HYPEBEAST
Hypebeast Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00150)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2020

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Hypebeast Limited (the "**Company**") is pleased to present the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 March 2020, together with the audited comparative figures for the year ended 31 March 2019, as follows:

KEY HIGHLIGHTS

	Year ended 31 March	
	2020	2019
	HK$'000	*HK$'000*
Revenue	**751,367**	672,192
Gross profit	**379,278**	335,354
Profit before tax	**86,377**	76,649
Total comprehensive income for the year	**65,721**	61,811

BUSINESS REVIEW AND PROSPECT

The Group is a digital media company primarily engaged in (i) the provision of advertising spaces and services for creative agency projects; and (ii) the sale of goods through online retail platform.

Under its digital media business segment, the Group produces and distributes youth focused digital content reporting the latest trends on fashion, lifestyle, technology, entertainment, culture and music to its visitors and followers. Digital content is delivered via the Group's digital media platforms (including its Hypebeast, Hypebae and Popbee websites and mobile apps) and popular third-party social media platforms (including Facebook, Instagram, Twitter, TikTok, Youtube, Wechat, Weibo, Kakao and Naver). The Group also maintains multi-language versions of its flagship Hypebeast property across both website and social media platforms, with content available in English, Traditional Chinese, Simplified Chinese, Japanese and Korean. As part of its digital media segment, the Group also delivers bespoke creative agency services, collectively branded under "Hypemaker", to its clients, including but not limited to creative conceptualization, technical production, campaign execution and data intelligence in the development and creation of digital media based content.

The Group engages in online retail of footwear, apparel and accessories under its HBX e-commerce platform and retail shop. The HBX e-commerce platform focuses on delivering the latest, trend-setting apparel and accessories to its customers, curating and creating fashion forward pieces and collaborations to include in its merchandise portfolio. Combining the Group's unique insight into street-wear and youth-focused fashion, and its long-standing reputation in the industry as a fashion and cultural leader, the Group is able to source and deliver products most desired by its target demographic, thereby supporting a growing number of online shoppers.

COVID-19

As similar to most other businesses globally, the Group was generally affected by the COVID-19 outbreak towards the end of the financial year. Government mandated social distancing, closures of public and private facilities and other health related measures began rolling out in the APAC region starting from December 2019, and the United States, EMEA and other regions soon followed suit. Our business operations have had to navigate and adapt to the business and operational environment under COVID-19.

Being a people-oriented business, the Group's immediate priority was the safety and wellbeing of our staff across all regions. Measures were implemented to best suit the needs of each office such as a series of work-from-home policies. The Group's staff were also provided with masks and sanitizers and asked to maintain a high level of hygiene if they worked in offices. With these measures, the Group was able to minimize potential disruptions to daily operations of the business.

Since then, the Group has kept focus on coming up with creative solutions to continue engagement with our platform users throughout this time where many regions experienced quarantines and lockdowns, at the same time also strategizing and pivoting our sales and marketing strategies to mitigate any disruptions we have encountered. The Group also deployed strategies to continue engagement and demand from customers on our e-commerce platform. Details of the Group's COVID-19 related strategies are described below in the respective sections describing the company's business divisions. To further reinforce the Group's treasury position, the Group applied for respective government subsidies in various regions available and applicable to the Group in support of its business operations under the impact of COVID-19.

Overall business

The Group aims to continue its position as a leading online destination for fashion and culture followers by continuing to set trends. The Group will also 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 of 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. Further, the Group aims to continue the expansion of its digital media client base from industries such as technology, e-gaming, alcohol and consumables, which have a large and targeted group of customer-audience within the Millennial and Generation Z demographic over which the Group's platform and brand have a strong degree of influence on in terms of consumer behaviours. 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.

Digital Media Segment

Hypebeast platforms continued to demonstrate resonance with our expansive community of readers and subscribers through unique, culture-driving content across the globe on our multilingual channels. As of 31 March 2020, the Group's website platforms recorded an aggregate 16.8 million unique visitors and aggregate 24.7 million followers on our social media platforms, representing approximate increase of 21.2% and 14.7% compared to the same period last year respectively. The Group witnessed a boost in readership during the peak of the COVID-19 pandemic in March 2020, as users consistently reached out to the Group's platforms as a source of cultural updates from a wide range of fields.

