

**THIRD QUARTERLY REPORT 第三季度報告
2018**

HYPEBEAST

—

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

—

**於開曼群島
註冊成立的有限公司**

—

**STOCK CODE
8359**

—

**股份代號
8359**

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Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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*This report, 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 report 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 report misleading.*

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THIRD QUARTERLY RESULTS

The board of Directors (the “**Board**”) of the Company is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the nine months ended 31 December 2018 (the “**Relevant Period**”), together with the unaudited comparative figures for the corresponding period in 2017, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and nine months ended 31 December 2018

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2018	2017	2018	2017
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Revenue	3	231,134	147,724	487,381	291,028
Cost of revenue		(109,566)	(67,944)	(240,177)	(134,623)
Gross profits		121,568	79,780	247,204	156,405
Other gains/(losses), net		1,336	252	(1,841)	1,093
Selling and marketing expenses		(53,361)	(29,794)	(109,649)	(64,651)
Administrative and operating expenses		(25,686)	(17,046)	(65,487)	(41,702)
Professional fee relating to proposed transfer of listing		(2,147)	-	(5,361)	-
Finance costs		(195)	(82)	(401)	(232)
Share of result of a joint venture		(381)	-	(2,230)	-
Profit before income tax		41,134	33,110	62,235	50,913
Income tax expenses	4	(7,929)	(5,663)	(12,298)	(8,805)
Profit and total comprehensive income for the period		33,205	27,447	49,937	42,108
Earnings per share					
- Basic and diluted (HK cent)	6	1.66	1.37	2.50	2.11

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2018

	Share Capital HK\$'000	Share Premium HK\$'000	Translation reserve HK\$'000	Share option reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 April 2018 (audited)	20,000	25,275	(1)	1,749	94,226	141,249
Profit and total comprehensive income for the period	-	-	-	-	49,937	49,937
Recognition of equity-settled share-based payments	-	-	-	2,125	-	2,125
As at 31 December 2018 (unaudited)	20,000	25,275	(1)	3,874	144,163	193,311
At 1 April 2017 (audited)	20,000	25,275	-	-	49,055	94,330
Profit and total comprehensive income for the period	-	-	-	-	42,108	42,108
At 31 December 2017 (unaudited)	20,000	25,275	-	-	91,163	136,438

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 31 December 2018

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 September 2015. The registered office of the Company is located at P.O. Box 10008, Willow House, Cricket Square, Grand Cayman, KY1-1001, Cayman Islands. The headquarter and principal place of business of the Company in Hong Kong is located at 10/F, KC100, 100 Kwai Cheong Road, Kwai Chung, Hong Kong.

The Company's issued ordinary shares of HK\$0.01 each have been listed and traded on GEM since 11 April 2016.

Pursuant to the reorganisation of the Group (the "**Reorganisation**") in connection with the listing of the shares of the Company on GEM, the Company became the holding company of the companies comprising the Group on 30 October 2015. Details of the Reorganisation are set out in the prospectus of the Company dated 31 March 2016 under the section headed "History, Reorganisation and Corporate Structure".

The principal activity of the Company is investment holding. The Group's principal activities are the provision of advertising services to brand owners and advertising agencies on the Group's digital media platforms, and the sale of third-party branded clothing, shoes and accessories on the Group's e-commerce platform.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group for the Relevant Period have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the applicable disclosure requirements of the GEM Listing Rules.

HKFRSs include Hong Kong Accounting Standards and interpretations. Intragroup balances and transactions, if any, have been fully and properly eliminated. The unaudited condensed consolidated financial statements of the Group for the Relevant Period should be read in conjunction with the annual report of the Company for the year ended 31 March 2018 dated 20 June 2018 (“**Annual Report**”). The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements of the Group for the Relevant Period are consistent with those used in the Annual Report.

HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the Relevant Period. There have been no significant changes to the accounting policies applied in these financial statements for the Relevant Period presented as a result of these developments.

The unaudited condensed consolidated financial statements of the Group for the Relevant Period have been prepared under the historical cost convention.

The unaudited condensed consolidated financial statements for the Relevant Period have not been audited by the Company’s independent auditor, but have been reviewed by the Company’s audit committee.

