ended 31 March 2021

5. SEGMENT INFORMATION – *continued*

There were no inter-segment transactions during the six months ended 31 March 2021 and 2020.

Unallocated administrative expenses mainly comprise legal and professional fees, share-based compensation expenses, exchange losses, and salaries and allowances.

As at 31 March 2021

	Contract manufacturing HK\$'000 (Unaudited)	Provision of technology solution services HK\$'000 (Unaudited)	Virtual asset ecosystem HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Segment assets	296,513	246,389	60,009	602,911
Unallocated corporate assets				
Property, plant and equipment				2,810
Right-of-use assets				1,827
Other receivables				1,298
Cash and bank balances				103,735
Total assets				712,581
Segment liabilities	209,300	84,973	1,357	295,630
Unallocated corporate liabilities				
Other payables				2,434
Tax payable				963
Other borrowings				217,001
Lease liabilities				1,894
Deferred tax liabilities				2,898
Total liabilities				520,820

Notes to the Financial Statements

For the six months ended 31 March 2021

5. SEGMENT INFORMATION – continued

As at 30 September 2020

	Contract manufacturing HK\$'000 (Audited)	Provision of technology solution services HK\$'000 (Audited)	Total HK\$'000 (Audited)
Segment assets	265,940	74,555	340,495
Unallocated corporate assets			
Property, plant and equipment			1,748
Right-of-use assets			3,840
Other receivables			1,597
Cash and bank balances			257,955
Total assets			605,635
Segment liabilities	196,533	53,365	249,898
Unallocated corporate liabilities			
Other payables			4,190
Tax payable			990
Other borrowings			213,924
Lease liabilities			3,958
Deferred tax liabilities			3,144
Total liabilities			476,104

Notes to the Financial Statements

For the six months ended 31 March 2021

5. SEGMENT INFORMATION – continued

Geographical information

The Group's operations are mainly located in the People's Republic of China (including Hong Kong Special Administration Region ("HKSAR")), the United Kingdom (the "UK"), the United States of America (the "USA") and Japan. The following provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods:

	Six months ended 31 March	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
The People's Republic of China (the "PRC")		
– Mainland China	19,351	15,707
– HKSAR (place of domicile)	1,462	1,756
USA	68,239	47,432
UK	19,033	13,087
Russia	59,458	–
Rest of Europe	7,577	5,076
Seychelles	9,885	–
Japan	60,443	26,418
Others	16,274	7,982
	261,722	117,458

The revenue information above is based on the location of the customers.

"Others" above, represents sales to various countries which, individually represent less than 10% of the total revenue of the Group.

Revenue from major customers, each of whom accounts for 10% or more of the Group's revenue for the period, is set out below:

	Six months ended 31 March	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Customer A	64,184	48,828
Customer B	59,458	–
Customer C	31,713	19,019
Customer D	29,761	*

* The revenue from such customer did not contribute over 10% of the total revenue of the Group for the six months ended 31 March 2020.

Notes to the Financial Statements

For the six months ended 31 March 2021

5. SEGMENT INFORMATION – continued

Geographical information – continued

The following is an analysis of the carrying amount of non-current assets analysed by the geographical areas in which the assets are located:

	31 March 2021 HK\$'000 (Unaudited)	30 September 2020 HK\$'000 (Audited)
HKSAR	10,072	8,675
Mainland China	62,904	65,215
Japan	6,257	8,270
Others	615	–
	79,848	82,160

6. REVENUE

Revenue mainly includes sale of power-related and electrical/electronic products and the provision of technology solution services for the period.

The Group's disaggregated revenue from its major products and service lines are as follows:

	Six months ended 31 March	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Sales of:		
Solenoid coils	68,613	52,447
Power tool chargers	20,956	11,659
Printed circuit board assembly	36,062	22,760
Parts assembly	13,398	10,614
Others	21,767	12,330
Revenue recognised at a point in time	160,796	109,810
Provision of data centre services	9,885	7,325
Provision of cloud-related services	28,630	16
Provision of SaaS*	61,491	307
Provision of consultancy services	920	–
Revenue recognised over time	100,926	7,648
Total revenue	261,722	117,458

* The name was changed from service income to SaaS for better presentation of the Group's commercial strategy in 2021.

Notes to the Financial Statements

For the six months ended 31 March 2021

6. REVENUE – continued

Transaction price allocated to the remaining performance obligations

As at 31 March 2021, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts were approximately HK\$80,294,000. This amount represents revenue expected to be recognised in the future from partially completed long-term service contracts. The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur in the next 1 to 3 years.

As at 31 March 2020, the Group had applied the practical expedient to its sales contracts for provision of data centre services, cloud-related services and SaaS income and therefore, the above information did not include information about revenue that the Group would be entitled to when it satisfied the remaining performance obligations under the contracts that had an original expected duration of one year or less.

7. OTHER INCOME

	Six months ended 31 March	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Government grants	919	1,827
Sundry income	2,091	1,445
	3,010	3,272

The government grant in 2021 mainly represents the subsidy amounting to HK\$732,000 under the Employment Support Scheme provided by the HKSAR Government. The government grant in 2020 mainly represented the subsidy from the PRC Government to overcome the difficulties caused by the China-US trade frictions. There were no unfulfilled conditions relating to the grants.

During the six months ended 31 March 2021, certain monthly lease payments for the lease of the Group's office premises have been reduced by the lessor as a result of the COVID-19 pandemic and there are no other changes to the terms of the lease. The Group has applied the practical expedient to all qualifying COVID-19-related rent concessions. Rent concessions totalling HK\$24,000 (2020: HK\$Nil) have been recognised as sundry income, with a corresponding adjustment to the lease liabilities.

