HYPEBEAST
LIMITED

INTERIM REPORT 中期報告
2018

HYPEBEAST

–

Incorporated
in the Cayman Islands
with limited liability

–

STOCK CODE
8359

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於開曼群島
註冊成立的有限公司

–

股份代號
8359

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

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

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

CONTENTS

INTERIM RESULTS

The board of Directors (the "**Board**") of the Company is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 September 2018 (the "**Relevant Period**"), together with the unaudited comparative figures for the corresponding period in 2017, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2018

	NOTES	Six months ended 30 September **2018** **HK$'000** **(Unaudited)**	 2017 HK$'000 (Unaudited)
Revenue	3	**256,247**	143,304
Cost of revenue		**(130,611)**	(66,679)
Gross profit		**125,636**	76,625
Other (losses) and gain, net		**(3,177)**	841
Selling and marketing expenses		**(56,288)**	(34,857)
Administrative and operating expenses		**(39,801)**	(24,656)
Professional fee relating to transfer of listing		**(3,214)**	–
Finance costs		**(206)**	(150)
Share of result of a joint venture		**(1,849)**	–
Profit before income tax		**21,101**	17,803
Income tax expense	4	**(4,369)**	(3,142)
Profit and total comprehensive income for the period		**16,732**	14,661
Earnings per share	6		
– Basic and diluted (HK cent)		**0.84**	0.73

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

	NOTES	As at 30 September 2018 HK$'000 (Unaudited)	As at 31 March 2018 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**9,159**	5,478
Rental deposits		**5,571**	1,014
Interest in a joint venture		**3,385**	5,234
Total non-current assets		**18,115**	11,726
Current assets			
Inventories	7	**52,515**	28,990
Trade and other receivables	8	**146,756**	98,631
Amount due from a joint venture		**4,887**	133
Pledged bank deposits	9	**7,500**	1,881
Bank balances and cash	9	**17,366**	58,581
		229,024	188,216
Current liabilities			
Trade and other payables	10	**61,931**	47,104
Obligation under finance lease			
– due within one year		**–**	272
Bank borrowings			
– due within one year	11	**17,610**	4,663
Tax payable		**8,204**	6,223
		87,745	58,262
Net current assets		**141,279**	129,954
Total assets less current liabilities		**159,394**	141,680

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 September 2018

	As at 30 September 2018 HK$'000 (Unaudited)	As at 31 March 2018 HK$'000 (Audited)
Non-current liabilities		
Obligations under finance lease		
– due after one year	–	261
Deferred tax liabilities	170	170
	170	431
Net assets	159,224	141,249
Capital and reserves		
Share capital	20,000	20,000
Share premium	25,275	25,275
Reserves	113,949	95,974
	159,224	141,249

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2018

	Share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Share option reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 April 2018 (audited)	**20,000**	**25,275**	**(1)**	**1,749**	**94,226**	**141,249**
Profit and total comprehensive income for the period	**–**	**–**	**–**	**–**	**16,732**	**16,732**
Recognition of equity-settled share-based payments	**–**	**–**	**–**	**1,243**	**–**	**1,243**
At 30 September 2018 (unaudited)	**20,000**	**25,275**	**(1)**	**2,992**	**110,958**	**159,224**
At 1 April 2017 (audited)	20,000	25,275	–	–	49,055	94,330
Profit and total comprehensive income for the period	–	–	–	–	14,661	14,661
At 30 September 2017 (unaudited)	20,000	25,275	–	–	63,716	108,991

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2018

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Profit before tax	**21,101**	17,803
Adjustments for:		
Depreciation of property, plant and equipment	**1,161**	935
Share-based payment expense	**1,243**	–
Gain on disposal of property, plant and equipment	**(13)**	(50)
Share of result of a joint venture	**1,849**	–
Finance costs	**206**	150
Operating cash flows before movements in working capital	**25,547**	18,838
Increase in inventories	**(23,525)**	(7,150)
Increase in trade and other receivables	**(48,125)**	(9,509)
Increase in rental deposits paid	**(4,557)**	(186)
Increase/(decrease) in trade and other payables	**14,827**	(2,207)
Cash (used in) operations	**(35,833)**	(214)
Income taxes paid	**(2,387)**	–
NET CASH USED IN OPERATING ACTIVITIES	**(38,220)**	(214)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 September 2018