The preparation of the unaudited condensed consolidated financial statements of the Group for the Relevant Period is in conformity with the HKFRSs requirements in the use of certain critical accounting estimates. The HKFRSs also require management to exercise their judgements in the process of applying the Group’s accounting policies.

The unaudited condensed consolidated financial statements of the Group for the Relevant Period are presented in Hong Kong dollars (“**HK\$**”), which is the functional currency of the Company.

3. REVENUE AND SEGMENT INFORMATION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

The Group's turnover includes revenues from sales of goods through online stores, provision of advertising services and publication of web magazines.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

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

	Three months ended 31 December		Nine months ended 31 December	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Digital media	150,635	109,940	306,779	206,728
E-commerce	80,499	37,784	180,602	84,300
	231,134	147,724	487,381	291,028

4. INCOME TAX EXPENSE

	Three months ended 31 December		Nine months ended 31 December	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Current tax:				
Hong Kong Profits Tax	6,857	5,663	11,095	8,805
Other jurisdictions	1,072	–	1,203	–
	7,929	5,663	12,298	8,805

The Group is not subject to any income tax in the Cayman Islands and 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 the periods indicated above.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

5. DIVIDEND

During the Relevant Period, the Group has not declared and paid any dividend. Furthermore, the Board does not recommend the payment of an interim dividend for the Relevant Period.

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following data:

	Three months ended 31 December		Nine months ended 31 December	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Earnings				
Earnings for the purpose of calculating basic earnings per share (Profit and total comprehensive income for the period)	33,205	27,447	49,937	42,108
	2018 '000	2017 '000	2018 '000	2017 '000
Number of shares				
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	2,000,000	2,000,000	2,000,000	2,000,000
Effect of dilutive potential ordinary shares:				
Share options issued by the Company	750	-	750	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,000,750	2,000,000	2,000,750	2,000,000

Basic earnings per share for the nine months ended 31 December 2018 are 2.50 HK cent (2017: 2.11 HK cent) per share.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECT

The Group is a digital media company primarily engaged in (i) the provision of advertising and creative agency services to brands and advertising agencies on its digital media platforms; and (ii) the sale of third-party branded clothing, shoes and accessories on its e-commerce platform. Under its digital media business segment, the Group produces and distributes millennial-focused digital content reporting the latest trends on fashion, lifestyle, culture and music to its visitors and followers. Digital content is delivered via the Group's digital media platforms (including its Hypebeast, Hypebae, Hypekids and Popbee websites and mobile apps) and popular third-party social media platforms (including Facebook, Google+, Instagram, Twitter, Youtube, Wechat and Weibo). Central to the Group's digital media strategy is the development of new platforms to reach a wider scope of users and followers both demographically and geographically. In addition to its flagship Hypebeast digital media platform, the Group launched new platforms catering to cultural, fashion and lifestyle trends for diverse user segments such as young women, named "Hypebae", and fashion-conscious parents & children, named "Hypekids". The Group also launched local language versions of its flagship Hypebeast property across both website and social media platforms, with content now available in Traditional Chinese, Simplified Chinese, Japanese, Korean and French. This expansion in the breadth of scope of its target audience as well as the enrichment and enhancement of its digital media content supports substantial growth in the Group's visitor and follower base, thereby increasing the reach and appeal of the Group's digital media services to brands and advertising partners globally.

As part of its digital media segment, the Group also delivers bespoke creative agency services, named "Hypemaker", to brands, including but not limited to creative conceptualization, technical production and campaign execution in the development and creation of digital media based content. The unique combination of industry and cultural knowledge, exceptional creative and technical talent and a distinct aesthetic lens helped drive support of our creative agency service offerings amongst brands and advertisers, thereby helping the Group develop its various creative services into a focused suite of deliverables to bring to market.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

BUSINESS REVIEW AND PROSPECT (CONTINUED)

