

# HYPEBEAST HYPEBEAST LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 08359)**

## **ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2016**

### **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This announcement, for which the directors (the “Directors”) of Hypebeast Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

The board (the “Board”) of Directors of the Company is pleased to present the audited consolidated annual results of the Company and its subsidiaries (collectively referred as the “Group”) for the year ended 31 March 2016, together with the audited comparative figure for the corresponding year in 2015 as follows:

## **CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*For the year ended 31 March 2016*

	NOTES	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue	4	<b>151,863</b>	98,931
Cost of revenue		<u><b>(60,733)</b></u>	<u>(41,139)</u>
Gross profit		<b>91,130</b>	57,792
Other gain and losses		<b>(1,402)</b>	(1,511)
Selling and marketing expenses		<b>(31,422)</b>	(22,145)
Administrative and operating expenses		<b>(33,665)</b>	(23,072)
Listing expenses		<b>(15,561)</b>	–
Finance costs		<u><b>(293)</b></u>	<u>(87)</u>
Profit before tax		<b>8,787</b>	10,977
Income tax expense	5	<u><b>(4,571)</b></u>	<u>(1,922)</u>
Profit and total comprehensive income for the year	6	<u><b>4,216</b></u>	<u>9,055</u>
Earnings per share	7		
– Basic (HK cent)		<u><b>0.26</b></u>	<u>0.57</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2016

	NOTES	2016 HK\$'000	2015 HK\$'000
Non-current assets			
Property, plant and equipment		2,475	2,923
Rental deposits		–	268
Pledged bank deposits		4,051	–
		<u>6,526</u>	<u>3,191</u>
Current assets			
Inventories		12,910	10,539
Trade and other receivables	9	40,333	12,195
Amount due from a director		3,060	354
Tax recoverable		–	198
Bank balances and cash		9,179	7,203
		<u>65,482</u>	<u>30,489</u>
Current liabilities			
Trade and other payables	10	32,421	9,507
Amounts due to related parties		122	147
Obligation under finance lease – due within one year		–	193
Bank borrowings – due within one year		11,292	1,756
Tax payable		2,325	–
		<u>46,160</u>	<u>11,603</u>
Net current assets		<u>19,322</u>	<u>18,886</u>
Total assets less current liabilities		<u>25,848</u>	<u>22,077</u>

	NOTES	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Non-current liabilities</b>			
Obligations under finance lease – due after one year		–	97
Bank borrowings – due after one year		–	297
Deferred tax liabilities		<b>97</b>	148
		<u>97</u>	<u>542</u>
<b>Net assets</b>		<b><u>25,751</u></b>	<u>21,535</u>
<b>Capital and reserves</b>			
Share capital	11	<b>1</b>	1
Accumulated profits		<b>25,750</b>	21,534
		<u>25,751</u>	<u>21,535</u>

## **NOTES:**

### **1. GENERAL**

The Company was incorporated in the Cayman Islands as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 25 September 2015. The Company's shares were first listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 April 2016 (the "Listing Date") (the "Listing").

Its registered office is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business is located at 12/F, LMK Development Estate, 10-16 Kwai Ting Road, Kwai Chung, Hong Kong.

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of digital content and website advertisement spaces and operation of online stores. Its parent and ultimate holding company is CORE Capital Group Limited ("CORE Capital"), a private company incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Ma Pak Wing Kevin ("Mr. Ma").

The consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which are the same as the functional currency of the Company.

### **2. GROUP REORGANISATION AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS**

Pursuant to the group reorganisation as described below, the Company became the holding company of the companies now comprising the Group on 30 October 2015 (the "Group Reorganisation").

Prior to the Group Reorganisation, 101 Media Lab Limited, the Group's sole operating subsidiary, was solely-owned by Mr. Ma.

In preparation for the listing of the Company's shares on the GEM of the Stock Exchange, the Group underwent the following reorganisation steps:

- (1) On 6 August 2015, CORE Capital was incorporated to act as the holding company of the Company, with Mr. Ma as the sole shareholder;
- (2) On 25 September 2015 and 7 October 2015, the Company and COREone Limited ("COREone") were incorporated as wholly-owned subsidiaries of CORE Capital respectively.
- (3) On 30 October 2015, Mr. Ma transferred the entire issued share capital of 101 Media Lab Limited to COREone.