8. INTEREST INCOME

	Six months ended 31 March	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Interest earned on bank deposits and balances	345	2,359

Notes to the Financial Statements

For the six months ended 31 March 2021

9. FINANCE COSTS

	Six months ended 31 March	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Interest on bank borrowings	43	241
Imputed interest on other loan from a related company (2020: the immediate holding company) (note 17)	3,077	5,052
Imputed interest on other borrowings (note 17)	2,416	2,298
Interest expenses on lease liabilities	1,360	1,424
	6,896	9,015

10. PROFIT/(LOSS) BEFORE INCOME TAX

	Six months ended 31 March	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Profit/(loss) before income tax is arrived at after charging/(crediting):		
Amortisation of intangible asset (included in administrative expenses)	12	–
Auditors' remuneration:		
– audit services	228	234
– other services	215	227
Cost of inventories recognised as expenses	124,839	91,191
Depreciation of property, plant and equipment	3,151	4,032
Depreciation of right-of-use assets	6,693	9,767
Exchange (gain)/losses, net	(61)	4,907
Low-value assets lease expenses	5	18
Short term lease expenses	1,411	281
Reversal of impairment loss on inventories (Note)	(186)	(105)
Employee benefit expenses (including Directors' remuneration)	60,273	43,301

Note:

During the six months ended 31 March 2021, reversal of previously provided for impairment losses of HK\$186,000 (2020: HK\$105,000) have been recognised in the condensed consolidated statement of profit or loss due to subsequent sales of inventories.

Notes to the Financial Statements

For the six months ended 31 March 2021

11. INCOME TAX EXPENSE

Income tax expense for the period comprises:

	Six months ended 31 March	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Current income tax:		
Provision for the period		
HKSAR	11,074	450
Japan	7,600	10
Mainland China	2,355	736
USA	(1,257)	47
	19,772	1,243
Deferred tax liabilities (note 18)	(558)	(1,093)
Income tax expense	19,214	150

Hong Kong profits tax is calculated at the rate of 16.5% (2020: 16.5%) on the estimated assessable profits for the period, except for the first HK\$2,000,000 of a qualified entity's assessable profit which is calculated at 8.25%, in accordance with the new two-tiered tax rate regime with effect from the year of assessment 2018/2019.

A subsidiary of the Group received an enquiry for information from the Hong Kong Inland Revenue Department (the "IRD") in April 2015 due to a tax audit by the IRD on that subsidiary's profits tax affairs and received assessments for Hong Kong profits tax for prior years in March 2015, February 2016, December 2016, March 2018, February 2019 and March 2020. The Group had subsequently objected to the assessments made. In addition, in July 2016, May 2017, November 2017, December 2017 and August 2018, the same subsidiary received additional enquiries for information from the IRD. Based on the available information, the Group had made a provision in regards of the tax audit. The Directors believed the provision was adequate to reflect the potential tax liability at the respective year end dates. In April 2019 and January 2020, the subsidiary received the draft settlement and the revised draft settlement from the IRD for discussion respectively. During the year ended 30 September 2020, the Group has concluded the final amount of additional tax, penalty and interest with the IRD, according to which an additional tax of HK\$1,953,000 and interest of HK\$81,000 have been settled before 30 September 2020 and the Group has recognised over-provision of income tax in relation to the tax audit of HK\$2,060,000 in the year ended 30 September 2020. The penalty of HK\$1,300,000 has been settled during the six months ended 31 March 2021.

The PRC corporate income tax charge of HK\$2,355,000 (2020: HK\$736,000) was determined in accordance with the relevant laws and regulations in Mainland China, and was assessed at a rate of 25% (2020: 25%).

Taxation arising in other jurisdictions is provided on the estimated taxable profits arising in those jurisdictions at the prevailing local rates.

Notes to the Financial Statements

For the six months ended 31 March 2021

11. INCOME TAX EXPENSE – continued

The Group considers that, as it is probable that its operating subsidiary in the PRC will continue to distribute earnings in the foreseeable future, a deferred tax provision of HK\$4,407,000 (30 September 2020: HK\$3,898,000) has been established at the end of the reporting period in relation to withholding tax based on 5% of post 1 January 2008 unremitted earnings (note 18). Remaining amounts of the deferred tax were attributable to remeasurement of loans from a non-controlling shareholder and a related company to fair values at recognition.

12. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 31 March 2021 and 2020.

13. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is calculated by dividing the earnings/(loss) attributable to owners of the Company by the weighted average number of ordinary shares of 307,081,225 (31 March 2020: 305,495,000) deemed to be in issue during the period.

	31 March 2021 HK\$'000	31 March 2020 HK\$'000
Profit/(loss) attributable to owners of the Company	54,106	(30,209)
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	307,081,225	305,495,000
	HK cents	HK cents
Basic earnings/(loss) per share	17.62	(9.89)

Notes to the Financial Statements

For the six months ended 31 March 2021

13. EARNINGS/(LOSS) PER SHARE – *continued*

Diluted earnings/(loss) per share

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding on the assumption of the conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares of the Company relate to the share options under the Company's share option scheme.

	31 March 2021 HK\$'000
Profit attributable to owners of the Company	54,106
Weighted average number of ordinary shares for the purpose of basic earnings per share	307,081,225
Adjustment for share options	2,921,073
Weighted average number of ordinary shares for the purpose of diluted earnings per share	310,002,298
	HK cents
Diluted earnings per share	17.45

There was no diluted loss per share for six months ended 31 March 2020 as the exercise of share options would result in a reduction in loss per share for the period. Accordingly, the diluted loss per share was the same as the basic loss per share for the six months ended 31 March 2020.

14. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Additions to property, plant and equipment in the period amounted to HK\$2,104,000 (31 March 2020: HK\$626,000).

Items of plant and machinery with a net book value of HK\$1,243,000 (2020: HK\$Nil) were disposed of during the six months ended 31 March 2021, resulting in a gain on disposal of HK\$Nil (31 March 2020: HK\$Nil).

Depreciation of HK\$3,151,000 (31 March 2020: HK\$4,032,000) has been charged to the condensed consolidated statement of profit or loss for the six months ended 31 March 2021..

In addition, the Group has entered into leases for office premises and factory during the six months ended 31 March 2021. Right-of-use assets amounted to HK\$2,763,000 (2020: HK\$24,149,000) has been recognised for the current period.