The Hypemaker creative agency outperformed management expectations in the first half of the financial year, driven by strong demand from the APAC region, where the agency was able to deliver unique and effective marketing strategies to clients, particularly larger brands that contracted directly with our teams rather than through agencies for larger scale campaigns. Our US region saw robust demand from clients which are non-endemic to our traditional customer profiles, such as from the technology and e-gaming sectors, which is a direct consequence of effective strategies deployed by management to widen our scope of clientele. EMEA also saw expansion in revenue from non-endemic clients as well as increasing demand on production related services. Towards the last quarter of the financial year, the global onset of COVID-19 and consequent government mandated public health policies resulted in disruptions to the Group's campaign execution timelines due to the halt of physical production as travel restrictions and social distancing policies were implemented in various regions. The Group pivoted our business focus towards executing digital campaigns that utilized computer graphics instead of holding physical photoshoots or relying on on-site production work. Further, the continuation of steady demand from non-endemic clients which were less impacted by the epidemic, such as from the technology and e-gaming sectors, helped support the business pipeline for our global digital media business despite challenges from epidemic effected disruptions.

Despite expansion in average contract sizes year on year due to expansion in service offerings to clients, the impact of the COVID-19 outbreak moderated year over year growth for the digital media segment due to interruptions to the delivery of production services towards the last quarter, and the combined effect resulted in an approximate increase of 8.8% in average contract values and a decrease of 8.3% in number of contracts compared to the same period last year.

Looking forward, the Group aims to continue executing campaigns with larger online components and to continue the acceleration in client engagement from non-endemic clients, especially those who are less impacted by or even enhanced by the changes to the business landscape due to COVID-19, in order to diversify revenue streams and maximize growth in contract pipelines. Further, over the medium term, the Group will place emphasis on continuing momentum in sales growth in high-growth regions within APAC, which is expected to be the first region to accelerate out of economic effects from COVID-19.

The Group aims to continue to solidify its position as a leading advertising partner for global brands that need to reach a growing Millennials and Generation Z demographic globally.

E-Commerce

The Group's e-commerce segment HBX continued to show growth due to continued efforts to differentiate the platform from other online competitors with the unique ability to drive special collaborations and introduce new, unique and inspirational pieces to our customers, despite challenges stemming from the COVID-19 pandemic. The Group's e-commerce division continued strong momentum in sales growth during the first half of the financial year and made progress against priorities we set out. Along with most other businesses, however, we have been significantly impacted by the onset of the COVID-19 outbreak over the second half of the financial year. The Group's Hong Kong based warehouse operations continued throughout COVID-19 related restrictions to keep global deliveries and customer service for HBX fully functional. The Group also utilised marketing strategies and promotional incentives to encourage stay-at-home shopping and editorial platforms to maximize efficiencies. Moderation in demand due to pandemic related uncertainties as well as an increase in promotions as a response to price reductions by competitors resulted in modulation in revenue growth and margins for the e-commerce division.

Looking forward, the Group continue to see HBX differentiating itself as a unique platform that is able to offer customers a first-class experience amongst other online competitors, through leveraging its strong networks and formidable creative energy in synergizing products, experiences and collaborations which are impactful, authentic and exclusive for its customers. Further, HBX will also focus on expansion in high-growth regions in East Asia such as Japan, Korea and Taiwan as well as its key market in the United States, where the business witnessed significant increase in consumer demand. The Group is also working closely with vendor partners and suppliers in navigating inventory intake and managing our overall investment in inventory growth over the upcoming seasons.

Our physical store in Hong Kong serves as a tangible extension of our online experience to our customers, and despite reduced engagement during COVID-19, we continued our momentum in delivering marketing value for the HBX brand through the space. During the year, we doubled the footprint of the physical store in Landmark, Central, where is the central business district of Hong Kong, as a larger showcase with new experiential projects. A component of this expansion is the launch of HYPEBEANS, our very first food and beverage outlet serving quality coffee. This project, alongside the renovation and rebranding of the Landmark HBX store, aims to gather the Hypebeast community and strengthen the Hypebeast culture in a new offline medium.

The Group is slated to open a new office and retail premise in the Lower East Side neighborhood of Manhattan in 2021, which will house an offline retail store and an exhibition space to host sales projects and events alongside the Group's offices in the East Coast of the United States. The Group's strategy is to engage with its customers on a tangible level through its physical premises in the United States, bringing to life our connection with customers and clients while respecting social distancing and other guidelines using technology and other innovation as the world emerges from COVID-19.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2020

	NOTES	**2020** ***HK$'000***	2019 *HK$'000*
Revenue	3	**751,367**	672,192
Cost of revenue		**(372,089)**	(336,838)
Gross profit		**379,278**	335,354
Other gains and losses		**(4,450)**	(653)
Selling and marketing expenses		**(158,831)**	(152,719)
Administrative and operating expenses		**(125,958)**	(92,734)
Professional fee relating to transfer of listing		**–**	(7,402)
Impairment losses under expected credit losses model, net of reversal		**(973)**	(681)
Finance costs		**(1,356)**	(615)
Share of result of a joint venture		**(1,333)**	(3,901)
Profit before tax		**86,377**	76,649
Income tax expense	5	**(20,602)**	(14,851)
Profit for the year	6	**65,775**	61,798
Other comprehensive (expense) income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(54)**	13
Total comprehensive income for the year		**65,721**	61,811
Earnings per share	8		
– Basic *(HK cent)*		**3.26**	3.09
– Diluted *(HK cent)*		**3.21**	3.04