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	**826**	–
Purchase of property, plant and equipment	**(5,656)**	(1,792)
Advance to a joint venture	**(4,754)**	–
(Placement)/withdrawal of pledged bank deposits	**(5,619)**	2,380
NET CASH (USED IN)/ FROM INVESTING ACTIVITIES	**(15,203)**	588
FINANCING ACTIVITIES		
Proceeds from bank borrowings	**19,000**	13,469
Proceeds from finance lease	**–**	826
Repayment of bank borrowings	**(6,053)**	(7,580)
Repayment of finance lease	**(533)**	(92)
Interest paid on bank borrowings	**(190)**	(136)
Interest paid on finance lease	**(16)**	(14)
NET CASH FROM FINANCING ACTIVITIES	**12,208**	6,473
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(41,215)**	6,847
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**58,581**	67,931
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, representing bank balances and cash	**17,366**	74,778

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

1. GENERAL INFORMATION

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

The Company's issued ordinary shares of HK$0.01 each have been listed and traded on GEM since 11 April 2016 (the "**Listing Date**").

Pursuant to the reorganisation of the Group (the "**Reorganisation**") in connection with the listing of the shares of the Company 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 Company for the year ended 31 March 2018 dated 20 June 2018 ("**Annual Report**"). The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated financial statements of the Group for the Relevant Period are consistent with those used in the Annual Report.

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

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

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

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

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

3. REVENUE AND SEGMENT INFORMATION

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

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

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

(i) Digital media segment – Provision of advertising services and publication of magazines

(ii) E-commerce segment – Operation of online stores for the sale of third-party branded clothing, shoes and accessories

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Digital media	**156,144**	96,788
E-commerce	**100,103**	46,516
	256,247	143,304

4. INCOME TAX EXPENSE

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	**4,239**	3,142
Other jurisdictions	**130**	–
	4,369	3,142

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

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

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

5. DIVIDEND

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

6. EARNINGS PER SHARE

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

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of calculating basic earnings per share (Profit and total comprehensive income for the period)	**16,732**	14,661
	2018	2017
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**2,000,000**	2,000,000
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**750**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,000,750**	2,000,000

Basic earnings per share for the six months ended 30 September 2018 are 0.84 HK cent (2017: 0.73 HK cent) per share.

7. INVENTORIES

	As at 30 September 2018 HK$'000 (Unaudited)	As at 31 March 2018 HK$'000 (Audited)
Finished goods	**52,515**	28,990

The Group's inventories principally comprise of third-party apparel and footwear for resale to end customers. The increase in inventories as at 30 September 2018 was mainly due to increased stockage to meet growth in customers' demand and business expansion.

The following table sets forth the turnover days of inventories for the periods indicated.

	As at 30 September 2018	As at 31 March 2018
Average inventory turnover days	**151**	123

As at 31 October 2018, HK$5.7 million or 10.9% of inventories as at 30 September 2018 had been sold.

8. TRADE AND OTHER RECEIVABLES

	As at 30 September 2018 HK$'000 (Unaudited)	As at 31 March 2018 HK$'000 (Audited)
Trade receivables (i)	**96,140**	85,832
Advances to staff	**917**	604
Rental and utilities deposits	**4,955**	3,969
Prepayment to suppliers	**10,528**	7,991
Event prepayment (ii)	**34,142**	–
Other receivables	**74**	235
Total	**146,756**	98,631