The Group engages in online retail of apparel and accessories under its HBX e-commerce platform. The HBX e-commerce platform focuses on delivering the latest, trend-setting apparel and accessories to its customers, curating fashion forward pieces and collections to include in its merchandise portfolio. With its unique insight into street-wear and youth-focused fashion, the Group is able to deliver products most desired by its target demographic, thereby supporting a growing number of online shoppers. The Group is intent on enhancing the online retail experience for its customers, driving improvements from website usability to order processing to shipping and delivery. During the nine months ended 31 December 2018, the number of customer orders on its HBX e-commerce platform increased by approximately 55.5% compared with the same period last year, which is a testament to the increasing appeal of HBX as a leading destination for online street-wear and youth-focused fashion worldwide. As at 31 December 2017 and 31 December 2018, the number of brands offered on our e-commerce platform were 380 and 282, respectively, representing a decrease of 98 brands for the nine months ended 31 December 2018. As at 31 December 2017 and 31 December 2018, the number of products offered on the Group's e-commerce platform were approximately 5,700 and 8,600, respectively, representing an increase of approximately 2,900 products for the nine months ended 31 December 2018. The decrease in the number of brands and increase in the number of products carried on our e-commerce platform reflects our strategy of delivering a more exclusive and fashion driven shopping experience and trend focused product offerings to our customers.

Looking forward, the Group aims to become the leading online destination for fashion followers by continuing to set trends. The Group will continue to explore opportunities to bring our online presence to the offline world. It intends to enhance its digital media production capability, thereby increasing the quality and quantity of both its in-house editorial and sales campaign driven content, which is expected to translate to increased revenue from sales of services through the Group's integrated digital platforms and creative agency. The Group intends to deliver an industry leading online retail experience to its fashion and culture conscious customers on its e-commerce platform, both through sourcing trend leading products and enhancing website and mobile app user experience. The Group will foster its development in line with a series of business strategies, which include the following:

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

BUSINESS REVIEW AND PROSPECT (CONTINUED)

1. For the digital media segment, the Group will focus on increasing our volume of work and contract value with respect to both its digital media and creative services, and as the size of our contracts and level of production increases within our contractual pipeline it becomes necessary to increase our talent pool to be able to deliver the suite of services demanded by our clients.

The Group is enhancing its advertising production capabilities through various methods, including attracting and retaining content production executives and creative talent so as to create high quality production campaigns and editorial features to meet the demands and expectations of brand owners, advertising agencies and its visitors and followers.

The Group will continue to look for opportunities to increase the depth and breadth of engagement with its target audience, through strategies such as content enrichment as well as platform development.

2. For the e-commerce segment, the Group plans to increase marketing efforts and expand the scale and penetration of our e-commerce platform and business in significant markets such as the United States, Hong Kong, China and Southeast Asia.

The Group will continue delivering the best online shopping experience for its customers by enhancing the quality of its customer service, the capabilities of its inventory systems as well as improving the functionality and usability of its website and app based e-commerce platforms. The Group also intends to work closely with both up-and-coming and established fashion brands to bring trend setting fashion pieces and collections to its customers.

In addition, the Group has tasted success from its first offline retail store at the Landmark shopping mall in Hong Kong from where HBX hosted a series of retail pop-ups and exhibitions. The Group continues to explore similar opportunities to bring our online presence to the offline world. Hereby, the Group entered into a lease on 21 June 2018 for an office and retail premise in the Lower East Side neighborhood of Manhattan, which will house an offline retail store alongside the Group's US East Coast offices. The physical store will be the Group's landmark presence within the United States and will provide a tangible experience for our customers to access our curation of products. The Group anticipates the store to begin operations in early 2020.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

BUSINESS REVIEW AND PROSPECT (CONTINUED)

From 6 to 7 October 2018, the Group hosted Hypefest, a two-day, weekend long event in New York City which featured retail activations from 54 of the most renowned, highly regarded street wear, contemporary and luxury brands from around the world, as well as a wide array of musical acts, cultural and artistic installations. The event hosted more than 10,000 attendees over the two-day period, and tickets for the event sold out within 3 minutes upon release, which was testament to the cultural significance of the event within the street wear world as hosted by Hypebeast. Further, social media and website coverage for Hypefest garnered over 500,000 unique visitors and 1.3 million total page views across all of Hypebeast's website platforms, 91 million Instagram profile impressions, 3 million total impressions on Facebook and 4.5 million total Twitter impressions. The Group believes that long-term positive impact on future growth from marketing and activations has been derived from the event.