Notes to the Financial Statements

For the six months ended 31 March 2021

15. TRADE AND OTHER RECEIVABLES

	31 March 2021 HK\$'000 (Unaudited)	30 September 2020 HK\$'000 (Audited)
Trade receivables	85,965	52,076
Less: Impairment provisions	–	–
Trade receivables – net	85,965	52,076
Prepayments and other receivables	56,540	34,726
	142,505	86,802

Included in trade receivables was amounts due from related companies amounting to HK\$10,438,000 (30 September 2020: HK\$1,637,000) in which Mr. Li Lin, a Director of the Company, has beneficial interests. The amount is unsecured, interest-free and trade in nature.

Included in other receivables was an amount due from a related company amounting to HK\$37,946,000 (30 September 2020: HK\$24,251,000) in which Mr. Li Lin, a Director of the Company, has beneficial interests. The amount is unsecured, interest-free and repayable in 30 days.

The Group operates an asset-backed lending facility based on certain of its trade receivables. The discounting transactions are with recourse and accordingly do not meet the requirements in HKFRS 9 for de-recognition of financial assets as the Group retains substantially all of the risks and rewards of ownership of the discounted trade receivables. At 31 March 2021, trade receivables of HK\$6,507,000 (30 September 2020: HK\$6,563,000) continue to be recognised in the consolidated statement of financial position even though they have been legally transferred to the financial institutions. The proceeds of the discounting transactions are included in borrowings as asset-backed financing until the trade receivables are collected or the Group settles any losses suffered by the financial institutions. At 31 March 2021, the asset-backed lending liabilities amounted to HK\$6,182,000 (30 September 2020: HK\$6,235,000) (note 17).

Notes to the Financial Statements

For the six months ended 31 March 2021

15. TRADE AND OTHER RECEIVABLES – continued

At the reporting date, the aged analysis of trade receivables, based on invoice date, is as follows:

	31 March 2021 HK\$'000 (Unaudited)	30 September 2020 HK\$'000 (Audited)
0-60 days	71,733	40,691
61-90 days	13,402	4,951
91-120 days	659	6,429
More than 120 days	171	5
	85,965	52,076

The Group allows credit periods ranging from 30 to 100 days (30 September 2020: 30 to 100 days) to its trade customers depending on their credit status and geographical location during the period. The Directors of the Company consider that the carrying amounts of trade and other receivables approximate to their fair values.

The aged analysis of the Group's trade receivables, based on due date, that were past due as at the reporting date but not impaired, is as follows:

	31 March 2021 HK\$'000 (Unaudited)	30 September 2020 HK\$'000 (Audited)
Neither past due nor impaired	70,364	45,909
0-60 days past due	15,424	6,162
61-90 days past due	146	–
91-120 days past due	29	–
Over 120 days past due	2	5
	85,965	52,076

Trade receivables that were neither past due nor impaired related to a large number of customers for whom there has been no recent history of default. Based on the past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality.

Notes to the Financial Statements

For the six months ended 31 March 2021

16. TRADE AND OTHER PAYABLES

	31 March 2021 HK\$'000 (Unaudited)	30 September 2020 HK\$'000 (Audited)
Trade payables	30,824	22,391
Other payables and accruals	92,433	74,840
	123,257	97,231

At the reporting date, the aged analysis of trade payables, based on invoice date, is as follows:

	31 March 2021 HK\$'000 (Unaudited)	30 September 2020 HK\$'000 (Audited)
0-60 days	24,934	19,248
61-90 days	3,129	2,386
More than 90 days	2,761	757
	30,824	22,391

The Directors of the Company consider that the carrying amounts of trade and other payables are approximate to their fair values.

Notes to the Financial Statements

For the six months ended 31 March 2021

17. BANK AND OTHER BORROWINGS

	31 March 2021 HK\$'000 (Unaudited)	30 September 2020 HK\$'000 (Audited)
Bank borrowings (secured) comprise:		
Asset-backed lending	6,182	6,235
Other borrowings (unsecured) comprise:		
Loan from a non-controlling shareholder	98,036	95,621
Loan from a related company	217,001	213,924
	321,219	315,780
Secured	6,182	6,235
Unsecured	315,037	309,545
	321,219	315,780
Bank and other borrowings are repayable as follows:		
Within one year or on demand	104,218	101,856
More than two years but not exceeding five years	217,001	213,924
	321,219	315,780
Less: Amounts shown under current liabilities	(104,218)	(101,856)
Amounts shown under non-current liabilities	217,001	213,924

Bank borrowings

The asset-backed lending represents the amount of financing obtained in factoring transactions which do not meet the de-recognition requirements in HKFRS 9. The corresponding financial assets are included in trade receivables (note 15).

Bank borrowings are denominated in HK\$ and US\$, carry variable interest rates linked to the relevant prime rates and fixed interest rates applicable to the jurisdiction in which the facility has been taken out. The effective interest rates on the Group's floating rate borrowings range from 2.1% to 2.2% per annum (30 September 2020: 2.2% to 4.0% per annum).

The fair values of the Group's bank borrowings, determined as the present value of the estimated future cash flows, discounted using the prevailing market rate at the reporting date, approximate to their carrying values.

Refer to note 23 for details of pledged assets.

Notes to the Financial Statements

For the six months ended 31 March 2021

17. BANK AND OTHER BORROWINGS – *continued*

Other borrowings

Loan from a non-controlling shareholder

On 21 August 2018, as part of the sale and purchase agreement in relation to the sale and purchase of an aggregate of 215,576,000 sale shares, representing approximately 71.67% of the entire issued share capital of the Company originally owned by New Wave Capital Limited (“NWC”), a company owned by Mr. Simon Nai-cheng Hsu. NWC agreed to provide Pantene Industrial Co. Limited, a wholly-owned subsidiary of the Group, a three-year interest-free and unsecured loan of HK\$100,000,000 with maturity date of 24 August 2021. The borrower is entitled to early repay a portion or all of this loan without giving prior notice.