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

	As at 30 September 2018 HK$'000 (Unaudited)	As at 31 March 2018 HK$'000 (Audited)
Within 60 days	**77,933**	47,042
61 – 90 days	**6,571**	25,128
91 – 180 days	**8,170**	10,374
181 – 365 days	**518**	1,842
Over 365 days	**2,948**	1,446
	96,140	85,832

8. TRADE AND OTHER RECEIVABLES (CONTINUED)

(i): (CONTINUED)

Included in the Group's trade receivables balance are debtors as at 30 September 2018 with an aggregate carrying amount of approximately HK$51,352,000 (31 March 2018: HK$58,714,000) which are past due at the end of reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances. All of the trade receivables that are neither past due nor impaired have good credit quality assessed by the Group.

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

	As at 30 September 2018 HK$'000 (Unaudited)	As at 31 March 2018 HK$'000 (Audited)
Within 60 days	**33,702**	19,924
61 – 90 days	**14,741**	25,128
91 – 180 days	**2,255**	10,374
181 – 365 days	**654**	1,842
Over 365 days	**–**	1,446
	51,352	58,714

The table below sets forth the Group's turnover days of trade receivables as at the dates indicated:

	As at 30 September 2018	As at 31 March 2018
Average turnover days of trade receivables	**64**	66

8. TRADE AND OTHER RECEIVABLES (CONTINUED)

(i): (CONTINUED)

The Group's average turnover days of trade receivables remained relatively stable at approximately 64 days during the six months ended 30 September 2018 as compared to approximately 66 days for the year ended 31 March 2018. As at 31 October 2018, approximately HK$41.0 million or 42.7% of trade receivables as at 30 September 2018 had been settled. No provisions have been made by the Group.

(ii): Subsequent to the reporting period on 6-7 October 2018, the Group hosted Hypefest, a two-day, weekend long event in New York City which featured retail activations from 54 brands from around the world.

As at 30 September 2018, HK$34.1 million in production prepayments relating to Hypefest was recorded on the Group's balance sheet. There were no revenues or expenses relating to Hypefest recorded on the Group's consolidated statement of profit and loss in the six months ended 30 September 2018.

9. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits represent deposits pledged to a bank to secure banking facilities granted to the Group, which carry interest at prevailing market rates of 0.01% per annum as at 30 September 2018. Deposits amounting to HK$7,500,000 as at 30 September 2018 (31 March 2018: HK$1,881,000) have been pledged to secure a bank borrowing and the banking facilities. The bank borrowing and the facilities are subject to review at any time and in any event by 1 April 2019 and therefore the deposits are classified as current assets.

Bank balances carry interest at prevailing market rates of 0.01% per annum as at 30 September 2018 and 31 March 2018.

10. TRADE AND OTHER PAYABLES

	As at 30 September 2018 HK$'000 (Unaudited)	As at 31 March 2018 HK$'000 (Audited)
Trade payables	**19,587**	7,245
Deferred revenue	**–**	360
Commission payable	**6,890**	4,044
Accrual for campaign cost (i)	**16,033**	18,189
Accrual for staff bonus	**7,018**	2,023
Other payables and accrued expenses	**12,403**	15,243
	61,931	47,104

(i): Provision for campaign cost represents accruals for expenses incurred for rendering creative agency campaigns and media projects which include video shooting and photography. The Group recognised these expenses on straight-line basis over the advertising period matching the recognition of the associated revenue, as disclosed in note 3 to the consolidated financial statements of the Annual Report.

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:

	As at 30 September 2018 HK$'000 (Unaudited)	As at 31 March 2018 HK$'000 (Audited)
Within 30 days	**15,391**	6,043
31 – 60 days	**1,677**	42
61 – 90 days	**1,315**	46
Over 90 days	**1,204**	1,114
	19,587	7,245

As at 31 October 2018, approximately HK$12.3 million or 80% of trade payables as at 30 September 2018 has been settled.