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2020

	NOTES	2020 HK$'000	2019 HK$'000
Non-current assets			
Property, plant and equipment		**12,238**	9,837
Intangible assets		**988**	–
Right-of-use assets		**46,254**	–
Rental deposits		**5,298**	2,308
Interest in a joint venture		**–**	1,333
Amount due from a joint venture		**11,870**	–
		76,648	13,478
Current assets			
Inventories		**71,408**	67,802
Trade and other receivables	9	**221,400**	173,894
Contract assets	10	**1,855**	8,936
Amount due from a joint venture		**–**	6,715
Pledged bank deposits		**15,603**	6,723
Bank balances and cash		**67,251**	55,727
		377,517	319,797
Current liabilities			
Trade and other payables	11	**88,894**	89,662
Contract liabilities	12	**4,429**	3,215
Bank borrowings – due within one year		**32,836**	26,990
Lease liabilities		**15,862**	–
Tax payables		**5,976**	7,088
		147,997	126,955
Net current assets		**229,520**	192,842
Total assets less current liabilities		**306,168**	206,320

	NOTE	**2020**	2019
		HK$'000	*HK$'000*
Non-current liabilities			
Lease liabilities		**30,899**	–
Deferred tax liabilities		**74**	353
		30,973	353
Net assets		**275,195**	205,967
Capital and reserves			
Share capital	13	**20,231**	20,000
Reserves		**254,964**	185,967
		275,195	205,967

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 GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 11 April 2016 and have been transferred from GEM to the Main Board of the Stock Exchange on 8 March 2019 pursuant to the approval granted by the Stock Exchange on 28 February 2019.

Its registered office is located at Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands. The address of its principal place of business is 10/F, KC100, 100 Kwai Cheong Road, Kwai Chung, Hong Kong.

The Company is an investment holding company and its subsidiaries (hereinafter together with the Company's subsidiaries referred to as "**the Group**") are principally engaged in the provision of advertising spaces services, provision of services for creative agency projects, publication of magazines and operation of online retail platform. Its parent and ultimate holding company is CORE Capital Group Limited, 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. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 16	Covid-19-Related Rent Concessions[5]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKFRS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

[1] Effective for annual periods beginning on or after 1 January 2021

[2] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

[3] Effective for annual periods beginning on or after a date to be determined

[4] Effective for annual periods beginning on or after 1 January 2020

[5] Effective for annual periods beginning on or after 1 June 2020

3. REVENUE

Segments	Digital Media		E-Commerce		Total	
	2020	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Sales of goods through online retail platform	**–**	–	**275,503**	238,477	**275,503**	238,477
Commission fee from consignment sales	**–**	–	**2,345**	3,046	**2,345**	3,046
Provision of advertising spaces	**267,772**	282,684	**–**	–	**267,772**	282,684
Provision of services for creative agency projects	**203,600**	146,029	**–**	–	**203,600**	146,029
Publication of magazines	**2,147**	1,956	**–**	–	**2,147**	1,956
Total revenue from contracts with customers	**473,519**	430,669	**277,848**	241,523	**751,367**	672,192
Geographical markets						
Hong Kong	**41,020**	44,640	**43,014**	47,035	**84,034**	91,675
The People's Republic of China (the "**PRC**")	**100,844**	82,852	**17,750**	23,821	**118,594**	106,673
United States ("**US**")	**187,015**	171,086	**61,124**	50,533	**248,139**	221,619
Other countries	**144,640**	132,091	**155,960**	120,134	**300,600**	252,225
Total	**473,519**	430,669	**277,848**	241,523	**751,367**	672,192
Timing of revenue recognition						
A point in time	**151,416**	110,039	**277,848**	241,523	**429,264**	351,562
Over time	**322,103**	320,630	**–**	–	**322,103**	320,630
Total	**473,519**	430,669	**277,848**	241,523	**751,367**	672,192

4. SEGMENT INFORMATION

Information reported to the Chief Executive Officer 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 CODM 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, provision of services for creative agency projects and publication of magazines

E-commerce segment – Operation of online retail platform for the sale of third-party branded clothing, shoes and accessories and commission fee from consignment sales

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

Year ended 31 March 2020

	Digital media	**E-commerce**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***
Total segment revenue	**473,519**	**277,848**	**751,367**
Segment results	**154,608**	**5,331**	**159,939**
Finance costs			**(1,356)**
Share of result of a joint venture			**(1,333)**
Share-based payment expense			**(6,413)**
Unallocated expenses			**(64,460)**
Profit before tax			**86,377**

