

**THIRD QUARTERLY REPORT 第三季度報告
2016**

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**

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**股份代號
8359**

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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 2016 (the “**Relevant Period**”), together with the unaudited comparative figures for the corresponding period in 2015, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

For the three months and nine months ended 31 December 2016

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2016	2015	2016	2015
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Revenue	3	60,380	42,820	154,265	106,911
Cost of revenue		(24,864)	(20,617)	(67,853)	(42,027)
Gross profits		35,516	22,203	86,412	64,884
Other losses		(875)	(165)	(1,035)	(417)
Selling and marketing expenses		(14,313)	(6,783)	(36,393)	(20,633)
Administrative and operating expenses		(9,654)	(8,221)	(29,782)	(22,366)
Listing expenses		-	-	-	(4,741)
Finance costs		(67)	(93)	(266)	(165)
Profit before income tax		10,607	6,941	18,936	16,562
Income tax expenses	4	(1,738)	(2,219)	(3,114)	(4,781)
Profit and total comprehensive income for the period		8,869	4,722	15,822	11,781
Earnings per share					
– Basic and diluted (HK cent)	6	0.44	0.30	0.80	0.74

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 31 December 2016

	Share Capital HK\$'000 (Unaudited)	Share Premium HK\$'000 (Unaudited)	Retained earnings HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 1 April 2016 (audited)	1	-	25,750	25,751
Capitalisation issue	15,999	(15,999)	-	-
Issue of shares under placing	4,000	48,000	-	52,000
Expenses incurred in connection with the issue of shares upon placing	-	(6,726)	-	(6,726)
Profit and total comprehensive income for the period	-	-	15,822	15,822
At 31 December 2016 (unaudited)	20,000	25,275	41,572	86,847
At 1 April 2015 (audited)	1	-	21,534	21,535
Profit and total comprehensive income for the period	-	-	11,781	11,781
At 31 December 2015 (unaudited)	1	-	33,315	33,316

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 31 December 2016

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 Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The headquarter and principal place of business of the Company in Hong Kong is located at 12/F, 10-16 Kwai Ting 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 (the "**Listing Date**").

Pursuant to the reorganisation of the Group (the "**Reorganisation**") in connection with the listing of the shares of the Company (the "**Shares**") on GEM (the "**Listing**"), 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 (the "**Prospectus**") 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 accountants’ report of the Group for the year ended 31 March 2016 dated 24 June 2016 (“**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	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Digital media	40,144	25,844	104,135	64,342
E-commerce segment	20,236	16,976	50,130	42,569
	60,380	42,820	154,265	106,911

4. INCOME TAX

	Three months ended 31 December		Nine months ended 31 December	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Hong Kong profit tax	1,738	2,219	3,114	4,781

Hong Kong profits tax has been provided at the rate of 16.5% based on the estimated assessable profits of the Group for the periods as stated above.

5. DIVIDEND

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	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Earnings				
Earnings for the purpose of calculating basic earnings per share (Profit and total comprehensive income for the period)	8,869	4,722	15,822	11,781
	2016 '000	2015 '000	2016 '000	2015 '000
Number of shares				
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	2,000,000	1,600,000	1,985,455	1,600,000

Basic earnings per share for the nine months ended 31 December 2016 are 0.80 HK cent (2015: 0.74 HK cent) per share. The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been retrospectively adjusted for the capitalisation issue of the shares of the Company completed on 11 April 2016 and assuming the Group Reorganisation had been effective on 1 April 2015.

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECT

The Group is a digital media company primarily engaging in (i) the provision of advertising services to brand owners 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. The Group produces and distributes millennial-focused digital content that reports the latest trends on fashion, lifestyle, culture and music to users of the Group's digital content who do not subscribe to updates of the Group's digital content ("**visitors**") and users who subscribe to updates of the Group's digital content ("**followers**"). Digital content is delivered via the Group's digital media platforms (including Hypebeast, Hypetrak, Hypebae and Popbee websites and apps) and popular third-party social media platforms (including Facebook, Google+, Instagram, Twitter, Pinterest, Youtube, Weibo and Snapchat). The Group plans to market its growing creative agency services under the Hypemaker name in early 2017 to support growth and development of service offerings.

The Group's e-commerce platform typically carries over 400 trend leading third-party branded products. Comparing 31 March 2016 and 31 December 2016, the number of brands offered on the Group's e-commerce platform remained flat at 422. As at 31 March 2016 and 31 December 2016, the number of products offered on the Group's e-commerce platform was approximately 8,700 and 6,200, respectively, representing a decrease of approximately 2,500 products during the nine months ended 31 December 2016. The decrease in the number of products carried on our e-commerce platform reflects our strategy of delivering a more curated shopping experience and trend focused product offerings to our customers.