On 30 July 2018, the Company submitted a formal application (the "**Application**") to the Stock Exchange for the proposed transfer of listing from GEM to the main board of the Stock Exchange (the "**Proposed Transfer of Listing**"). On 31 January 2019, the Company submitted a formal renewal application for the Proposed Transfer of Listing as the Application was valid for a period of six months. The Board believes this will enhance the profile of the Group, strengthen its recognition among public investors, be beneficial to the future growth, financing flexibility and business development of the Group. Shareholders of the Company and potential investors should be aware that the implementation of the Proposed Transfer of Listing is subject to, among others, the granting of relevant approval by the Stock Exchange. Accordingly, there is no assurance that permission will be obtained from the Stock Exchange for the Proposed Transfer of Listing.

Save as disclosed herein, there have not been any important events affecting the Group since 31 December 2018 up to the date of this report.

With the Group's experienced management team and reputation in the market, the Directors consider the Group to be well-positioned to compete against its competitors under potential future challenges.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW

Revenue

The Group's revenue increased from approximately HK\$291.0 million for the nine months ended 31 December 2017 to approximately HK\$487.4 million for the nine months ended 31 December 2018, representing growth of approximately 67.5%. Such increase was mainly due to increase in scope and quantity of our provision of advertising and creative agency services to brand owners and advertising agencies on our digital media platforms, as well as growth in sales volume of third-party branded apparel on our e-commerce platform.

With respect to our digital media segment, the revenue of which increased from approximately HK\$206.7 million for the nine months ended 31 December 2017 to approximately HK\$306.8 million for the nine months ended 31 December 2018. Such increase was mainly due to (i) the increase in revenue from provision of advertising and creative agency services to brand owners and advertising agencies by approximately HK\$100.0 million on the Group's digital media platforms; and (ii) the increase in the average contract value of contracts by approximately 27.6% and the number of contracts entered into with the Group's customers by approximately 45.0%. The Group's digital media revenues are dependent on timing of bookings and campaign delivery and therefore may not necessarily be consistent from quarter to quarter.

With respect to our e-commerce segment, the revenue of which increased from approximately HK\$84.3 million for the nine months ended 31 December 2017 to approximately HK\$180.6 million for the nine months ended 31 December 2018. Such increase was mainly due to (i) the increase in number of customer orders on our e-commerce platform by approximately 55.5%, and (ii) the change in sales mix with greater portion of high-end products sold compared with the same period of last year. The Group experiences seasonality in sales with respect to its e-commerce business due to increased demand for our products on festive occasions, namely Thanksgiving Day in November and Christmas in December during the period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW (CONTINUED)

Cost of Revenue

The Group's cost of revenue increased from approximately HK\$134.6 million for the nine months ended 31 December 2017 to approximately HK\$240.2 million for the nine months ended 31 December 2018, representing an increase of approximately 78.4%. Such increase was mainly attributable to the increase in (i) product and inventory related costs to support growth in our e-commerce business, (ii) campaign production costs to deliver high quality, bespoke content, for our creative agency, and (iii) direct staff costs to support increases in the size of our contracts and level of production within our contractual pipeline for the Relevant Period.

Gross Profit Margin

Gross profit of the Group increased by approximately 58.1% from approximately HK\$156.4 million for the nine months ended 31 December 2017 to approximately HK\$247.2 million for the nine months ended 31 December 2018. The increase was mainly driven by the increase in revenue for the nine months ended 31 December 2018 as discussed above. However, the overall gross profit margin decreased from approximately 53.7% for the nine months ended 31 December 2017 to approximately 50.7% for the nine months ended 31 December 2018 and was mainly due to the decrease in gross profit margin in the digital media segment as more tailor-made advertising services were provided and more production staff were employed during the Relevant Period, as well as a higher percentage of revenue derived from the e-commerce business, which had comparatively lower margins. Revenue from the e-commerce segment represented 37.1% of total revenue for the nine months ended 31 December 2018, compared to 29.0% for the same period last year.