Year ended 31 March 2019

	Digital media	E-commerce	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
Total segment revenue	430,669	241,523	672,192
Segment results	107,390	21,152	128,542
Finance costs			(615)
Share of result of a joint venture			(3,901)
Share-based payment expense			(2,907)
Professional fee relating to transfer of listing			(7,402)
Unallocated expenses			(37,068)
Profit before tax			76,649

Note: Included in revenue from operation of online retail platform for each of the years ended 31 March 2020 and 2019, total amount of commission fee from consignment sales are approximately HK$2,345,000 and HK$3,046,000 respectively. The remaining amount of approximately HK$275,503,000 and HK$238,477,000 respectively represents sales of goods through the online retail platform.

5. INCOME TAX EXPENSE

	2020	2019
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax		
– current year	**7,999**	13,609
– overprovision in prior year	**(273)**	(1,414)
The PRC Enterprise Income Tax	**11,993**	–
Other jurisdictions	**1,162**	2,473
	20,881	14,668
Deferred tax:		
(Credit) charge for the year	**(279)**	183
	20,602	14,851

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "**Bill**") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The basic tax rate of the Company's PRC subsidiaries is 25% under the law of the PRC on Enterprise Income Tax (the "**EIT Law**") and implementation regulations of the EIT Law.

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

6. PROFIT FOR THE YEAR

	2020	2019
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging:		
Directors' remuneration	**6,865**	2,554
Other staff costs		
– salaries and allowances	**159,638**	100,242
– discretionary bonus	**1,181**	10,434
– retirement benefits scheme contribution	**6,069**	4,912
– share-based payment expenses	**3,545**	2,907
Total directors and other staff costs	**177,298**	121,049
Auditor's remuneration	**1,350**	1,370
Cost of inventories recognised as an expense (included in cost of revenue)	**157,662**	120,979
Depreciation of property, plant and equipment	**4,606**	2,755
Depreciation of right-of-use assets	**13,347**	–
Amortization of intangible assets	**25**	–
Website content update expense (Note)	**2,682**	2,121
Write-down of inventories	**1,042**	319

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. DIVIDENDS

No dividend was proposed for ordinary shareholders of the Company during the year ended 31 March 2020 and since the end of the reporting period (2019: special dividend of HK0.242 cents per ordinary share, in an aggregate amount of HK$4,896,000).

8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the years ended 31 March 2020 and 2019 is based on the following data:

	2020	2019
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to the owners of the Company)	**65,775**	61,798

	2020	2019
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,017,703**	2,000,000
Effect of dilutive potential ordinary shares: Share options issued by the Company	**29,268**	35,734
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,046,971**	2,035,734

9. TRADE AND OTHER RECEIVABLES

	2020	2019
	HK$'000	*HK$'000*
Trade receivables	**118,376**	102.868
Unbilled receivables	**70,904**	28,138
Trade and unbilled receivables	**189,280**	131,006
Less: allowance for credit losses	**(894)**	(261)
Trade and unbilled receivables (net carrying amount)	**188,386**	130,745
Advance to staff	**1,679**	1,951
Rental and utilities deposits	**10,887**	9,892
Prepayments	**24,732**	19,785
Other receivables	**1,014**	13,829
Total	**226,698**	176,202
Analysed as:		
Current	**221,400**	173,894
Non-current	**5,298**	2,308
Total	**226,698**	176,202

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 retail platform, consignor from consignment sales commission income and subscribers of magazines. The following is an aging analysis of trade receivables presented based on the invoice date at the end of the reporting period:

	2020	2019
	HK$'000	*HK$'000*
Within 60 days	**83,916**	59,589
61 – 90 days	**14,034**	18,676
91 – 180 days	**14,697**	14,890
181 – 365 days	**4,817**	9,244
Over 365 days	**912**	469
	118,376	102,868

10. CONTRACT ASSETS

	2020	2019
	HK$'000	*HK$'000*
Provision of advertising spaces	**1,855**	8,936

The contract assets primarily relate to the Group's right to consideration for the advertisement launched in the online platform or social media platform but not billed because the rights are conditioned on the satisfaction of the target impression rate or click rate pursuant to the contract. The contract assets are transferred to trade receivables upon the satisfaction of the target impression rate or click rate and the end of advertising period.

As at 31 March 2020 and 2019, all contract assets are expected to be settled within 1 year, and accordingly classified as current.