11. BANK BORROWINGS

	As at 30 September 2018 HK$'000 (Unaudited)	As at 31 March 2018 HK$'000 (Audited)
Bank borrowings, unsecured with variable rate	**17,610**	4,663
Carrying amount repayable (according to scheduled repayment term): – Within one year	**17,610**	4,663
Carrying amount that contain a repayment on demand clause (shown under current liabilities)	**17,610**	4,663

The range of effective interest rates (which are also equalled to contractual interest rates) on the Group's borrowings are as follows:

	As at 30 September 2018 (Unaudited)	As at 31 March 2018 (Audited)
Effective interest rate (per annum): Variable-rate borrowings	**2.3% to 4.25%**	2.3% to 4.25%

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECT

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

BUSINESS REVIEW AND PROSPECT (CONTINUED)

The Group engages in online retail of apparel and accessories under its HBX e-commerce platform. The HBX e-commerce platform focuses on delivering the latest, trend-setting apparel and accessories to its customers, curating fashion forward pieces and collections to include in its merchandise portfolio. With its unique insight into street-wear and youth-focused fashion, the Group is able to deliver products most desired by its target demographic, thereby supporting a growing number of online shoppers. The Group is intent on enhancing the online retail experience for its customers, driving improvements from website usability to order processing to shipping and delivery. During the six months ended 30 September 2018, the number of customer orders on its HBX e-commerce platform increased by approximately 82.5% compared with the same period last year, which is a testament to the increasing appeal of HBX as a leading destination for online street-wear and youth-focused fashion worldwide. As at 30 September 2017 and 30 September 2018, the number of brands offered on our e-commerce platform were 394 and 276, respectively, representing a decrease of 118 brands for the six months ended 30 September 2018. As at 30 September 2017 and 30 September 2018, the number of products offered on the Group's e-commerce platform were approximately 5,700 and 7,830, respectively, representing an increase of approximately 2,130 products for the six months ended 30 September 2018. The decrease in the number of brands and increase in the number of products carried on our e-commerce platform reflects our strategy of delivering a more exclusive and fashion driven shopping experience and trend focused product offerings to our customers.

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

BUSINESS REVIEW AND PROSPECT (CONTINUED)

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

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

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

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

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

   In addition, the Group entered into a lease on 21 June 2018 for an office and retail premise in the Lower East Side neighborhood of Manhattan, which will house an offline retail store alongside the Group's US East Coast offices. The physical store will be the Group's landmark presence within the United States and will provide a tangible experience for our customers to access our curation of products. The Group anticipates the store to begin operations in 2019.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

BUSINESS REVIEW AND PROSPECT (CONTINUED)

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

Revenue streams from Hypefest include on-site and online merchandise sales, sponsorship fees, and marketing and digital media sales directly and indirectly attributable to the event. The Group expects the collective impact of the event to be positive for its operating and financial results, including directly attributable revenues and indirect incremental revenues as well as long-term positive impact on future growth from marketing and activations derived from the event.

As at 30 September 2018, HK$34.1 million in production prepayments (included in accounts receivable) and HK$6.0 million in merchandise inventories relating to Hypefest was recorded on the Group's balance sheet. There were no revenues or expenses relating to Hypefest recorded on the Group's consolidated statement of profit and loss in the six months ended 30 September 2018.

On 30 July 2018, the Company submitted a formal application to the Stock Exchange for the proposed transfer of listing from GEM to the main board of the Stock Exchange. The Board believes this will enhance the profile of the Group, strengthen its recognition among public investors, be beneficial to the future growth, financing flexibility and business development of the Group. Shareholders of the Company and potential investors should be aware that the implementation of the proposed transfer of listing is subject to, among others, the granting of relevant approval by the Stock Exchange. Accordingly, there is no assurance that permission will be obtained from the Stock Exchange for the proposed transfer of listing.

Save as disclosed herein, there have not been any important events affecting the Group since 30 September 2018 up to the date of this report.