Other Gains/(Losses), Net

Other losses of the Group primarily consist of exchange loss during the nine months ended 31 December 2018. During the period, the Group primarily had exposure to foreign exchange differences between the HK dollar and the US dollar and Euro, arising from the Group's foreign currency denominated accounts receivable, accounts payable and cash balances. The HK dollar to US dollar foreign exchange rate as at 31 March 2018 was HKD1:USD0.1274 compared to HKD1:USD0.1277 as at 31 December 2018, while the HK dollar to Euro foreign exchange rate as at 31 March 2018 was HKD1:EUR0.1034 compared to HKD1:EUR0.1116 as at 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW (CONTINUED)

Other Gains/(Losses), Net (CONTINUED)

The Group undertakes certain operating transactions in foreign currency which expose the Group to foreign currency risk. The Group's foreign currency denominated monetary assets and liabilities are primarily held in US dollar and Euro. As the HK dollar is pegged with the US dollar under the Linked Exchange Rate System, and the Group's business operations and strategies involves revenues and expenditures in Euro, the Group's exposure to the US dollar and Euro exchange risk is not significant. The Group currently does not have a foreign currency hedging policy. However, management closely monitors foreign exchange exposure and will consider and execute the hedging of significant foreign currency exposure should such need arises.

Selling and Marketing Expenses

Selling and marketing expenses of the Group increased by approximately 69.6% from approximately HK\$64.7 million for the nine months ended 31 December 2017 to approximately HK\$109.6 million for the nine months ended 31 December 2018. Selling and marketing expenses as a percentage of revenue slightly increased from approximately 22.2% for the nine months ended 31 December 2017 to 22.5% for the nine months ended 31 December 2018. Selling and marketing expenses primarily consist of advertising and social media marketing expenses for both digital media and e-commerce platforms and staff costs of our sales and marketing department. The increase in selling and marketing expenses was attributable to the increase in (i) investment in the Group's social media marketing and advertising to support digital and e-commerce platforms growth and exposure, (ii) associated distribution charges with the growth in our e-commerce business, (iii) commission paid for the increases in the size of our contracts and level of production within our contractual pipeline for the year, and (iv) investment in new headcounts within the Group's sales and marketing team to drive current and future business development and revenue expansion.

Administrative and Operating Expenses

Administrative and operating expenses of the Group increased by approximately 57.0% from approximately HK\$41.7 million for the nine months ended 31 December 2017 to approximately HK\$65.5 million for the nine months ended 31 December 2018. However, administrative and operating expenses as a percentage of revenue decreased from approximately 14.3% for the nine months ended 31 December 2017 to 13.4% for the nine months ended 31 December 2018. The increase was mainly attributed to the increase in (i) staff headcount to support the expansion of the Group; (ii) rental and utilities cost for the new headquarters in Hong Kong and other local offices located in the US and UK; (iii) travel cost to support the Group's global business; and (iv) stock based compensation in relation to option granted to employees.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW (CONTINUED)

Professional Fee relating to Proposed Transfer of Listing

There was approximately HK\$5.4 million in one-time legal and professional fees paid for the Proposed Transfer of Listing recorded for the Relevant Period while no such cost was recognized for the nine months ended 31 December 2017. In view of the on-going progress of the Proposed Transfer of Listing, any material increase in such professional fees may adversely affect the Group's financial performance in the coming period/year.

Income Tax Expense

Income tax expense for the Group increased by approximately 39.7% from approximately HK\$8.8 million for the nine months ended 31 December 2017 to approximately HK\$12.3 million for the nine months ended 31 December 2018. The increase was mainly due to the increase in profit for tax, especially in other jurisdictions with relatively higher tax rate, during the Relevant Period.

Share of Result of a Joint Venture

The Group recorded losses of approximately HK\$2.2 million in its share of result of its joint venture, The Berrics Company LLC, a skateboarding digital media platform business which was formed in February 2018 with the Group as majority partner. The loss was attributable to investments in infrastructure and headcount to drive the joint venture's planned sales strategy and marketing initiatives in order to deliver on its sales and expansion plans.

Profit and Total Comprehensive Income for the Period

Profit and total comprehensive income increased by approximately 18.6% from approximately HK\$42.1 million for the nine months ended 31 December 2017 to approximately HK\$49.9 million for the nine months ended 31 December 2018. Such increase was primarily attributable to the increase in revenue and gross profit as well as effective corporate cost management for the nine months ended 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW (CONTINUED)

Profit and Total Comprehensive Income for the Period (CONTINUED)

During the nine months ended 31 December 2018, the Group incurred approximately HK\$5.4 million in one-time legal and professional fees relating to the Proposed Transfer of Listing and recorded approximately HK\$2.2 million losses relating to business integration for The Berrics Company LLC. These items related to one-time transactions and an investment in a new business for the Group whereas no such expenses or losses incurred during the same period last year. Adjusted for these items, net profit for the Group was approximately HK\$57.5 million, representing an increase of 36.6% in the current period. The Group also invested in additional headcount compared to the same period last year. Such investments were made to support anticipated future growth in the volume and scope of digital media and creative agency related contracts and to support expected topline growth for the Group's e-commerce business.