11. TRADE AND OTHER PAYABLES

	2020	2019
	HK$'000	*HK$'000*
Trade payables	**30,443**	25,148
Commission payable to staff	**11,087**	13,640
Accrual for campaign cost (Note)	**36,991**	33,860
Accrual for staff bonus	**–**	1,459
Other payables and accrued expenses	**10,373**	15,555
	88,894	89,662

Note: Accrual 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 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:

	2020	2019
	HK$'000	*HK$'000*
Within 30 days	**20,276**	16,374
31 – 60 days	**2,374**	2,470
61 – 90 days	**2,712**	284
Over 90 days	**5,081**	6,020
	30,443	25,148

12. CONTRACT LIABILITIES

	2020	2019
	HK$'000	*HK$'000*
Provision of advertising spaces (Note a)	**3,701**	2,229
Sales of goods through online retail platform (Note b)	**728**	986
	4,429	3,215

Notes:

(a) The Group receives 50% of the contract value as deposits from new customers when they sign the contracts for provision of advertising spaces. The deposits and advance payment schemes result in contract liabilities being recognised until the advertisement launched in relevant spaces and relevant benefits received by the customers. During the year ended 31 March 2020, the Group has recognised revenue of HK$2,229,000 (2019: HK$360,000) that was included in the contract liabilities balance at the beginning of the respective year. All contract liabilities attributable to the provision of advertising spaces as at 31 March 2020 are expected to be recognised as revenue within one year.

(b) When the Group receives the payment in full before the goods is shipped/delivered, this will give rise to contract liabilities at the start of a contract, until the revenue recognised when the goods is shipped/delivered to the customers. During the year ended 31 March 2020, the Group has recognised revenue of HK$986,000 (2019: nil) that was included in the contract liabilities balance at the beginning of the respective year. All contract liabilities attributable to the sales of goods through online stores as at 31 March 2020 are expected to be recognised as revenue within one year.

13. SHARE CAPITAL

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

	Number of shares	**Share capital**
		HK$
Authorised:		
At 1 April 2018, 31 March 2019 and 31 March 2020	6,000,000,000	60,000,000
Issued:		
At 1 April 2018 and 31 March 2019	2,000,000,000	20,000,000
Exercise of share options	23,062,500	230,625
At 31 March 2020	2,023,062,500	20,230,625

The new shares rank pari passu with the existing shares in all respect.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

	Year ended 31 March 2020			Year ended 31 March 2019		
	Revenue	**Gross Profit**	**Gross Profit Margin**	Revenue	Gross Profit	Gross Profit Margin
	HK$'000	***HK$'000***	***%***	*HK$'000*	*HK$'000*	*%*
Digital media	**473,519**	**276,125**	**58.3**	430,669	226,473	52.6
E-commerce	**277,848**	**103,153**	**37.1**	241,523	108,881	45.1
Overall	**751,367**	**379,278**	**50.5**	672,192	335,354	49.9

The Group's revenue increased from approximately HK$672.2 million for the year ended 31 March 2019 to approximately HK$751.4 million for the year ended 31 March 2020, representing growth of approximately 11.8%.

With respect to our digital media segment, revenue increased from approximately HK$430.7 million for the year ended 31 March 2019 to approximately HK$473.5 million for the year ended 31 March 2020. The increase in revenue of our digital media segment by approximately HK$42.8 million was mainly due to (i) the increase in the average contract value from approximately HK$375,000 for the year ended 31 March 2019 to approximately HK$408,000 for the year ended 31 March 2020, or by approximately 8.8%; and (ii) the change in sales mix with greater portion of creative agency services provided with a decrease in the number of media contracts entered into with the Group's customers from 1,248 contracts for the year ended 31 March 2019 to 1,145 contracts for the year ended 31 March 2020, or by approximately 8.3% compared with last year. The Group's digital media division began the fiscal year with strong progress towards goals, however disruptions to production timelines and budget allocations due to COVID-19 moderated overall year on year growth. However, increase in business from industries such as technology, e-gaming and alcohol as well as focus on regions in Asia emerging from the COVID-19 pandemic related lockdowns provided momentum to our business pipeline. The Group's revenue from the digital media segment are dependent on timing of recognition according to the relevant accounting standard and campaign delivery and therefore may not necessarily be consistent from quarter to quarter.

With respect to our e-commerce segment, revenue increased from approximately HK$241.5 million for the year ended 31 March 2019 to approximately HK$277.8 million for the year ended 31 March 2020, representing an increase of approximately 15.0%. Such increase was mainly due to (i) the increase in number of customer orders on our e-commerce platform from approximately 160,000 for the year ended 31 March 2019 to approximately 168,000 for the year ended 31 March 2020, or by approximately 5.0%; and (ii) the change in sales mix with greater portion of high-end products sold compared with last year with an increase in average order value from approximately HK$1,500 for the year ended 31 March 2019 to approximately HK$1,700 for the year ended 31 March 2020. In line with the digital media business, our e-commerce business accelerated in the first half of the fiscal year on solid momentum and the segment made progress towards internal targets. However, the impact of COVID-19 in the second half of the fiscal year necessitated additional promotional strategies in response to price adjustments from competitors, which modulated the growth in revenues and margins compared to the prior year. However, the Group's focus on collaboration products as a key growth driver as well as emphasis on key markets provided support and momentum for business growth, and in particular Korea, Japan, Taiwan and the United States showed strong revenue increase compared to the prior year.