Upon completion of the above steps, 101 Media Lab Limited becomes an indirectly wholly-owned subsidiary of the Company. Accordingly, the Group comprising the Company and its subsidiaries resulting from the Group Reorganisation is regarded as a continuing entity. The consolidated financial statements have been prepared as if the Company had always been the holding company of the Group.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the years ended 31 March 2015 and 2016 include the results of operations and cash flows of the companies now comprising the Group as if the current group structure had been in existence and remained unchanged throughout the periods, or since their respective dates of incorporation when there is a shorter period. The consolidated statement of financial position of the Group as at 31 March 2015 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at 31 March 2015, taking into account the respective dates of incorporation.

### 3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has consistently applied the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) which are effective for the Group’s financial year beginning on 1 April 2015 for both current and prior year.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>1</sup>
HKFRS 16	Leases <sup>5</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>3</sup>
Amendments to HKAS 1	Disclosure Initiative <sup>3</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>3</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants <sup>3</sup>
Amendments to HKAS 27	Equity Method in Separate Financial Statements <sup>3</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception <sup>3</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>2</sup> Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2016.

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2019.

#### 4. REVENUE AND SEGMENT INFORMATION

Information reported to the Chief Executive Officer (“CEO”) of the Group, being the chief operating decision maker (“CODM”) for the purpose of resource allocation and assessment of segment performance focuses on types of goods delivered, or service provided. The CEO has chosen to organise the Group’s results according to the category of the business segment and differences in nature of the goods and services that each segment delivers. No operating segments identified by CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group’s reportable and operating segments are as follows:

- Digital media segment – Provision of advertising services and publication of magazines
- E-commerce segment – Operation of online stores for the sale of third-party branded clothing, shoes and accessories

The following is an analysis of the Group’s revenue and results by operating and reportable segments:

##### Year ended 31 March 2016

	<b>Digital media</b> <i>HK\$’000</i>	<b>E-commerce</b> <i>HK\$’000</i>	<b>Combined</b> <i>HK\$’000</i>
Segment revenue – external customers:			
Provision of advertising services	<b>94,586</b>	–	<b>94,586</b>
Publication of magazines	<b>761</b>	–	<b>761</b>
Operation of online stores ( <i>Note</i> )	–	<b>56,516</b>	<b>56,516</b>
Total segment revenue	<b>95,347</b>	<b>56,516</b>	<b>151,863</b>
Segment results	<b>28,808</b>	<b>3,980</b>	<b>32,788</b>
Finance costs			<b>(293)</b>
Unallocated expenses			<b>(23,708)</b>
Profit before tax			<b>8,787</b>

**Year ended 31 March 2015**

	Digital media <i>HK\$'000</i>	E-commerce <i>HK\$'000</i>	Combined <i>HK\$'000</i>
Segment revenue – external customers:			
Provision of advertising services	47,034	–	47,034
Publication of magazines	617	–	617
Operation of online stores ( <i>Note</i> )	–	51,280	51,280
	<u>47,651</u>	<u>51,280</u>	<u>98,931</u>
Total segment revenue			
	<u>47,651</u>	<u>51,280</u>	<u>98,931</u>
Segment results	<u>15,730</u>	<u>348</u>	16,078
Finance costs			(87)
Unallocated expenses			<u>(5,014)</u>
Profit before tax			<u>10,977</u>

*Note:* Included in revenue from operation of online stores for each of the years ended 31 March 2015 and 2016, total amount of commission fee from consignment sales are approximately HK\$6,306,000 and HK\$5,088,000 respectively. The remaining amount of approximately HK\$44,974,000 and HK\$51,428,000 respectively represents sales of goods through the online stores.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the profit earned by each segment without allocation of finance costs, central administrative costs and other unallocated expenses including depreciation expenses, rental expenses, listing expense and director's remuneration that are not directly attributable to segments as disclosed in the above table. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

**5. INCOME TAX EXPENSE**

	<b>2016</b> <b><i>HK\$'000</i></b>	2015 <i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	<b>4,622</b>	1,941
Deferred tax:		
Credit for the year	<u>(51)</u>	<u>(19)</u>
	<u><b>4,571</b></u>	<u>1,922</u>

The Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands (the "BVI") pursuant to the rules and regulations in those jurisdictions.

The Group is subject to Hong Kong Profits Tax at a rate of 16.5% for both years.