The HK\$100,000,000 loan received was initially recognised at a fair value of HK\$86,098,000 which was estimated by discounting the nominal value of the loan at an effective interest rate of 5.0% per annum and as a result, a fair value gain of HK\$11,608,000 (net of deferred tax of HK\$2,294,000) was credited to the other reserve for the year ended 30 September 2018. For the six months ended 31 March 2021, imputed interest of HK\$2,416,000 (with related deferred tax credit of HK\$399,000) (31 March 2020: HK\$2,298,000 (with related deferred tax credit of HK\$379,000)) has been charged to the condensed consolidated statement of profit or loss (notes 9 and 18).

Loan from a related Company

On 26 September 2019, the Company entered into a facility agreement with Huobi Global Limited (“Huobi Global (Cayman)”), the then immediate holding company of the Company, pursuant to which Huobi Global (Cayman) agreed to make available to the Company an unsecured revolving facility up to the maximum aggregate amount of HK\$471,000,000 (the “Shareholder’s Facility”) for two years from 26 September 2019 to 25 September 2021. The Shareholder’s Facility does not bear any interest and will be utilised by the Company for the purpose of general working capital and business development. As at 30 September 2019, the Company had drawn down approximately US\$50,000,000 or HK\$391,970,000, comprising US\$40,000,000 or HK\$313,576,000 being transferred from Huobi Global (Cayman) as cash and US\$10,000,000 or HK\$78,394,000 in the form of USDT, a blockchain-based cryptocurrency (being the fair value of the USDT units received at the date of drawdown).

The HK\$391,970,000 loan received was initially recognised at a fair value of HK\$370,205,000 which was estimated by discounting the nominal value of the loan at an effective interest rate of 2.86% per annum and as a result, a fair value gain of HK\$18,174,000 (net of deferred tax of HK\$3,591,000) was credited to the other reserve for the year ended 30 September 2019. During the six months ended 31 March 2020, the Group made partial repayments of HK\$109,000,000. As the Shareholder’s Facility did not contain any terms for early repayment and any violation to be imposed for early repayment, the partial repayments were a result of renegotiation of the terms and did not constitute the breach of the Shareholder’s Facility. The Directors of the Company considered that such early repayments did not represent a substantial modification of the Shareholder’s Facility and accordingly, the early repayments did not result in the extinguishment of the financial liabilities. Accordingly, the Group recognised a loss arising from modification of the Shareholder’s Facility of HK\$4,019,000 (net of deferred tax credit of HK\$787,000) in other reserve for the six months ended 31 March 2020. For the six months ended 31 March 2021, imputed interest of HK\$3,077,000 (with related deferred tax credit of HK\$508,000) (2020: HK\$5,052,000 (with related deferred tax credit of HK\$834,000)) has been charged to the consolidated statement of profit or loss (notes 9 and 18).

Notes to the Financial Statements

For the six months ended 31 March 2021

17. BANK AND OTHER BORROWINGS – continued

Other borrowings – continued

Loan from a related Company – continued

For the year ended 30 September 2020, the Group made partial repayments of HK\$159,000,000, the early repayments did not result in the extinguishment of the financial liabilities.

On 25 September 2020, the Group and Huobi Global (Cayman) mutually agreed to extend the Shareholder's Facility until September 2023. As the Shareholder's Facility did not contain any terms for extension, the extension was a result of renegotiation of the terms and did not constitute the breach of the Shareholder's Facility. The Directors of the Company considered that such extension did not represent a substantial modification of the Shareholder's Facility and accordingly, the extension did not result in the extinguishment of the financial liabilities. Accordingly, the Group recognised a gain arising from modifications of the Shareholder's Facility of HK\$5,278,000 (net of deferred tax of HK\$1,044,000) in other reserve for the year ended 30 September 2020.

18. DEFERRED TAX LIABILITIES

The followings are the deferred tax liabilities recognised and the movements thereon in the current and prior periods.

	In respect of withholding tax on undistributed profits of a subsidiary HK\$'000	Loan from a non-controlling shareholder measured at fair value HK\$'000	Loan from a related company measured at fair value HK\$'000	Total HK\$'000
Carrying amount at 1 October 2020	3,898	722	3,144	7,764
Charge/(credit) to the condensed consolidated statement of profit or loss (notes 11 and 17)	349	(399)	(508)	(558)
Currency realignment	160	–	–	160
Carrying amount at 31 March 2021	4,407	323	2,636	7,366

Notes to the Financial Statements

For the six months ended 31 March 2021

18. DEFERRED TAX LIABILITIES – continued

	In respect of withholding tax on undistributed profits of a subsidiary HK\$'000	Loan from a non-controlling shareholder measured at fair value HK\$'000	Loan from the immediate holding company measured at fair value HK\$'000	Total HK\$'000
Carrying amount at 1 October 2019	3,335	1,490	3,567	8,392
Charge/(credit) to the condensed consolidated statement of profit or loss (notes 11 and 17)	120	(379)	(834)	(1,093)
Credit to other reserve in the condensed consolidated statement of changes in equity (note 17)	–	–	(787)	(787)
Currency realignment	(31)	–	1	(30)
Carrying amount at 31 March 2020	3,424	1,111	1,947	6,482

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investment enterprises established in mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate (5%) may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by its subsidiary established in Mainland China in respect of earnings generated from 1 January 2008. During the six months ended 31 March 2021, a provision of HK\$349,000 (2020: HK\$120,000) has been charged to the condensed consolidated statement of profit or loss representing 5% unremitted earnings incurred in the period.

Notes to the Financial Statements

For the six months ended 31 March 2021

18. DEFERRED TAX LIABILITIES – continued

At the reporting date, based on the estimation of future profit streams, the Group has unrecognised gross deferred tax assets (before applying tax rates prevailing in the respective jurisdictions) in respect of unused tax losses and other temporary differences available for offset against future profits, analysed as follows:

	31 March 2021 HK\$'000 (Unaudited)	30 September 2020 HK\$'000 (Audited)
Unused tax losses	153,543	132,784
Other temporary differences	4,567	4,977
	158,110	137,761

The Group records deferred tax assets in respect of tax losses and other tax credits only where there is a reasonable expectation that these tax losses and credits will be utilised in the foreseeable future. Based on forecast income streams and having considered potential future earnings volatility, the Group does not anticipate the utilisation of any significant proportion of these unrecognised tax losses and other tax credits or the material reversal of the other deferred tax temporary differences in the foreseeable future. The tax losses and other tax credits arising from subsidiaries incorporated in HKSAR will not expire under current tax legislation and can be carried forward indefinitely.