Cost of Revenue

The Group's cost of revenue increased from approximately HK$336.8 million for the year ended 31 March 2019 to approximately HK$372.1 million for the year ended 31 March 2020, representing an increase of approximately 10.5%. Such increase was mainly attributable to the increase in (i) campaign production costs to deliver high quality, bespoke content, for our creative agency; (ii) product and inventory related costs to support growth in our e-commerce business; and (iii) direct staff costs to support increases in the size of our contracts and level of production within our contractual pipeline during the year.

Gross Profit Margin

Gross profit of the Group increased by approximately 13.1% from approximately HK$335.4 million for the year ended 31 March 2019 to approximately HK$379.3 million for the year ended 31 March 2020. The increase was mainly driven by the increase in revenue for the year ended 31 March 2020 as discussed above. The overall gross profit margin slightly increased from approximately 49.9% for the year ended 31 March 2019 to approximately 50.5% for the year ended 31 March 2020. Gross margin for the digital media business increased from approximately 52.6% to 58.3%, primarily due to the increase in average contract value of digital media segment campaigns, as well as cost savings from a shift of physical production to digital only production. Gross margin for the e-commerce business decreased from approximately 45.1% to 37.1%, mainly due to the effect of pricing and promotional strategies in e-commerce segment adapting to the changes in the retail industry and consumer's demand during the year.

Other Gains and Losses

Other losses of the Group primarily consisted of exchange losses of approximately HK$5.4 million for the year ended 31 March 2020, compared to exchange losses of approximately HK$2.7 million for the year ended 31 March 2019. The amount was net off by surcharges on customers for overdue settlement of approximately HK$0.9 million during the year ended 31 March 2020 (2019: HK$2.0 million).

During the year, 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 and Euro foreign exchange rate fluctuated during the year, that the HK dollar to US dollar foreign exchange rate as at 31 March 2019 was HKD1:USD0.1274 compared to HKD1:USD0.1290 as at 31 March 2020; while the HK dollar to Euro foreign exchange rate as at 31 March 2019 was HKD1:EUR0.1136 compared to HKD1:EUR0.1177 as at 31 March 2020.

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.

The Group maintained the late payment fee policy on customers during the year. Surcharges were made for overdue settlements with a determined rate over the overdue balances agreed by customers stated on the payment term. Management believes that such policy enhances the turnover of the Group's trade receivables and hence the financial liquidity.

Selling and Marketing Expenses

Selling and marketing expenses of the Group increased by approximately 4.0% from approximately HK$152.7 million for the year ended 31 March 2019 to approximately HK$158.8 million for the year ended 31 March 2020. Selling and marketing expenses as a percentage of revenue slightly decreased from approximately 22.7% for the year ended 31 March 2019 to 21.1% for the year ended 31 March 2020. 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) new headcounts within the Group's sales and marketing team to drive current and future business development and revenue expansion, (ii) associated distribution charges with the growth in our e-commerce business, netting off by reduced investment in the Group's social media marketing and advertising for digital and e-commerce platforms as the Group adopted more organic and cost effective methods.

Administrative and Operating Expenses

Administrative and operating expenses of the Group increased by approximately 35.9% from approximately HK$92.7 million for the year ended 31 March 2019 to approximately HK$126.0 million for the year ended 31 March 2020. Administrative and operating expenses as a percentage of revenue increased from approximately 13.8% for the year ended 31 March 2019 to 16.8% for the year ended 31 March 2020. 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; and (iii) stock based compensation in relation to share option granted to employees.

Income Tax Expense

Income tax expense for the Group increased by approximately 38.3% from approximately HK$14.9 million for the year ended 31 March 2019 to approximately HK$20.6 million for the year ended 31 March 2020. The increase was mainly due to the increase in profit for tax, especially in the PRC and other jurisdictions with relatively higher tax rate, during the year.