The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit before tax	<b>8,787</b>	10,977
Tax at the Hong Kong Profits Tax rate of 16.5%	<b>1,450</b>	1,811
Tax effect of income not taxable for tax purpose	<b>(61)</b>	(11)
Tax effect of expenses not deductible for tax purpose	<b>3,202</b>	142
Others	<b>(20)</b>	(20)
Tax expense for the year	<b>4,571</b>	1,922

## 6. PROFIT FOR THE YEAR

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit for the year has been arrived at after charging:		
Directors' remuneration	<b>494</b>	448
Other staff costs		
– salaries and allowances	<b>24,575</b>	17,318
– discretionary bonus	<b>2,598</b>	1,393
– retirement benefits scheme contribution	<b>1,017</b>	687
Total directors and other staff costs	<b>28,684</b>	19,846
Auditor's remuneration	<b>860</b>	200
Cost of inventories recognised as expense	<b>26,384</b>	27,417
Depreciation of property, plant and equipment	<b>1,245</b>	1,176
Website content update expense ( <i>Note</i> )	<b>4,292</b>	3,146
Write-down of inventories	<b>441</b>	10

*Note:* Amounts represent expenses incurred and paid to freelance bloggers for content update in the web pages and were recorded as “administrative and operating expenses”.

## 7. EARNINGS PER SHARE

As of 31 March 2016, the Company has 100 ordinary shares in issue. The Company was listed on the GEM of the Stock Exchange on 11 April 2016 by way of placing of 400,000,000 new shares and capitalisation of 1,599,999,900 shares, resulting in 2,000,000,000 ordinary shares in issue. The calculation of the basic earnings per share for each of the years ended 31 March 2015 and 2016 is based on the following data:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Earnings</b>		
Earnings for the purpose of basic earnings per share (profit for the year attributable to the owners of the Company)	<u>4,216</u>	<u>9,055</u>
	<b>2016</b> <i>'000</i>	2015 <i>'000</i>
<b>Number of shares</b>		
Number of shares for the purpose of basic earnings per share	<u>1,600,000</u>	<u>1,600,000</u>

Basic earnings per share for the year ended 31 March 2016 are 0.26 HK cent (2015: 0.57 HK cent) per share. The number of ordinary shares for the purpose of calculating basic earnings per share has been retrospectively adjusted for the capitalisation issue of the shares of the Company completed on 11 April 2016 and assuming the Group Reorganisation had been effective on 1 April 2014.

No diluted earnings per share was presented as there was no potential ordinary shares outstanding during both years.

## 8. DIVIDENDS

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Dividends recognised as distribution for the year	<u>–</u>	<u>7,745</u>

During the year ended 31 March 2015, dividends of HK\$7,745 per share totalling HK\$7,745,000 have been declared and paid by 101 Media Lab Limited to its then sole shareholder who is also one of the directors of the Company. No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 March 2016, nor has any dividend been proposed since the end of the reporting period.

## 9. TRADE AND OTHER RECEIVABLES

	<b>2016</b>	2015
	<b>HK\$'000</b>	<b>HK\$'000</b>
Trade receivables	<b>35,001</b>	13,053
Less: allowance for doubtful debts	<b>(725)</b>	(1,662)
	<b>34,276</b>	11,391
Advance to staffs	<b>141</b>	–
Rental and utilities deposits	<b>588</b>	125
Prepayment to suppliers	<b>1,227</b>	679
Deferred listing expenses	<b>4,101</b>	–
Total	<b>40,333</b>	12,195

The Group allows credit periods ranging from 30 to 60 days to its trade customers derived from provision of advertising spaces and creative agency projects, whereas no credit period is granted to customers from online stores and subscribers of magazines. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	<b>As at 31 March</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within 60 days	<b>26,187</b>	9,607
61 – 90 days	<b>2,044</b>	1,213
91 – 180 days	<b>5,598</b>	571
181 – 365 days	<b>447</b>	–
	<b>34,276</b>	11,391

Included in the Group's trade receivables balance are debtors as at 31 March 2016 with an aggregate carrying amount of approximately HK\$19,258,000 (2015: HK\$2,009,000) which are past due at the end of reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances. All of the trade receivables that are neither past due nor impaired have good credit quality assessed by the Group.