The tax losses arising from the subsidiaries established in Mainland China of approximately HK\$2,066,000 (30 September 2020: HK\$4,250,000) will be expired if they are not utilised to set off against the taxable profits within five years from the year in which they arose under the current tax legislation in Mainland China.

Notes to the Financial Statements

For the six months ended 31 March 2021

19. SHARE CAPITAL

	Number of ordinary shares of HK\$0.001 each	Amount HK\$
Authorised:		
At 1 October 2019, 30 September 2020 and 31 March 2021	500,000,000	500,000
Issued and fully paid:		
At 1 October 2019 (Audited)	305,495,000	305,495
Issue of shares upon exercise of share options (note (i))	1,305,000	1,305
At 30 September 2020 and 1 October 2020 (Audited)	306,800,000	306,800
Issue of shares upon exercise of share options (note (ii))	627,666	628
At 31 March 2021 (Unaudited)	307,427,666	307,428

Notes:

- (i) In August 2020, the subscription rights attaching to 1,305,000 share options were exercised at a subscription price of HK\$3.13 per share, resulting in the issue of 1,305,000 new shares at par value of HK\$0.001 each for a total cash consideration of HK\$4,086,000. HK\$4,084,000 representing the difference between the subscription price and the par value was credited to share premium. In addition, HK\$1,233,000 representing that portion of the share option reserve in relation to the exercise of the share options during the year ended 30 September 2020, was transferred from the share option reserve to share premium account.
- (ii) During the six months ended 31 March 2021, the subscription rights attaching to 479,000 and 148,666 share options were exercised at a subscription price of HK\$3.13 and HK\$4.36 per share respectively, resulting in the issue of 627,666 new shares at par value of HK\$0.001 each for a total cash consideration of HK\$2,147,000. Approximately HK\$2,147,000 representing the difference between the subscription price and the par value was credited to share premium. In addition, HK\$800,000 representing that portion of the share option reserve in relation to the exercise of the share options during the six months ended 31 March 2021, was transferred from the share option reserve to share premium account.
- (iii) All the shares issued during the reporting period ranked pari passu in all respects with the then existing shares in issue.

Notes to the Financial Statements

For the six months ended 31 March 2021

20. SHARE PREMIUM

	HK\$'000
At 1 October 2019 (Audited)	96,237
Issue of shares upon exercise of share options (note (i))	5,317
At 30 September 2020 and 1 October 2020 (Audited)	101,554
Issue of shares upon exercise of share options (note (ii))	2,947
At 31 March 2021 (Unaudited)	104,501

Notes:

- (i) As detailed in note 19(i) above, in August 2020, the subscription rights attaching to 1,305,000 share options were exercised at a subscription price of HK\$3.13 per share, resulting in the issue of 1,305,000 new shares at par value of HK\$0.001 each for a total cash consideration of HK\$4,086,000. HK\$4,084,000 representing the difference between the subscription price and the par value was credited to share premium. In addition, HK\$1,233,000 representing that portion of the share option reserve in relation to the exercise of the share options during the year ended 30 September 2020, was transferred from the share option reserve to share premium account.
- (ii) As detailed in note 19(ii) above, during the six months ended 31 March 2021, the subscription rights attaching to 479,000 and 148,666 share options were exercised at a subscription price of HK\$3.13 and HK\$4.36 per share respectively, resulting in the issue of 627,666 new shares at par value of HK\$0.001 each for a total cash consideration of HK\$2,147,000. Approximately HK\$2,147,000 representing the difference between the subscription price and the par value was credited to share premium. In addition, HK\$800,000 representing that portion of the share option reserve in relation to the exercise of the share options during the six months ended 31 March 2021, was transferred from the share option reserve to share premium account.

21. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme for eligible participants of the Group. Participants may include: any employee (full time or part-time), Director, consultant or adviser of the Group; any substantial shareholder of the Group; and any distributor, contractor, supplier, agent, customer, business partner or service provider of the Group, to be determined by the Board, based on their contribution or potential contribution to the development and growth of the Group.

On 3 April 2019, the Company granted 6,192,000 share options to Directors, employees and other eligible participants with an exercise price of HK\$3.13 per share. The share options vest over a period of three years starting from the date of the grant by one-third each anniversary and are fully vested on 3 April 2022. The share options granted are exercisable after one year but not exceeding ten years from the date of the grant.

Notes to the Financial Statements

For the six months ended 31 March 2021

21. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS – *continued*

The fair value of the options granted on 3 April 2019 was calculated by an external valuer using the Binomial Option Pricing Model. The assumptions used were as follows:

	Granted on 3 April 2019
Grant date share price	HK\$3.03
Exercise price	HK\$3.13
Expected volatility	55.66%
Contractual option life	10 years
Risk-free rate	1.543%
Expected dividend yield	0%

The expected volatility is based on historical price volatility of similar listed companies in the past few years. The risk-free rate is the yields of Hong Kong government bonds and treasury bills as extracted from Bloomberg as at 3 April 2019. At the date the options were granted on 3 April 2019, this was determined to be 1.543%. The dividend yield of the Company of 0% was adopted.

Based on the fair values derived from the above pricing model, the fair value of the share options granted on 3 April 2019 was approximately HK\$8,854,000 (HK\$1.4299 each), of which HK\$614,000 (2020: HK\$2,615,000) have been charged as share-based compensation expenses to profit or loss for the six months ended 31 March 2021.

On 16 October 2019, the Company granted 3,650,000 share options to certain employees with an exercise price of HK\$4.36 per share. The share options vest over a period of three years starting from the date of the grant by one-third each anniversary and will be fully vested on 16 October 2022. The share options granted are exercisable after one year but not exceeding ten years from the date of the grant.