Share of Result of a Joint Venture

The Group recorded losses of approximately HK$1.3 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 Year

Profit and total comprehensive income increased by approximately 6.3% from approximately HK$61.8 million for the year ended 31 March 2019 to approximately HK$65.7 million for the year ended 31 March 2020. Such increase was primarily attributable to the increase in revenue and gross profit as well as effective corporate cost management for the year ended 31 March 2020.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2020, the Group had total assets of approximately HK$454.2 million (31 March 2019: approximately HK$333.3 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK$179.0 million (31 March 2019: approximately HK$127.3 million) and approximately HK$275.2 million (31 March 2019: approximately HK$206.0 million), respectively. Total interest-bearing loans and bank borrowings of the Group as at 31 March 2020 were approximately HK$32.8 million (31 March 2019: approximately HK$27.0 million), and current ratio as at 31 March 2020 remained at approximately 2.5 times as compared to 31 March 2019. These bank borrowings were denominated in HK dollar, and the interest rates applied were primarily subject to floating rate terms. As at 31 March 2020, the Group has HK$69.0 million available credit facilities comprising of revolving loans, term loan, trade loan, tax loan and bank guarantee.

INVENTORIES

The Group's inventories principally comprise third-party apparel and footwear for resale to end customers. The balance of the Group's inventories increased from approximately HK$67.8 million as at 31 March 2019 to approximately HK$71.4 million as at 31 March 2020. The increase in inventories was mainly due to the increase in customers' demand reflective of the significant increase in sales volumes and revenue from the Group's e-commerce business.

In addition to pricing and promotional strategies, the Group monitors various metrics in relation to its inventories such as sell-through, gross margin by product, product performance, stock turns and inventory aging to ensure inventory balances are properly and actively managed relative to sales performance, and to ensure there are no significant unsold inventory. The Group does not anticipate recording any significant write-offs or valuation adjustments in relation to its inventory balance. As at 22 June 2020, approximately HK$25.8 million or approximately 36.1% of inventories as at 31 March 2020 had been sold.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment represented leasehold improvements, furnitures and fixtures, office equipment and motor vehicle. The increase of approximately HK$2.4 million for the year ended 31 March 2020 was mainly due to the renovation cost for the expansion of Hong Kong retail store and new warehouse.

RENTAL DEPOSITS

As at 31 March 2019 and 2020, the Group's rental deposits amounted to approximately HK$5.8 million and HK$9.8 million, respectively. The increase of approximately HK$4.0 million rental deposits for the year ended 31 March 2020 was mainly due to the new warehouse rental for Hong Kong in February 2020 and the new office rental in the UK in July 2019.

GEARING RATIO

The gearing ratio of the Group as at 31 March 2020 was approximately 11.9% (31 March 2019: approximately 13.1%), which slightly decreased as the equity of the Group increased as a result of issuance of new shares upon the exercise of share options and increased retained earnings for the year ended 31 March 2020, over the increase in bank borrowings as at 31 March 2020. The gearing ratio is calculated based on total loans and borrowings (interest-bearing bank borrowings and bank overdrafts) divided by total equity as at the year ended.

TREASURY POLICY

The Group finances its operations through internally generated cash, equity and bank borrowings. The objective of the Group's treasury policy is to ensure there is sufficient cash and access to capital to finance the Group's ongoing operations and execute its current and future plans. 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 2020. To manage liquidity risk, management closely monitors the Group's liquidity position and ensures there is sufficient cash and cash equivalents and available credit facilities to settle payables of the Group.

In light of uncertainties in the global economic climate, management has re-assessed and enhanced the Group's treasury policies to ensure ongoing liquidity and continued ability of the business to meet its obligations. Measures adopted include optimization of credit and collections policies to ensure timely receipt of amounts outstanding from customers, review of funding sources to ensure availability of borrowing capacity should the need arise, engagement with banking partners to obtain assurance of support and understanding of limitations with respect to availability of funds, enhanced forecasting of cash flows to ensure accurate assessment of the Group's liquidity and treasury position, performance of internal assessments on cost efficiency to ensure the Group's cost structures remain efficient and a review of available government and other subsidies which the Group is eligible to apply for in order to offset costs.

With respect to cash generated through the Group's sales, the primary risk relates to credit and collections in relation to amounts outstanding from customers within the digital media segment.

The Group strives to reduce exposure to credit risk by performing credit assessments on new customers, ongoing credit assessments and evaluations of the financial status of its existing customers, as well as applying robust policies to monitor and collect on outstanding balances on a timely basis including, amongst others, late charges, prepayments for production services and regular monitoring of credit terms.

Credit facilities available to the Group are summarized in the Liquidity and Financial Resources section above. While the Group considers its internally generated cash from operations as the first and most cost-efficient source of funding, the Group assesses its capital needs on an ongoing basis and forms strategies on the utilization of available banking facilities based on operating and cash requirements.

Management will continue to assess the economic situation and monitor risks against the Group's treasury policies to ensure there is sufficient cash and access to capital to execute its plans. Amongst other measures, the Group continues to optimize costs through robust budget management and reviewing methods of doing business which are more cost efficient and maximizes use of the company's existing assets, including manpower, technology and other available resources.