Aging of trade receivables which are past due but not impaired:

	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Within 60 days	<b>11,169</b>	225
61 – 90 days	<b>2,044</b>	1,213
91 – 180 days	<b>5,598</b>	571
181 – 365 days	<b>447</b>	–
	<b>19,258</b>	2,009

#### Movement in the allowance for trade receivables

	<b>Year ended 31 March</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Balance at beginning of the year	<b>1,662</b>	1,011
Impairment losses recognised on receivables	<b>1,024</b>	651
Written off	<b>(1,961)</b>	–
Balance at end of the year	<b>725</b>	1,662

Included in trade receivables as at 31 March 2016 are amounts net of individually impaired receivables amounting to HK\$725,000 (2015: HK\$1,662,000). The management has reviewed the repayment history of these long overdue customers, considering their deteriorating credit quality and no amount had been settled subsequent to the end of the reporting period, accordingly, full impairment was recognised.

#### 10. TRADE AND OTHER PAYABLES

	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
Trade payables	<b>3,937</b>	4,881
Deferred revenue	<b>44</b>	871
Commission payable	<b>3,363</b>	1,464
Listing expenses payable	<b>9,923</b>	–
Accrual for campaign cost ( <i>Note</i> )	<b>7,113</b>	620
Accrual for staff bonus	<b>2,598</b>	–
Audit and professional fee payable	<b>1,110</b>	–
Other payables and accrued expenses	<b>4,333</b>	1,671
	<b>32,421</b>	9,507

*Note:* Provision for campaign cost represents the accrual for expenses incurred for rendering the creative agency campaign and media project which include video shooting and photography. The Group recognised these expenses on straight-line over the advertising period matching the recognition of the revenue associated as disclosed in note 4 to the consolidated financial statements and made accrual on the expenses that has yet been billed by service providers.

The average credit period on purchases of goods is 30 days. The aging analysis of the Group's trade payables below is presented based on the invoice date at the end of the reporting period:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 30 days	<b>2,491</b>	2,351
31 – 60 days	<b>60</b>	857
61 – 90 days	<b>320</b>	77
Over 90 days	<b>1,066</b>	1,596
	<b>3,937</b>	4,881

## 11. SHARE CAPITAL

Share capital as at 1 April 2014 and 31 March 2015 represented the issued share capital of 101 Media Lab Limited.

The movements in the Company's authorised and issued ordinary share capital are as follows:

	<b>Number of shares</b>	<b>Share capital <i>HK\$</i></b>
Ordinary shares of HK\$0.01 each		
Authorised:		
On date of incorporation on 25 September 2015	38,000,000	380,000
Increase on 18 March 2016 ( <i>Note</i> )	<u>5,962,000,000</u>	<u>59,620,000</u>
At 31 March 2016	<u>6,000,000,000</u>	<u>60,000,000</u>
Issued:		
1 share allotted and issued, fully paid at par on the date of incorporation	1	–
Issue of shares on 30 October 2015 pursuant to the Group Reorganisation	<u>99</u>	<u>1</u>
At 31 March 2016	<u>100</u>	<u>1</u>

*Note:* Pursuant to the written resolutions of the sole shareholder of the Company passed on 18 March 2016, the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 shares of a par value of HK\$0.01 each to HK\$60,000,000 divided into 6,000,000,000 shares of a par value of HK\$0.01 each by the creation of an additional 5,962,000,000 shares.

## 12. SUBSEQUENT EVENTS

Save as disclosed elsewhere in these consolidated financial statements, the following significant events took place subsequent to 31 March 2016:

- (i) The Group has completed the listing of its shares on the GEM of the Stock Exchange by way of placing 500,000,000 shares (comprising 400,000,000 new shares and 100,000,000 of existing shares issued before the listing of shares on the GEM of the Stock Exchange on 11 April 2016).
- (ii) On 18 March 2016, the Group has conditionally approved and adopted the pre-IPO share option scheme and the post-IPO share option scheme where eligible participants may be granted options entitling them to subscribe for the Company's shares. No share has been granted since the adoption of the schemes. The principal terms of the share option schemes are summarized in the sections headed "Pre-IPO Share Option Scheme" and "Post-IPO Share Option Scheme" in Appendix IV to the prospectus of the Company dated 31 March 2016 (the "Prospectus").
- (iii) Pursuant to the written resolution passed by the shareholders of the Company on 29 March 2016, conditional upon the crediting of the Company's share premium account as a result of the allotment and issue of the 400,000,000 shares in connection with the initial listing of the shares of the Company by way of placing on 11 April 2016, the directors of the Company has capitalised an amount of HK\$15,999,999 standing to the credit of the share premium account of the Company.