Notes to the Financial Statements

For the six months ended 31 March 2021

21. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS – continued

The fair value of the options granted on 16 October 2019 has been calculated by an external valuer using the Black-Scholes Option Pricing Model. The assumptions used were as follows:

	Granted on 16 October 2019
Grant date share price	HK\$4.18
Exercise price	HK\$4.36
Expected volatility	34.73%
Contractual option life	10 years
Risk-free rate	1.427%
Expected dividend yield	0%

The expected volatility is based on historical price volatility of similar listed companies in the past few years. The risk-free rate is the yields of Hong Kong government bonds and treasury bills as extracted from Bloomberg as at 16 October 2019. At the date the options were granted on 16 October 2019, this was determined to be 1.427%. The dividend yield of the Company of 0% has been adopted.

Based on the fair values derived from the above pricing model, the fair value of the share options granted on 16 October 2019 was approximately HK\$6,190,000 (HK\$1.6959 each), of which HK\$114,000 (2020: HK\$1,725,000) have been charged as share-based compensation expenses to profit or loss for the six months ended 31 March 2021.

On 2 July 2020, the Company granted 880,000 share options to certain employees with an exercise price of HK\$3.28 per share. The share options vest over a period of three years starting from the date of the grant by one-third each anniversary and will be fully vested on 2 July 2023. The share options granted are exercisable after one year but not exceeding ten years from the date of the grant.

The fair value of the options granted on 2 July 2020 has been calculated by an external valuer using the Black-Scholes Option Pricing Model. The assumptions used were as follows:

	Granted on 2 July 2020
Grant date share price	HK\$3.28
Exercise price	HK\$3.28
Expected volatility	36.68%
Contractual option life	10 years
Risk-free rate	0.643%
Expected dividend yield	0%

The expected volatility is based on historical price volatility of similar listed companies in the past few years. The risk-free rate is the yields of Hong Kong government bonds and treasury bills as extracted from Bloomberg as at 2 July 2020. At the date the options were granted on 2 July 2020, this was determined to be 0.643%. The dividend yield of the Company of 0% has been adopted.

Notes to the Financial Statements

For the six months ended 31 March 2021

21. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS – *continued*

Based on the fair values derived from the above pricing model, the fair value of the share options granted on 2 July 2020 was approximately HK\$1,204,000 (HK\$1.3687 each), of which HK\$250,000 (2020: HK\$Nil) have been charged as share-based compensation expenses to profit or loss for the six months ended 31 March 2021.

On 14 October 2020, the Company granted 1,534,000 share options to certain employees with an exercise price of HK\$4.68 per share. The share options vest over a period of three years starting from the date of the grant by one-third each anniversary and will be fully vested on 14 October 2023. The share options granted are exercisable after one year but not exceeding ten years from the date of the grant.

The fair value of the options granted on 14 October 2020 has been calculated by an external valuer using the Black-Scholes Option Pricing Model. The assumptions used were as follows:

	Granted on 14 October 2020
Grant date share price	HK\$4.68
Exercise price	HK\$4.68
Expected volatility	36.74%
Contractual option life	10 years
Risk-free rate	0.506%
Expected dividend yield	0%

The expected volatility is based on historical price volatility of similar listed companies in the past few years. The risk-free rate is the yields of Hong Kong government bonds and treasury bills as extracted from Bloomberg as at 14 October 2020. At the date the options were granted on 14 October 2020, this was determined to be 0.506%. The dividend yield of the Company of 0% has been adopted.

Based on the fair values derived from the above pricing model, the fair value of the share options granted on 14 October 2020 was approximately HK\$1,970,000 (HK\$1.2841 each), of which HK\$584,000 (2020: HK\$Nil) have been charged as share-based compensation expenses to profit or loss for the six months ended 31 March 2021.

The assumptions used in computing the fair value of the share options are based on management's best estimate. The valuation of options is dependent upon a number of variables using subjective assumptions. Any changes in the variables may materially affect the estimation of the fair value of an option.

There was no market vesting condition or non-market performance condition associated with the options granted.

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 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 with effective from 17 November 2020. The amendments shall not apply to the outstanding options as at 17 November 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, 22 October 2020, 17 November 2020 and the circular dated 22 October 2020 respectively.

Notes to the Financial Statements

For the six months ended 31 March 2021

21. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS – continued

The scheme mandate limit under the share option scheme was refreshed up to 10% of the shares in issue as at the date of passing of the resolution at the annual general meeting in 2021 (the “Refreshment”). The Refreshment took effect from 14 April 2021, the date on which the Listing Committee of the Stock Exchange of Hong Kong Limited granted the listing of, and permission to deal in, a maximum of 30,742,766 shares to be issued pursuant to the exercise of options under the share option scheme.

The Company believes that the Refreshment has provided greater flexibility on recruiting and retaining high-calibre employees and attracting human resources that are valuable to the Group.

Further details are set out in the Company’s announcement dated 19 March 2021, and the circular dated 17 February 2021.

The movement in the number of share options under the share options scheme are as follows:

For the six months ended 31 March 2021

	Date of grant	Exercise price HK\$	Outstanding at 1 October 2020	Granted during the period	Exercised during the period	Lapsed, cancelled or forfeited during the period	Outstanding at 31 March 2021
Executive Directors							
Mr. Lee Chris Curl*	3.4.2019	3.13	1,800,000	-	-	(1,800,000)	-
Mr. Lan Jianzhong**	3.4.2019	3.13	600,000	-	-	-	600,000
Other eligible participants	3.4.2019	3.13	2,487,000	-	(479,000)	(360,000)	1,648,000
Other eligible participants	16.10.2019	4.36	500,000	-	(148,666)	-	351,334
Other eligible participants	2.7.2020	3.28	880,000	-	-	(280,000)	600,000
Other eligible participants	14.10.2020	4.68	-	1,534,000	-	-	1,534,000
			6,267,000	1,534,000	(627,666)	(2,440,000)	4,733,334
Weighted average exercise price			HK\$3.25	HK\$4.68	HK\$3.42	HK\$3.15	HK\$3.74

* Resigned as the director of the Company on 10 August 2020

** Resigned as the director of the Company on 15 April 2021

Note:

The weighted average share price at the dates of exercise of options during the six months ended 31 March 2021 was HK\$14.84.