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW

Revenue

The Group's revenue increased from approximately HK$143.3 million for the six months ended 30 September 2017 to approximately HK$256.2 million for the six months ended 30 September 2018, representing growth of approximately 78.8%. Such increase was mainly due to increase in scope and quantity of our provision of advertising and creative agency services to brand owners and advertising agencies on our digital media platforms, as well as growth in sales volume of third-party branded apparel on our e-commerce platform. With respect to our digital media segment, for the six months ended 30 September 2018, such increase was mainly due to (i) the increase in revenue from provision of advertising services to brand owners and advertising agencies on the Group's digital media platforms; and (ii) the increase in the average contract value of contracts and the number of contracts entered into with the Group's customers. The Group's digital media revenues are dependent on timing of bookings and campaign delivery and therefore may not necessarily be consistent from quarter to quarter.

With respect to our e-commerce segment, the number of customer orders on our e-commerce platform increased by 82.5% compared with the same period of last year. The Group experiences seasonality in sales with respect to its e-commerce business due to increased demand for our products during the peak of end of season sales and high impact release of new collections clustered around the first half of the fiscal year.

Cost of Revenue

The Group's cost of revenue increased from approximately HK$66.7 million for the six months ended 30 September 2017 to approximately HK$130.6 million for the six months ended 30 September 2018, representing an increase of approximately 95.9%. Such increase was mainly attributable to (i) the increase in direct staff costs to support increases in the size of our contracts and level of production within our contractual pipeline for the year, (ii) increase in campaign production costs to deliver high quality, bespoke content, for our creative agency, and (iii) increase in product and inventory related costs to support growth in our e-commerce business.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW (CONTINUED)

Gross Profit Margin

Gross profit of the Group increased by approximately 64.0% from approximately HK$76.6 million for the six months ended 30 September 2017 to approximately HK$125.6 million for the six months ended 30 September 2018. The increase was mainly driven by the increase in revenue for the six months ended 30 September 2018 as discussed above. The overall gross profit margin decreased slightly from approximately 53.5% for the six months ended 30 September 2017 to approximately 49.0% for the six months ended 30 September 2018 and was mainly due to the decrease in gross profit margin in the digital media segment as more tailor-made advertising services were provided and more production staff were employed during the Relevant Period, as well as a high percentage of revenue derived from the e-commerce business, which has comparatively lower margins. Revenue from the e-commerce segment represented 39.1% of total revenue for the six months ended 30 September 2018, compared to 32.5% for the same period last year.

Other (Losses)/Gains, Net

Other losses of the Group primarily consist of exchange loss during the six months ended 30 September 2018. During the period, the Group primarily had exposure to foreign exchange differences between the HK dollar and the US dollar and Euro, arising from the Group's foreign currency denominated accounts receivable, accounts payable and cash balances. The HK dollar to US dollar foreign exchange rate as at 31 March 2018 was HKD1:USD0.1274 compared to HKD1:USD0.1277 as at 30 September 2018, while the HK dollar to Euro foreign exchange rate as at 31 March 2018 was HKD1:EUR0.1034 compared to HKD1:EUR0.1100 as at 30 September 2018.

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 dollars 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 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 arise.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW (CONTINUED)

Selling and Marketing Expenses

Selling and marketing expenses of the Group increased by approximately 61.5% from approximately HK$34.9 million for the six months ended 30 September 2017 to approximately HK$56.3 million for the six months ended 30 September 2018. However, selling and marketing expenses as a percentage of revenue decreased from approximately 24.3% for the six months ended 30 September 2017 to 22.0% for the six months ended 30 September 2018. Selling and marketing expenses primarily consist of advertising and social media marketing expenses for both digital media and e-commerce platforms and staff costs of our sales and marketing department. The increase in selling and marketing expenses was attributable to higher selling and distribution expense for e-commerce sales which is reflected with the overall higher volume of sales. Additionally, the Group continued to invest in its social media marketing to support digital platform growth and exposure, together with investments in new headcounts within its sales and marketing team to drive current and future business development and revenue expansion.