## **BUSINESS REVIEW AND OUTLOOK**

The Group is a digital media company primarily engaging in (i) the provision of advertising services to brand owners and advertising agencies on our digital media platforms; and (ii) the sale of third-party branded clothing, shoes and accessories on our e-commerce platform. We produce and distribute young-adults-focused digital content that reports the latest trends on fashion, lifestyle, culture and music to users of our digital content who do not subscribe to updates of our digital content (“visitors”) and users who subscribe to updates of our digital content (“followers”). Digital content is delivered via our digital media platforms (including Hypebeast, Hypetrak and Popbee websites and apps) and popular third-party social media platforms (including Facebook, Google+, Instagram, Twitter, Pinterest, Youtube, Weibo and Snapchat). Our e-commerce platform typically carries over 300 trend leading third-party branded products. As at 31 March 2015 and 31 March 2016, the number of brands offered on our e-commerce platform was 383 and 422, respectively, representing an increase of 39 brands for the year ended 31 March 2016. As at 31 March 2015 and 31 March 2016, the number of products offered on our e-commerce platform was over 7,100 and 8,700, respectively, representing a gross increase of approximately 1,600 products during the year ended 31 March 2016.

In the coming year, the Group targets to become one of the leading online destinations for fashion followers by continuing to set trends that will drive the future growth of its business. And it is looking forward to expanding its visitor base and enhancing its digital media production capability, which are expected to translate to increasing advertising income and revenue from sales of goods through the Group’s integrated digital platforms. With these clear objectives, the Group will foster its development in line with a series of business strategies as set out in the prospectus, among which:

1. For the digital media segment, the Group is enhancing its production capability of quality advertising services of its creative agency team by different ways such as recruiting more content production executives so as to attract more brand owners and advertising agencies for using its advertising services.
2. For the e-commerce segment, the Group is carefully considering expansion into Asia, which shall include China. The Group will also strive to ensure greater accessibility and the best online shopping experience for its customers by enhancing its customer service and its inventory system.

## FINANCIAL REVIEW

### Revenue

	Year ended 31 March 2015			Year ended 31 March 2016		
	Revenue	Gross Profit	Gross Profit Margin	Revenue	Gross Profit	Gross Profit Margin
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>
Digital media	47,651	36,127	75.8	<b>95,347</b>	<b>64,001</b>	<b>67.1</b>
E-commerce	<u>51,280</u>	<u>21,665</u>	42.2	<u><b>56,516</b></u>	<u><b>27,129</b></u>	<b>48.0</b>
Overall	<u>98,931</u>	<u>57,792</u>	58.4	<u><b>151,863</b></u>	<u><b>91,130</b></u>	<b>60.0</b>

The Group's revenue increased from approximately HK\$98.9 million for the year ended 31 March 2015 to approximately HK\$151.9 million for the year ended 31 March 2016, representing a growth of approximately 53.5%. Such increase was mainly due to increase in revenue from (i) provision of advertising services to brand owners and advertising agencies on our digital media platforms; and (ii) the number of items sold.

### COST OF REVENUE

The Group's cost of revenue increased from approximately HK\$41.1 million for the year ended 31 March 2015 to approximately HK\$60.7 million for the year ended 31 March 2016, representing an increase of approximately 47.6%. Such increase was mainly attributable to (i) the increase in editorial and production cost; and (ii) the increase in direct staff costs; and (iii) the increase in contracting projects undertaken by the Group during the year ended 31 March 2016.

### GROSS PROFIT MARGIN

Gross profit of the Group increased by approximately 57.7% from approximately HK\$57.8 million for the year ended 31 March 2015 to approximately HK\$91.1 million for the year ended 31 March 2016. The increase was mainly driven by the increase in revenue for the year



ended 31 March 2016 as discussed above. The overall gross profit margin increased from approximately 58.4% for the year ended 31 March 2015 to approximately 60.0% for the year ended 31 March 2016 which was mainly due to (i) the improvement of gross profit margins of certain existing brands including the brand supplied by our largest supplier and other top selling brands resulted from an increase in the retail selling prices and higher mark-up as compared to the year ended 31 March 2015 in relation to pricing strategy changes adopted by the brand owners to enhance their brand image and market position; (ii) an adjustment of our product mix as we sourced more products with higher gross profit margins; and (iii) the introduction of a number of new brands which carried higher gross profit margins during the year ended 31 March 2016 as part of our effort to enhance our brand portfolio and increase our product variety.