Notes to the Financial Statements

For the six months ended 31 March 2021

21. EQUITY-SETTLED SHARE-BASED PAYMENT TRANSACTIONS – *continued*

For the six months ended 31 March 2020

	Date of grant	Exercise price HK\$	Outstanding at 1 October 2019	Granted during the period	Exercised during the period	Lapsed, cancelled or forfeited during the period	Outstanding at 31 March 2020
Executive Directors							
Mr. Lee Chris Curl	3.4.2019	3.13	2,700,000	-	-	-	2,700,000
Mr. Lan Jianzhong	3.4.2019	3.13	600,000	-	-	-	600,000
Other eligible participants	3.4.2019	3.13	2,892,000	-	-	-	3,892,000
Other eligible participants	16.10.2019	4.36	-	3,650,000	-	-	3,650,000
			6,192,000	3,650,000	-	-	9,842,000
Weighted average exercise price							
			HK\$3.13	HK\$4.36	-	-	HK\$3.59

As at 31 March 2021, the total number of share options outstanding were 4,733,334 (30 September 2020: 6,267,000).

For the share options outstanding as at 31 March 2021, the weighted average remaining contractual life was 3,178 days (30 September 2020: 3,187 days).

Total share-based compensation expenses of HK\$1,562,000 have been charged to the condensed consolidated statement of profit or loss for the six months ended 31 March 2021 (31 March 2020: share-based compensation expenses HK\$4,340,000).

Notes to the Financial Statements

For the six months ended 31 March 2021

22. RECONCILIATION OF THE NET DECREASE IN CASH AND CASH EQUIVALENTS TO THE MOVEMENT IN NET CASH

	Note	Six months ended 31 March	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Net decrease in cash and cash equivalents		(9,167)	(41,001)
Effect of foreign exchange rate changes		2,798	(1,279)
Net movement in cash and cash equivalents		(6,369)	(42,280)
Bank borrowings repaid		53	302
Other loan from the immediate holding company repaid		–	109,000
Loss on early repayment of loan from the immediate holding company		–	(4,806)
Imputed interest on other loan from a related company (2020: the immediate holding company)		(3,077)	(5,052)
Imputed interest on other borrowings		(2,416)	(2,298)
Effect of foreign exchange rates on borrowings		1	–
Net cash at 1 October		87,904	4,000
Net cash at 31 March 2021/2020		76,096	58,866
Represented by:			
Cash and cash equivalents		397,315	432,403
Interest-bearing bank borrowings			
– amounts due within one year	17	(6,182)	(9,060)
Other borrowings			
– amounts due within one year	17	(98,036)	–
– amounts due more than one year	17	(217,001)	(364,477)
		76,096	58,866

23. PLEDGE OF ASSETS

At 31 March 2021, the banking facilities of the Company's wholly owned subsidiaries based in mainland China and HKSAR, amounted to approximately HK\$23,267,000 (30 September 2020: HK\$23,250,000) comprising asset-backed lending facility. The facilities are secured against certain bank deposits, corporate guarantees from the Company and in the case of the asset-backed lending facility, an assignment over specific trade receivables. At 31 March 2021, the amount drawn down under the asset-backed lending facility was HK\$6,182,000 (30 September 2020: HK\$6,235,000) (note 17).

Notes to the Financial Statements

For the six months ended 31 March 2021

24. CAPITAL COMMITMENTS

	31 March 2021 HK\$'000 (Unaudited)	30 September 2020 HK\$'000 (Audited)
Contracted but not provided for: Property, plant and equipment	164	–

25. CONTINGENT LIABILITIES

As at 31 March 2021, the Group did not have any material contingent liabilities (30 September 2020: HK\$Nil).

26. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed in the financial statements, the Group entered into the following significant transactions with related parties during the period.

	Six months ended 31 March	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Data centre services income from a related company* (2020: a fellow subsidiary)	9,885	7,325
Cloud-related services income from related companies*	28,593	–
Consultancy services income from related companies*	920	–

* Related companies are companies in which Mr. Li Lin, a director of the Company, has beneficial interests.

The above transactions were conducted on mutually agreed terms.

On 28 October 2019, the Company was granted the right to use the trademark as the Group's logo from Huobi Global Limited, a company incorporated with limited liability under the law of Seychelles, and is indirectly controlled by Mr. Li Lin, a Director of the Company, with a nominal consideration of HK\$1. The licensed period shall be three years and renewable. On the same date, the Company was assigned the right to use the Domain name "www.huobitech.com" from Mr. Lan Jianzhong, a former Director of the Company, with a nominal consideration of HK\$1.

On 16 February 2020, the Group and a key management personnel of the holding companies entered into a sale and purchase agreement for the acquisition of 100% equity interests in FEU International Pte Ltd, at a consideration of SGD1 which was settled by cash. The assets acquired did not constitute a business combination as defined in HKFRS 3 "Business Combinations" and accordingly, the acquisition was accounted for as assets acquisition. As a result, the Group recognised a gain arising from the acquisition of assets of HK\$288,000 as sundry income for the six months ended 31 March 2020.

The consideration of the above-mentioned transactions are determined and agreed by both parties.

Notes to the Financial Statements

For the six months ended 31 March 2021

26. RELATED PARTY TRANSACTIONS – continued

Compensation of the key management personnel of the Group, including Directors' remuneration, is as follows:

	Six months ended 31 March	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Directors' fees	360	360
Salaries, discretionary bonus, allowances and other benefits	2,167	2,917
Retirement benefits scheme contributions	9	18
Equity-settled share-based payment expenses	112	1,234
	2,648	4,529

27. EVENTS AFTER THE REPORTING PERIOD

On 29 April 2021, Huobi Trust Company Limited, 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. Further details are set out in the Company's announcement dated 4 May 2021.

On 30 April 2021, Win Techno Inc., a wholly-owned subsidiary of the Company, entered into a database service agreement with Huobi Worldwide Limited ("Huobi Worldwide"), a company incorporated in Hong Kong with limited liability and is indirectly controlled by Mr. Li Lin, a director of the Company, 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. Further details are set out in the Company's announcement dated 30 April 2021.