Administrative and Operating Expenses

Administrative and operating expenses of the Group increased by approximately 61.4% from approximately HK$24.7 million for the six months ended 30 September 2017 to approximately HK$39.8 million for the six months ended 30 September 2018. However, administrative and operating expenses as a percentage of revenue decreased from approximately 16.8% for the six months ended 30 September 2017 to 15.5% for the six months ended 30 September 2018. The increase was mainly attributed to the increase in (i) staff headcount of 22 employees with staff cost of HK$5.4 million to support the expansion of the Group; (ii) rental and utilities cost of HK$3.6 million for the new headquarters in Hong Kong and other local offices located in the US and UK; (iii) travel cost of HK$2.1 million to support the Group's global business; and (iv) stock based compensation of HK$1.2 million in relation to option grant to employees.

Professional fee relating to transfer of listing

There was approximately HK$3.2 million in one-time legal and professional fees paid for the proposed transfer of listing from GEM to the main board of the Stock Exchange recorded in the period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL REVIEW (CONTINUED)

Income Tax Expense

Income tax expense for the Group increased by approximately 39.1% from approximately HK$3.1 million for the six months ended 30 September 2017 to approximately HK$4.4 million for the six months ended 30 September 2018. The increase was mainly due to the increase in profit before tax during the Relevant Period.

Share of Result of a Joint Venture

The Group recorded losses of approximately HK$1.8 million in its share of results of its joint venture, The Berrics Company LLC, a skateboarding digital media platform business which was formed in February 2018 with the Group as majority partner. The loss was attributable to investments in infrastructure and headcount to drive the joint venture's planned sales strategy and marketing initiatives in order to deliver on its sales and expansion plans.

Profit and Total Comprehensive Income for the Period

Profit and total comprehensive income increased by approximately 14.1% from approximately HK$14.7 million for the six months ended 30 September 2017 to approximately HK$16.7 million for the six months ended 30 September 2018. Such increases were primarily attributable to the increase in revenue and gross profit as well as effective corporate cost management for the six months ended 30 September 2018.

During the six months ended 30 September 2018, the Group incurred HK$3.2 million in one-time legal and professional fees relating the proposed transfer of the Group's listing to the main board and recorded HK$1.8 million in losses relating to business integration for The Berrics Company LLC. These items relate to a one-time transaction and an investment in a new business for the Group whereas no such expenses or losses were incurred during the same period last year. Adjusted for these items, net profit for the Group was HK$21.8 million, representing an increase of 48.7% in the current period. The Group also invested in additional headcount compared to the same period last year. Such investments were made to support anticipated future growth in the volume and scope of digital media and creative agency related contracts and to support expected topline growth for the Group's e-commerce business.

During the period, the Group also recorded HK$3.0 million in exchange losses relating to balance sheet adjustments for foreign currency denominated financial assets and liabilities. As noted in the above discussion of other losses and gains, the Group's exposure to US dollar and Euro exchange risk over its course of operations is minimal due to the Linked Exchange Rate system between HK dollars and US dollars and the Group's operations involving revenues and expenditure in Euros.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2018, the Group had total assets of approximately HK$247.1 million (31 March 2018: approximately HK$199.9 million), which is financed by total liabilities and shareholders' equity (comprising share capital and reserves) of approximately HK$87.9 million (31 March 2018: approximately HK$58.7 million) and approximately HK$159.2 million (31 March 2018: approximately HK$141.2 million), respectively. Total interest-bearing loans and interest-bearing bank borrowings of the Group as at 30 September 2018 were approximately HK$17.6 million (31 March 2018: approximately HK$4.7 million), and current ratio as at 30 September 2018 was approximately 2.6 times (31 March 2018: approximately 3.2 times).

Cash used in operating activities

The amount mainly comprises cash generated from revenue and cash used in operating activities such as payment of operating expenses as well as investments in working capital. For the six months ended 30 September 2018, cash used in operating activities was HK$38.2 million compared to HK$0.2 million in the comparable period last year, mainly attributed to significant increases in investment in working capital partially offset by an increase in operating cash flows derived from profit before tax.