In light of economic countermeasures announced by various countries in response to the impact of COVID-19, the Group also reviews government support packages available to its global business and will take advantage of programs which help buttress the financial resiliency of the Group and support its stability and growth.

CHARGES ON GROUP ASSETS

As at 31 March 2020, the Group pledged its bank deposits of approximately HK$15.6 million to a bank as collateral to secure bank facilities granted to the Group. In addition to the pledged bank deposits, as at 31 March 2020, the Group's bank borrowings with carrying amount of approximately HK$32.8 million was guaranteed by a corporate guarantee of the Company.

FOREIGN EXCHANGE EXPOSURE

The Group undertakes certain operating transactions in foreign currency which exposes 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 noted in the above discussion of other gains and losses, the Group's exposure to US dollar and Euro exchange risk over its course of operations is 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.

The Group currently does not have a foreign currency hedging policy. However, the management closely monitors foreign exchange exposure and will consider and execute the hedging of 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. On 8 March 2019, the transfer of listing of the Company's shares from GEM to the Main Board of the Stock Exchange was completed and dealing in the shares on the Main Board commenced. There has been no change in the capital structure of the Company arisen from the transfer of listing to the Main Board of the Stock Exchange. The share capital of the Company only comprises of ordinary shares.

COMMITMENTS

The contractual commitments of the Group were primarily related to the leases of its office premises, retail store and the Director's quarter. The Group's operating lease commitments amounted to approximately HK$53.3 million as at 31 March 2020 (31 March 2019: approximately HK$28.7 million).

SEGMENT INFORMATION

Segmental information is presented for the Group as disclosed on note 4 to this announcement.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this announcement, the Group did not have other approved plans for material investments or capital assets as of 31 March 2020.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as 賀彼文化傳播(北京)有限公司 which would be accounted for a subsidiary of the Company under the VIE Structure (as defined and disclosed in the interim report of the Company for the six months ended 30 September 2019), there were no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company during the year ended 31 March 2020.

CONTINGENT LIABILITIES

As at 31 March 2020, the Group had no significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2020, the Group employed a total of 401 employees (31 March 2019: 306 employees). Staff costs of our Group (including salaries, allowances, other benefits and contribution to the defined contribution retirement plan) for the year ended 31 March 2020 were approximately HK$170.4 million (31 March 2019: approximately HK$118.5 million).

The remuneration package for our employees generally includes salary and bonuses. Our employees also receive welfare benefits, including retirement benefits, occupational injury insurance, medical insurance and other miscellaneous incentives and compensation. We conduct annual reviews of the performance of our employees for determining the level of bonus and salary adjustments and promotion decisions of our employees. Our human resources department also makes reference to the remuneration packages offered for similar positions in Hong Kong in order to keep our remuneration packages at a competitive level. The Company has adopted the Share Option Scheme which is designed to provide long term incentives and rewards to help retain our outstanding employees.

SIGNIFICANT INVESTMENTS HELD

Except for investments in its subsidiaries and a joint venture company, the Group did not hold any significant investments during the year ended 31 March 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2020.

CORPORATE GOVERNANCE PRACTICE

The Company recognizes the importance of corporate transparency and accountability. 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 in its creation of long-term value for the shareholders of the Company.

To the best knowledge of the Board, the Company has met the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Main Board Listing Rules for the year ended 31 March 2020, save for the deviation from the code provision A.2.1 which requires that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

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 provides strong and consistent leadership to the Company which facilitates 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 it 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 Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Main Board Listing Rules, as part of its code of conduct regarding Directors' transactions in the securities of the Company. Specific enquiry has been made of all the Directors and all Directors confirmed that they had fully complied with the required standard of dealings and there was no event of non-compliance throughout the period from 1 April 2019 to the date of this announcement.

AUDIT COMMITTEE

The audit committee of the Company consists of three members, being the three independent non-executive Directors, namely Mr. Wong Kai Chi (chairman), Ms. Poon Lai King and Ms. Kwan Shin Luen Susanna. The audit committee has reviewed the Group's consolidated financial statements for the year ended 31 March 2020 and is of the opinion that the consolidated financial statements of the Group for the year ended 31 March 2020 comply with applicable accounting standards, the Listing Rules and that adequate disclosures have been made.

EVENTS AFTER THE REPORTING PERIOD

Save as the impact of COVID-19 as disclosed in this announcement, there has been no important events subsequent to the reporting period and up to the date of this announcement, which would affect the Group's business operations in material aspects.

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 2020 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
Hypebeast Limited
Ma Pak Wing Kevin
Chairman and executive Director

Hong Kong, 22 June 2020

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.