Save as disclosed above, there are no other significant events requiring disclosure subsequent to 31 March 2021.

28. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The unaudited Interim Financial Statements of the Group were approved and authorised for issue in accordance with a resolution of the Board of Directors on 21 May 2021.

Other Information

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at the date of this interim report, so far as is known to the Directors, the interests or short positions of the Directors of the Company and their associates in the ordinary shares of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange, were as follows:

(a) Long positions in the shares

Name of Directors	Capacity	Number of shares interested(L) (Note 1)	Approximate percentage of shareholding
Mr. Li Lin	Interest in controlled corporation (Note 2)	178,514,196(L)	58.05%
Mr. Lan Jianzhong*	Beneficial Owner (Note 3)	600,000(L)	0.20%

* Resigned as the director of the Company on 15 April 2021

Notes:

1. The letter "L" denotes the person's long position in the shares.
2. Mr. Li holds 100% interest in the total issued shares of Huobi Capital Inc., 100% interest in the total issued shares of HBCapital Limited and 89.09% interest in the total issued shares of Techwealth Limited. Therefore, Mr. Li is deemed to be interested in the shares held by Huobi Capital Inc., HBCapital Limited and Techwealth Limited for the purpose of Part XV of the SFO.
3. Pursuant to the share option scheme adopted by the Company on 27 October 2016, Mr. Lan Jianzhong is deemed to be interested in 600,000 shares as 600,000 share options have been granted to him on 3 April 2019, as at the date of this interim report, none of these share options has been exercised.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND SECURITIES OF THE COMPANY

As at the date of this interim report, the interests or short positions of those persons (other than the Director whose interests are disclosed above) in the ordinary shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO were as follows:

Name of shareholders	Capacity/nature of interest	Number of shares interested	Approximate percentage of shareholding(*)
HBCapital Limited ("HBCapital")	Beneficial owner	29,296,701	9.53%
Huobi Capital Inc. ("Huobi Capital")	Beneficial owner	69,165,149	22.49%
Techwealth Limited ("Techwealth")	Beneficial owner	76,350,346	24.83%
Mr. Li Lin ("Mr. Li")	Interest of controlled corporation (Note 1)	178,514,196(L)	58.05%
Sequoia Capital CV IV Holdco, Ltd.	Beneficial owner	30,467,072	9.91%
Sequoia Capital CV IV Senior Holdco, Ltd.	Interest of controlled corporation (Note 2)	30,467,072	9.91%
Sequoia Capital China Venture Fund IV, L.P.	Interest of controlled corporation (Note 2)	30,467,072	9.91%
SC China Venture IV Management, L.P.	Interest of controlled corporation (Note 2)	30,467,072	9.91%
SC China Holding Limited	Interest of controlled corporation (Note 2)	37,779,131	12.28%
SNP China Enterprises Limited	Interest of controlled corporation (Note 2)	37,779,131	12.28%
Mr. Shen Nan Peng ("Mr. Shen")	Interest of controlled corporation (Note 2)	37,779,131	12.28%

(*) The percentage has been calculated based on 307,542,666 shares in issue as at the date of interim report.

Notes:

- Mr. Li holds 100% interest in the total issued shares of Huobi Capital, 100% interest in the total issued shares of HBCapital and 89.09% interest in the total issued shares of Techwealth. Therefore, Mr. Li is deemed to be interested in the shares held by Huobi Capital, HBCapital and Techwealth for the purpose of Part XV of the SFO.
- Sequoia Capital CV IV Holdco, Ltd. holds 30,467,072 Shares, representing approximately 9.91% of the total issued share capital of the Company. Sequoia Capital CV IV Holdco, Ltd. is a wholly-owned subsidiary of Sequoia Capital CV IV Senior Holdco, Ltd., whose sole shareholder is Sequoia Capital China Venture Fund IV, L.P.. The general partner of Sequoia Capital China Venture Fund IV, L.P. is SC China Venture IV Management, L.P., whose general partner is SC China Holding Limited ("SC China"). SC China is a wholly-owned subsidiary of SNP China Enterprises Limited ("SNP China"), a company wholly owned by Mr. Shen.

In addition, Zhen Partners Fund I, L.P. ("Zhen Partners") holds 7,312,059 Shares, representing approximately 2.38% of the total issued share capital of the Company. SC China, through several intermediate entities is interested in more than 33.3% limited partnership interest in Zhen Partners, and therefore SC China is deemed to be interested in the 7,312,059 Shares. Since SC China is wholly owned by SNP China, which is in turn wholly owned by Mr. Shen, both SNP China and Mr. Shen are deemed to be interested in such 7,312,059 Shares as well.

In light of the above, pursuant to Part XV of the SFO, Mr. Shen, SNP China and SC China are deemed to be interested in a total number of 37,779,131 Shares, representing approximately 12.28% of the total issued share capital of the Company.

Save as disclosed above, as at the date of this interim report, so far as is known to the Directors, the Company has not been notified of any other interests or short positions in the ordinary shares of the Company which had been recorded in the register required to be kept under section 336 of the SFO.

Other Information

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during Period 2021.

CAPITAL STRUCTURE

As at 31 March 2021, the Group's gearing ratio was approximately 167.5% (30 September 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\$321.2 million included bank and other borrowings.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Specific enquiries have been made of all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out the Model Code during Period 2021 and up to the date of this interim report.

CORPORATE GOVERNANCE CODE

During Period 2021, the Company has applied the principles of and complied with all the applicable code provisions set out from time to time in the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Listing Rules, save as and except for the deviations from code provision A.2.1 of the CG Code relating to the separate roles of chairman and chief executive officer and that the roles should not be performed by the same individual.

The Board believes the arrangement that Mr. Li, being both the Chairman and the CEO, is necessary for the future development of the Company as Mr. Li possesses over 10 years of experiences in corporate management. The dual role arrangement could provide strong and consistent market leadership and is critical for effective management and business development of the Group. As all major decisions are made in consultation with the members of the Board, the Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers within the Board, and such dual role arrangement will not undermine the current corporate governance structure of the Group.



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