### **LISTING EXPENSES**

During the year ended 31 March 2016, the Group recognized non-recurring listing expenses of approximately HK\$15.6 million (2015: Nil) as expenses in connection with the Listing.

### **OTHER GAIN AND LOSSES**

Other gains and losses of the Group decreased by HK\$109,000 or 7.2% from approximately HK\$1.5 million for the year ended 31 March 2015 to approximately HK\$1.4 million for the year ended 31 March 2016.

### **SELLING AND MARKETING EXPENSES**

Selling and marketing expenses of the Group increased by approximately 41.9% from approximately HK\$22.1 million for the year ended 31 March 2015 to approximately HK\$31.4 million for the year ended 31 March 2016. Selling and marketing expenses primarily consist of advertising and promotion expenses and consultancy service to third party consultants. The increase was attributable to the increase in the increased usage of both services due to business expansion during the year ended 31 March 2016.

### **ADMINISTRATIVE AND OTHER OPERATING EXPENSES**

Administrative expenses of the Group increased by approximately 45.9% from approximately HK\$23.1 million for the year ended 31 March 2015 to approximately HK\$33.7 million for the year ended 31 March 2016. Administrative expenses mainly consist of staff costs, professional fees and freelancers costs. The increase was attributable to the increase in staff salary, bonus and freelancers costs due to business expansion during the year ended 31 March 2016.

## **FINANCE COSTS**

Finance Costs increased by HK\$206,000 or 236.8% from approximately HK\$87,000 for the year ended 31 March 2015 to approximately HK\$293,000 for the year ended 31 March 2016. The increase was mainly due to the increased usage of bank borrowing during the year ended 31 March 2016.

## **INCOME TAX EXPENSES**

Income tax expense for the Group increased by approximately 137.8% from approximately HK\$1.9 million for the year ended 31 March 2015 to approximately HK\$4.6 million for the year ended 31 March 2016. The increase was mainly due to the increase in profit before tax, excluding the effect of non-deductible expenses, such as the listing expenses and non-chargeable other income items.

## **PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR**

Profit and total comprehensive income for the year decreased by approximately 53.4% from approximately HK\$9.1 million for the year ended 31 March 2015 to approximately HK\$4.2 million for the year ended 31 March 2016. Such decrease was primarily attributable to the net effect of (i) the listing expenses incurred by the Group for the Listing during the year ended 31 March 2016; and (ii) the increase in revenue and gross profit for the year ended 31 March 2016. Excluding the one-off exceptional expenses for the Listing of the Group of approximately HK\$15.6 million (2015: Nil), profit and total comprehensive income for the year ended 31 March 2016 would reach approximately HK\$19.8 million (2015: approximately HK\$9.1 million), representing an increase of approximately 118.4% compared to the corresponding period ended 31 March 2015.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 March 2016, the Group had total assets of approximately HK\$72.0 million (2015: approximately HK\$33.7 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK\$46.3 million (2015: approximately HK\$12.1 million) and approximately HK\$25.8 million (2015: approximately HK\$21.5 million), respectively. The total interest-bearing loans and interest-bearing bank borrowings of the Group as at 31 March 2016 were approximately HK\$11.3 million (31 March 2015: approximately 2.1 million), and current ratio as at 31 March 2016 was approximately 1.4 times (31 March 2015: approximately 2.6 times).

## **CAPITAL EXPENDITURE**

Total capital expenditure for the year ended 31 March 2016 was approximately HK\$1.0 million, which was mainly used in the purchase of property, plant and equipment.

## **CONTINGENT LIABILITIES**

At the end of the reporting date, there were no significant contingent liabilities for the Group.

## **GEARING RATIO**

The gearing ratio of the Group as at 31 March 2016 was approximately 43.9 % (31 March 2015: approximately 9.5%), which increased significantly as the Group increased its usage of bank borrowing during the year ended 31 March 2016. The gearing ratio is calculated based on the total loans and borrowings (interest-bearing bank borrowings and bank overdrafts) divided by total equity as at the respective reporting date.

## **TREASURY POLICY**

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the year ended 31 March 2016. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the management closely monitors the Group's liquidity position and maintain sufficient cash and cash equivalents and an adequate amount of committed credit facilities to settle the payables of the Group.

