

**FIRST QUARTERLY REPORT 第一季度報告
2017**

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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*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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FIRST 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 three months ended 30 June 2017 (the “**Relevant Period**”), together with the unaudited comparative figures for the corresponding period in 2016, as follows:

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

For the three months ended 30 June 2017

| | | Three months ended 30 June | |
|--|-------|---------------------------------------|------------------|
| | NOTES | 2017 HK\$'000 | 2016 HK\$'000 |
| Revenue | 3 | 68,903 | 46,961 |
| Cost of revenue | | (32,741) | (20,156) |
| Gross profit | | 36,162 | 26,805 |
| Other gain/(losses), net | | 686 | (298) |
| Selling and marketing expenses | | (16,525) | (10,539) |
| Administrative and operating expenses | | (11,612) | (10,530) |
| Finance costs | | (73) | (110) |
| Profit before tax | | 8,638 | 5,328 |
| Income tax expense | 4 | (1,517) | (892) |
| Profit and total comprehensive income for the period | | 7,121 | 4,436 |
| Earnings per share | 6 | | |
| – Basic and diluted (HK cent) | | 0.36 | 0.23 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the three months ended 30 June 2017

| | Share capital HK\$'000 | Share premium HK\$'000 | Retained earnings HK\$'000 | Total HK\$'000 |
|---|------------------------------|------------------------------|----------------------------------|-------------------|
| At 1 April 2017 (audited) | 20,000 | 25,275 | 49,055 | 94,330 |
| Profit and total comprehensive income for the period | – | – | 7,121 | 7,121 |
| At 30 June 2017 (unaudited) | 20,000 | 25,275 | 56,176 | 101,451 |
| 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 | – | – | 4,436 | 4,436 |
| At 30 June 2016 (unaudited) | 20,000 | 25,275 | 30,186 | 75,461 |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 30 June 2017

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. Intra-group 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 Group for the year ended 31 March 2017 dated 19 June 2017 (“**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 the 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

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 30 June | |
|---------------|---------------------------------------|-------------|
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Digital media | 48,155 | 33,414 |
| E-commerce | 20,748 | 13,547 |
| | 68,903 | 46,961 |

4. INCOME TAX EXPENSE

| | Three months ended 30 June | |
|-----------------------|---------------------------------------|-------------|
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Hong Kong profits tax | 1,517 | 892 |

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

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 30 June | |
|---|---------------------------------------|-----------------------------|
| | 2017 | 2016 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| | <u> </u> | <u> </u> |
| Earnings: | | |
| Earnings for the purpose of calculating basic earnings per share (profit and total comprehensive income for the period) | 7,121 | 4,436 |
| | <u> </u> | <u> </u> |
| | 2017 | 2016 |
| | '000 | '000 |
| Number of Shares: | | |
| Weighted average number of shares for the purpose of calculating basic earnings per share | 2,000,000 | 1,956,044 |
| | <u> </u> | <u> </u> |

Basic earnings per share for the three months ended 30 June 2017 are 0.36 HK cent (2016: 0.23 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 engaged 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, 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 started 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 approximately 400 trend leading third-party branded products. As at 30 June 2016 and 30 June 2017, the number of brands offered on our e-commerce platform was 431 and 401, respectively, representing a decrease of 30 brands for the three months ended 30 June 2017. As at 30 June 2016 and 30 June 2017, the number of products offered on the Group's e-commerce platform was approximately 9,500 and 5,600, respectively, representing a decrease of approximately 3,900 products during the three months ended 30 June 2017. 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

BUSINESS REVIEW AND PROSPECT (CONTINUED)

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.

As part of its strategy to better manage the Group's existing business and to expand its market share in the US, Asia and the UK, the Group incorporated several entities after 31 March 2016:

- Hypebeast Inc., a US entity incorporated on 14 October 2016. It is engaged in the digital media segment in the US. The company began active operations on 1 April 2017.
- COREtwo Limited, a BVI entity incorporated on 14 October 2016. It is the sole shareholding company of Hypebeast Inc.
- HBX New York Inc, a US entity incorporated on 16 February 2017. It will be engaged in running retail operations in New York City in the future. The company does not yet have active operations.
- 102 Media Lab Limited, a Hong Kong entity incorporated on 10 April 2017. It will be engaged in creative agency services. The company does not yet have active operations.
- Hypebeast UK Limited, a UK entity incorporated on 19 May 2017. It will be engaged in the digital media segment in the UK. The company does not yet have active operations.