Looking forward, the Group targets to become one of the leading online destinations for fashion followers by continuing to set trends that will drive the future growth of its business. It intends to expand its visitor base and enhance its digital media production capability, which are expected to translate to increased advertising income and revenue from sales of goods through the Group's integrated digital platforms. The Group also considers expansion into the rest of Asia. With these clear objectives, the Group will foster its development in line with a series of business strategies as set out in the Prospectus, which include the following:

1. For the digital media segment, the Group is enhancing the production capability of quality advertising services of its creative agency team through various methods, including recruiting more content production executives so as to attract more brand owners and advertising agencies using its advertising services.
2. For the e-commerce segment, the Group will strive to ensure greater accessibility and the best online shopping experience for its customers by enhancing its customer service and inventory systems.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

BUSINESS REVIEW AND PROSPECT (CONTINUED)

As part of its strategy to better manage the Group's existing business and to expand its market share in the US, being the largest geographic market for the Group's digital media segment, the Group incorporated a US entity, Hypebeast Inc., on 14 October 2016. Hypebeast Inc. is an indirect wholly owned subsidiary of the Company held through a BVI entity named COREtwo Limited, which was also incorporated on 14 October 2016.

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.

FINANCIAL REVIEW

Revenue

The Group's revenue increased from approximately HK\$106.9 million for the nine months ended 31 December 2015 to approximately HK\$154.3 million for the nine months ended 31 December 2016, representing a growth of approximately 44.3%. Such increase was mainly due to increase in revenue from provision of advertising services to brand owners and advertising agencies on our digital media platforms.

Cost of Revenue

The Group's cost of revenue increased from approximately HK\$42.0 million for the nine months ended 31 December 2015 to approximately HK\$67.9 million for the nine months ended 31 December 2016. Such increase was mainly attributable to (i) the increase in campaign costs of advertising services to provide high quality, tailor-made production to clients and (ii) the increase in direct staff costs for the purpose of current and future expansion and development.

Gross Profit Margin

Gross profit of the Group increased by approximately 33.1% from approximately HK\$64.9 million for the nine months ended 31 December 2015 to approximately HK\$86.4 million for the nine months ended 31 December 2016. The increase was mainly driven by the increase in revenue for the nine months ended 31 December 2016 as discussed above. The overall gross profit margin slightly decreased from approximately 60.7% for the nine months ended 31 December 2015 to approximately 56.0% for the nine months ended 31 December 2016 which 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 period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW (CONTINUED)

Other Losses

Other losses of the Group increased by approximately HK\$0.6 million from approximately HK\$0.4 million for the nine months ended 31 December 2015 to approximately HK\$1.0 million for the nine months ended 31 December 2016. This increase was mainly due to exchange loss.

Selling and Marketing Expenses

Selling and marketing expenses of the Group increased by approximately 76.4% from approximately HK\$20.6 million for the nine months ended 31 December 2015 to approximately HK\$36.4 million for the nine months ended 31 December 2016. Selling and marketing expenses primarily consist of advertising and promotion expenses and consultancy service by independent third party consultants. The increase was attributable to the higher usage of both services during the nine months ended 31 December 2016 to drive current and future business expansion.

Administrative and Operating Expenses

Administrative and operating expenses of the Group increased by approximately 33.2% from approximately HK\$22.4 million for the nine months ended 31 December 2015 to approximately HK\$29.8 million for the nine months ended 31 December 2016. Administrative and operating expenses mainly consist of staff costs, professional fees, freelancer costs and other operating expenses. The increase was attributable to increase in staff headcount and freelancer costs to drive current and future business expansion during the nine months ended 31 December 2016.

Finance Costs

Finance costs increased by approximately HK\$0.1 million or 61.2% from approximately HK\$0.2 million for the nine months ended 31 December 2015 to approximately HK\$0.3 million for the nine months ended 31 December 2016. The increase was mainly due to the increased usage of bank borrowing as compared to the same period last year.

Income Tax Expense

Income tax expense for the Group decreased by approximately 34.9% from approximately HK\$4.8 million for the nine months ended 31 December 2015 to approximately HK\$3.1 million for the nine months ended 31 December 2016. The decrease was mainly due to the decrease in assessable profit for tax purpose due to the recognition of non-deductible listing expenses for the corresponding period in 2015.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW (CONTINUED)

Profit and Total Comprehensive Income for the Period

Profit and total comprehensive income increased by approximately 34.3% from approximately HK\$11.8 million for the nine months ended 31 December 2015 to approximately HK\$15.8 million for the nine months ended 31 December 2016. Such increase was primarily attributable to the increase in revenue and gross profit for the nine months ended 31 December 2016.