During the period, the Group also recorded approximately HK\$2.9 million in exchange losses relating to balance sheet adjustments for foreign currency denominated financial assets and liabilities. As noted in the above discussion of other losses and gains, the Group's exposure to US dollar and Euro exchange risk over its course of operations was minimal due to the Linked Exchange Rate system between HK dollar and US dollar and the Group's operations involving revenues and expenditure in Euro.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests and Short Positions in the Shares, the Underlying Shares or Debentures of the Company and its Associated Corporations

As at 31 December 2018, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the required standard of dealings as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in ordinary shares of the Company:

<u>Name of Director</u>	<u>Nature of interest</u>	<u>Number of ordinary shares of the Company</u>	<u>Approximate percentage of the Company's total issued shares*</u>
Mr. Ma Pak Wing Kevin	Interest in a controlled corporation (Note 1)	1,485,000,000	74.25%
	Beneficial owner	4,160,000	0.21%
		1,489,160,000	74.46%
Ms. Lee Yuen Tung Janice	Interest of spouse (Note 2)	1,489,160,000	74.46%

* The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 31 December 2018.

Notes:

- These shares were held by CORE Capital Group Limited (“**CORE Capital**”), a controlled corporation of Mr. Ma Pak Wing Kevin.
- Ms. Lee Yuen Tung Janice was deemed to be interested in 1,489,160,000 shares of the Company through the interest of her spouse, Mr. Ma Pak Wing Kevin.

DISCLOSURE OF INTERESTS (CONTINUED)

Long positions in ordinary shares of associated corporation – CORE Capital Group Limited, the Company's holding company:

<u>Name of Director</u>	<u>Nature of interest</u>	<u>Number of ordinary shares of CORE Capital</u>	<u>Percentage of CORE Capital's total issued shares*</u>
Mr. Ma Pak Wing Kevin	Beneficial owner	1	100%
Ms. Lee Yuen Tung Janice	Interest of spouse (Note)	1	100%

* The percentage represents the number of ordinary shares divided by the number of CORE Capital's issued shares as at 31 December 2018.

Note: Ms. Lee Yuen Tung Janice was deemed to be interested in 1 share of CORE Capital through the interest of her spouse, Mr. Ma Pak Wing Kevin.

Save as disclosed above, as at 31 December 2018, none of the Directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO.

DISCLOSURE OF INTERESTS (CONTINUED)

Substantial Shareholders' Interests and Short Positions in the Shares, the Underlying Shares or Debentures of the Company

As at 31 December 2018, the following parties (other than the Directors or the chief executives of the Company) had interests of 5% or more in the shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in ordinary shares of the Company:

<u>Name of substantial shareholder</u>	<u>Nature of interest</u>	<u>Number of ordinary shares of the Company</u>	<u>Percentage of the Company's total issued shares*</u>
CORE Capital	Beneficial owner (Note)	1,485,000,000	74.25%

* The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 31 December 2018.

Note: The interest of CORE Capital was also disclosed as the interests of Mr. Ma Pak Wing Kevin in the above paragraph "Directors' and Chief Executives' Interests and Short Positions in the Shares, the Underlying Shares or Debentures of the Company and its Associated Corporations".

Save as disclosed above, as at 31 December 2018, the Company is not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

COMPETING AND CONFLICT OF INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholder of the Company nor any of their respective associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Company and any other conflicts of interest which any such person has or may have with the Group during the nine months ended 31 December 2018.

None of the Directors, the controlling shareholders or substantial shareholders of the Company or any of their respective close associates has engaged in or has interest in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the nine months ended 31 December 2018.