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\$47.0 million for the three months ended 30 June 2016 to approximately HK\$68.9 million for the three months ended 30 June 2017, representing a growth of approximately 46.7%. Such increase was mainly due to increase in revenue from (i) provision of advertising services to brand owners and advertising agencies on our digital media platforms; and (ii) the number of items sold on the e-commerce platform.

Cost of Revenue

The Group's cost of revenue increased from approximately HK\$20.2 million for the three months ended 30 June 2016 to approximately HK\$32.7 million for the three months ended 30 June 2017, representing an increase of approximately 62.4%. 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 34.9% from approximately HK\$26.8 million for the three months ended 30 June 2016 to approximately HK\$36.2 million for the three months ended 30 June 2017. The increase was mainly driven by the increase in revenue as discussed above. The overall gross profit margin decreased from approximately 57.1% for the three months ended 30 June 2016 to approximately 52.5% for the three months ended 30 June 2017 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.

Selling and Marketing Expenses

Selling and marketing expenses of the Group increased by approximately 56.8% from approximately HK\$10.5 million for the three months ended 30 June 2016 to approximately HK\$16.5 million for the three months ended 30 June 2017. Selling and marketing expenses primarily consist of advertising and promotion expenses and consultancy service fee to third party consultants. The increase was attributable to the higher usage of both services during the three months ended 30 June 2017 to drive current and future business expansion.

FINANCIAL REVIEW (CONTINUED)

Administrative and Operating Expenses

Administrative and operating expenses of the Group increased by approximately 10.3% from approximately HK\$10.5 million for the three months ended 30 June 2016 to approximately HK\$11.6 million for the three months ended 30 June 2017. Administrative and operating expenses mainly consist of staff costs, professional fees, freelancer costs and others. The increase was attributable to the increase in staff salary, staff headcount and freelancer costs to drive current and future business expansion during the three months ended 30 June 2017.

Income Tax Expense

Income tax expense for the Group increased by approximately 70.1% from approximately HK\$0.9 million for the three months ended 30 June 2016 to approximately HK\$1.5 million for the three months ended 30 June 2017. The increase was mainly due to the increase in profit before tax, excluding the effect of non-deductible expenses and non-chargeable other income items.

Profit and Total Comprehensive Income for the Period

Profit and total comprehensive income increased by approximately 60.5% from approximately HK\$4.4 million for the three months ended 30 June 2016 to approximately HK\$7.1 million for the three months ended 30 June 2017. Such increase was primarily attributable to the increase in revenue and gross profit for the three months ended 30 June 2017.

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 30 June 2017, 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 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>Percentage of the Company's total issued shares*</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% |

* The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 30 June 2017.

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 1,500,000,000 shares of the Company through the interest of her spouse, Mr. Ma Pak Wing Kevin.

DISCLOSURE OF INTERESTS (CONTINUED)

Directors' and Chief Executives' Interests and Short Positions in the Shares, the Underlying Shares or Debentures of the Company and its Associated Corporations (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 | 1 | 100% |

* The percentage represents the number of ordinary shares divided by the number of CORE Capital's issued shares as at 30 June 2017.

Save as disclosed above, as at 30 June 2017, none of the Directors nor the chief executives of the Company had any interest 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 SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO.

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

As at 30 June 2017, 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 (Note) | Beneficial owner | 1,500,000,000 | 75% |

* The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 30 June 2017.

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".

DISCLOSURE OF INTERESTS (CONTINUED)

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

Save as disclosed above, as at 30 June 2017, 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 positions 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 three months ended 30 June 2017.

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 three months ended 30 June 2017.

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 30 June 2017, 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 three months ended 30 June 2017.

CORPORATE GOVERNANCE PRACTICE

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

During the three months ended 30 June 2017, 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.

The 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 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 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 rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding Directors’ securities transactions in the Company. No incidence of non-compliance was noted for the three months ended 30 June 2017 and up to the date of this report.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2017.

SHARE OPTION SCHEME

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.

No share options have been granted/exercised/cancelled/lapsed under the Pre-IPO Scheme and Post-IPO Scheme during the three months ended 30 June 2017.

As at 30 June 2017, the Company has 22,500,000 outstanding share options under the Pre-IPO Scheme, representing approximately 1.13% of the issued share capital of the Company.

As at 30 June 2017, no share options have been granted under the Post-IPO Scheme. On 6 July 2017, 34,012,500 share options have been granted under the Post-IPO Scheme, representing approximately 1.70% of the issued share capital of the Company.

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 three months ended 30 June 2017.

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

Hong Kong, 8 August 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.