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 2016. 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 2016.

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 2016, 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 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

Since the Listing Date and up to 31 December 2016, save as the Listing, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DISCLOSURE OF INTERESTS

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

As at 31 December 2016, 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 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 Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares of the Company:

<u>Name of Director</u>	<u>Capacity/Nature of interest</u>	<u>Number of Shares held</u>	<u>Approximate percentage of shareholding</u>
Mr. Ma Pak Wing Kevin (Note 1)	Interest in a controlled corporation	1,500,000,000	75%
Ms. Lee Yuen Tung Janice (Note 2)	Interest of spouse	1,500,000,000	75%

Notes:

- CORE Capital Group Limited is the beneficial owner of 1,500,000,000 Shares, representing 75% of our issued share capital of the Company. CORE Capital Group Limited is directly wholly-owned by Mr. Ma Pak Wing Kevin.
- Ms. Lee Yuen Tung Janice is the spouse of Mr. Ma Pak Wing Kevin. Under the SFO, Ms. Lee Yuen Tung Janice is deemed to be interested in the same number of Shares in which Mr. Ma Pak Wing Kevin is interested.

Save as disclosed above, as at 31 December 2016, there was no other interest or short positions of the Directors and the 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 SFO).

DISCLOSURE OF INTERESTS (CONTINUED)

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

So far as the Directors are aware, as at 31 December 2016, other than the Directors and chief executive of the Company, the following persons/entities have an interest or a short position in the shares or the underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the SFO:

Long positions in share of the Company:

Name of Shareholder	Capacity/Nature of interest	Number of shares held	Approximate percentage of shareholding
CORE Capital Group Limited (Note)	Beneficial owner	1,500,000,000	75%

Note: CORE Capital Group Limited is the beneficial owner of 1,500,000,000 Shares, representing 75% of our issued share capital.

Save as disclosed above, as at 31 December 2016, there is no other interest or short positions of any other persons/entities in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

CORPORATE GOVERNANCE CODE

Pursuant to the code provision A.2.1 of the Corporate Governance Code (the “**CG Code**”), the roles of Chairman and CEO 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 currently assumes the role of both chairman of the Company and chief executive of the Company. We consider that both roles being held by Mr. Ma will provide a 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 our Group, we consider it is beneficial for our Group that Mr. Ma continues to act as both chairman and chief executive officer of our Company.

Since the Listing Date and up to 31 December 2016, the Company has complied with the applicable code provisions of the CG Code as set out in Appendix 15 of the GEM Listing Rules with the exception for code provision A.2.1 as disclosed above for the nine months ended 31 December 2016.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted a code of provisions of conduct regarding securities transactions by the Directors (the “**Code of Conduct**”) on terms no less exacting than the required standards of dealings concerning securities transactions by the Directors as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries with the Directors, all Directors have confirmed that they have complied with the required standards set out in the Code of Conduct since the Listing Date and up to 31 December 2016.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the Relevant Period.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 18 March 2016 (the “**Scheme**”). The terms of the Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

On 18 March 2016, the Group has 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 scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contribution to it. The Pre-IPO Scheme was subsequently expired on the Listing Date. The Post-IPO Scheme which will remain in force for a period of 10 years from the effective date of the Post-IPO Scheme. The principal terms of the share option schemes are summarized in the sections headed “Pre-IPO Share Option Scheme” and “Post-IPO Share Option Scheme” in Appendix IV to the Prospectus.

For the nine months ended 31 December 2016, 22,500,000 shares has been granted under the Pre-IPO Scheme representing approximately 1.13% of the issued share capital. No share options has been granted under the Post-IPO Scheme. No share options was exercised, expired or lapsed under the Pre-IPO Scheme and Post IPO scheme for the Relevant Period.

AUDIT COMMITTEE

The Company has established an audit committee (the “**Audit Committee**”) with its written terms of reference in compliance with paragraphs C3.3 and C3.7 of the CG Code, and Rule 5.28 of GEM Listing Rules. 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 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 Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the Relevant Period.

By Order of the Board

Ma Pak Wing Kevin

Chairman and executive Director

Hong Kong, 6 February 2017

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. This report will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its publication and on the Company’s website at www.hypebeast.xyz.