INTERESTS OF THE COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Lego Corporate Finance Limited to be the compliance adviser. As notified by Lego Corporate Finance Limited, as at 31 December 2018, save for the compliance adviser agreement dated 15 March 2016 entered into between the Company and Lego Corporate Finance Limited, neither Lego Corporate Finance Limited, its directors, employees and close associates had any interest in relation to the Group which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the nine months ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICE

The Company is committed to achieving and maintaining a high standard of corporate governance, as the Board believes that effective corporate governance practices are key to obtaining and maintaining the trust of the shareholders and other stakeholders of the Company, and are essential for encouraging accountability and transparency so as to sustain the success of the Group and in its creation of long-term value for the shareholders of the Company.

During the nine months ended 31 December 2018, the Company has complied with the Corporate Governance Code (the “**CG Code**”) set out in Appendix 15 to the GEM Listing Rules, save as the below deviation.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established.

Mr. Ma Pak Wing Kevin currently assumes the role of both chairman and chief executive officer of the Company. The Board considers that consolidation of these roles by Mr. Ma will provide strong and consistent leadership to the Company which will facilitate effective planning and efficient management of the Company. Furthermore, having considered Mr. Ma’s extensive experience in the digital media industry, the relationships Mr. Ma has built with the customers and the historical development of the Group, the Board considers that it is beneficial for the Group for Mr. Ma to continue to act as both chairman and chief executive officer of the Company.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company adopted the required standard of dealings set out in the GEM Listing Rules as part of its code of conduct regarding Directors’ transactions in the securities of the Company. No event of non-compliance was noted for the nine months ended 31 December 2018 and up to the date of this report.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 18 March 2016, the terms of which are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

On 18 March 2016, the Company conditionally approved and adopted the pre-IPO share option scheme (the “**Pre-IPO Scheme**”) and the post-IPO share option scheme (the “**Post-IPO Scheme**”) where eligible participants may be granted options entitling them to subscribe for the Company’s shares. The purpose of the share option schemes is to enable the Company to grant share options to selected participants as incentives or rewards for their contributions.

SHARE OPTION SCHEME (CONTINUED)

Details of the movements of the two share option schemes of the Company for the nine months ended 31 December 2018 are set out below:

(1) Pre-IPO Scheme

Category of grantee	Date of grant	Exercise period	Exercise price per share (HK\$)	Number of share options	
				As at 1 April 2018	As at 31 December 2018
Employees in aggregate	18 March 2016	From 18 March 2018 to 17 March 2026	0.026	750,000	750,000
		From 18 March 2019 to 17 March 2026	0.026	8,250,000	8,250,000
		From 18 March 2019 to 17 March 2026	0.052	3,500,000	3,500,000
		From 18 March 2019 to 17 March 2026	0.078	6,000,000	6,000,000
Total				<u>18,500,000</u>	<u>18,500,000</u>

Notes:

- (1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- (2) No share options have been granted/exercised/cancelled/lapsed under the Pre-IPO Scheme during the nine months ended 31 December 2018.

SHARE OPTION SCHEME (CONTINUED)

(2) Post-IPO Scheme

Category of grantee	Date of grant	Exercise period	Exercise price per share (HK\$)	Number of share options		
				As at 1 April 2018	Granted during the period	As at 31 December 2018
Employees in aggregate	6 July 2017	From 6 July 2019 to 5 July 2027	0.198	5,812,500	-	5,812,500
		From 6 July 2020 to 5 July 2027	0.198	24,450,000	-	24,450,000
	10 August 2018	From 10 August 2021 to 9 August 2028	0.62	-	10,000,000	10,000,000
Total				<u>30,262,500</u>	<u>10,000,000</u>	<u>40,262,500</u>

Notes:

- (1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- (2) No share options have been exercised/cancelled/lapsed under the Post-IPO Scheme during the nine months ended 31 December 2018.
- (3) The closing price of the shares of the Company immediately before the date of grant on 10 August 2018 was HK\$0.63.

AUDIT COMMITTEE

The audit committee of the Company (the “**Audit Committee**”) consists of three members, namely Mr. Wong Kai Chi, Ms. Poon Lai King and Ms. Kwan Shin Luen Susanna, all being independent non-executive Directors. Mr. Wong Kai Chi currently serves as the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group, nominate and monitor external auditors and to provide advice and comments to the Board on matters related to corporate governance.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the nine months ended 31 December 2018.

By Order of the Board
Hypebeast Limited
Ma Pak Wing Kevin
Chairman and executive Director

Hong Kong, 12 February 2019

As at the date of this report, 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.