## **CHARGES ON GROUP ASSETS**

As at 31 March 2016, the Group pledged its bank deposits to a bank of approximately HK\$4.1 million as collateral to secure bank facilities granted to the Group. Besides the deposits, the bank borrowings with carrying amount of approximately HK\$11.3 million and HK\$2.1 million were wholly guaranteed by Mr. Ma Pak Wing Kevin (the "Chairman") as at 31 March 2016 and 2015 respectively. Such guarantee was replaced by corporate guarantee of the Company upon Listing.

## **FOREIGN EXCHANGE EXPOSURE**

The Group undertakes certain operating transactions in foreign currency which exposes the Group to foreign currency risk. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities in US\$, as HK\$ is pegged with US\$ under Linked Exchange Rate System, the Group's exposure to US\$ exchange risk is minimal.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should such need arise.

## **CAPITAL STRUCTURE**

The shares of the Company were successfully listed on the GEM of the Stock Exchange on 11 April 2016. There has been no change in the capital structure of the Company since then. The share capital of the Company only comprises of ordinary shares.

As at 31 March 2016, the Company's issued share capital was HK\$1,000 and the number of its issued ordinary share was 100 of HK\$10.0 each. As at 11 April 2016, the Company's issued share capital was increased to HK\$20,000,000 and the number of its issued ordinary shares was 2,000,000,000 of HK\$0.01 each.

## **COMMITMENT**

The contractual commitments of the Group were primarily related to the leases of its office premises and the Director's quarter. The Group's operating lease commitments amounted to approximately HK\$4.2 million as at 31 March 2016 (31 March 2015: HK\$2.0 million).

## **SEGMENT INFORMATION**

Segmental information is presented for the Group as disclosed on note 4 of the notes to the consolidated financial statements in the results announcement.

## **USE OF PROCEEDS**

The net proceeds from the placing of new shares as referred to in the Prospectus was approximately HK\$29.7 million.

After the Listing, these proceeds are designated for the purposes in accordance with the “Statement of Business Objectives and Use of Proceeds” as set out in the Prospectus, which is (i) approximately 29% of the net proceeds, representing approximately HK\$8.7 million to enhance the content of our digital media platforms to retain and expand our base of followers and visitors, (ii) approximately 35% of the net proceeds, representing approximately HK\$10.3 million to increase the sales and marketing efforts, (iii) approximately 18% of the net proceeds, representing approximately HK\$5.5 million to improve working environment and purchase new equipment, (iv) approximately 7% of the net proceeds, HK\$2.1 million to enhance our e-commerce platform by improving our services and expanding our product portfolio, (v) approximately 1% of the net proceeds, representing HK\$0.4 million for staff development and (vi) approximately 10% of the net proceeds, representing HK\$2.7 million for general working capital purposes.

As the Listing Date is after the financial year end date of 31 March 2016, the Group has not yet utilized the proceeds from the Listing.

## **CORPORATE GOVERNANCE PRACTICE**

The Company’s corporate governance practices are based on the principles of the Corporate Governance Code (the “CG Code”) as set out in Appendix 15 to the GEM Listing Rules. The Company listed on the GEM since the Listing Date, that is, after the financial year ended 31 March 2016. To the best knowledge of the Board, the Company has complied with the CG Code from the Listing date up to the Date of this announcement.

## **DIRECTORS’ SECURITIES TRANSACTIONS**

The Company adopted the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding Directors’ securities transactions in securities of the Company. Based on specific enquiry with the Directors, all Directors confirmed that they had fully complied with the required standard of dealings and there was no event of non-compliance from the Listing Date up to the date of this announcement.

## **AUDIT COMMITTEE**

We have established an audit committee pursuant to a resolution of our Directors passed on 18 March 2016 in compliance with Rule 5.28 of the GEM Listing Rules and with the written terms of reference in compliance with the CG Code as set out in Appendix 15 of the GEM Listing Rules.

The Group's consolidated financial statements for the year ended 31 March 2016 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the consolidated financial statements of the Group for the year ended 31 March 2016 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

#### **SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU**

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 March 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

By Order of the Board

**Ma Pak Wing Kevin**

*Chairman and executive Director*

Hong Kong, 24 June 2016

*As at the date of this announcement, the executive Directors are Mr. Ma Pak Wing Kevin and Ms. Lee Yuen Tung Janice; and the independent non-executive Directors are Ms. Poon Lai King, Mr. Wong Kai Chi and Ms. Kwan Shin Luen Susanna.*

*This announcement will remain on the "Latest Company Announcements" page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of its publication and on the Company's website at [www.hypebeast.xyz](http://www.hypebeast.xyz).*