Operating cash flows before movement in working capital

Operating cash flows before movement in working capital primarily comprises of cash flow from revenues less payment of operating expenses, adjusted for non-cash items including depreciation, share based payment, finance costs and results from the Berrics joint venture. For the six months ended 30 September 2018, operating cash flows before movements in working capital was HK$25.5 million, an increase of 35.6% from HK$18.8 million in the comparable period last year, mainly attributed to the increase in profit before taxes over the same period.

The Group's sales are generally made through the provision of advertising spaces, creative agency projects and operation of online store. For the provision of advertising spaces and creative agency projects, customers are billed on a performance delivery basis with a credit period from 30 days to 60 days. For sales from our HBX online store, customers pay the full amount on checkout via credit card or other payment methods through the payment gateway platform, which usually settles the amount within 2 working days after the transaction date.

The Group's significant operating expense include staff salaries, advertising expenses, professional fees, rent expenses, merchant credit card charges and other administrative and general expenses. Other than for certain accrued expenses, payments for operating expenses are generally paid in the period incurred.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

LIQUIDITY AND FINANCIAL RESOURCES (CONTINUED)

Investment in working capital

Trade receivable

Cash outflow from movements in trade and other receivable was HK$48.1 million for the six months ended 30 September 2018, compared to HK$9.5 million in the same period last year. The increase was attributable to an overall increase in trade receivables over the period reflective of the increase in revenues from the Group's digital media business, as well as event and inventory prepayments relating to Hypefest.

Trade receivables increased from HK$85.8 million as at 31 March 2018 to HK$96.1 million as at 30 September 2018. The Group's average turnover days of trade receivables remained relatively stable, decreasing slightly to 64 days as at 30 September 2018 compared to 66 days as at 31 March 2018. As at 31 October 2018, approximately HK$41.0 million, or 42.7% of trade receivables as at 30 September 2018 have been settled. Further, trade receivables aged within 60 days based on the invoice date at the end of the reporting period was 81.1% as at 30 September 2018 compared to 54.8% as at 31 March 2018, reflecting a significant improvement in our collection cycles. The Group does not anticipate recording any significant write-offs or provisions in relation to its trade receivable balance.

Subsequent to the reporting period on 6-7 October 2018, the Group hosted Hypefest, a two-day, weekend long event in New York City which featured retail activations from 54 brands from around the world. As at 30 September 2018, HK$34.1 million in production prepayments (included in accounts receivable) and HK$6.0 million in merchandise inventories relating to Hypefest was recorded on the Group's balance sheet.

Inventory

Cash outflow from movements in inventory was HK$23.5 million for the six months ended 30 September 2018, compared to HK$7.2 million in the same period last year. The increase was attributable to an overall increase in inventory over the period reflective of the increase in support of sales volumes and revenues from the Group's e-commerce business.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

LIQUIDITY AND FINANCIAL RESOURCES (CONTINUED)

Investment in working capital (continued)

Inventory (continued)

The Group's inventories principally comprise of third party footwear and apparel for resale to end customers. The Group's average turnover days of inventory increased slightly from 151 days as at 30 September 2018 compared to 123 days as at 31 March 2018, which is reflective of certain timing differences with respect to the receipt of inventories compared to last year in advance of peak season for the Group's e-commerce business in the third quarter. As at 31 October 2018, approximately HK$5.7 million, or 10.9% of inventories as at 30 September 2018 have been sold. 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.

Trade payable

Cash inflow from movements in trade and other payables was HK$14.8 million for the six months ended 30 September 2018, compared to a cash outflow of HK$2.2 million in the same period last year. The increase was attributable to renegotiation and readjustment of payment terms with the Group's vendors as an improvement in cash management.

Income taxes

During the period, the Group made income tax payments of HK$2.4 million in relation to Hong Kong profits tax as well as prepayments for taxes for other jurisdictions in which the Group operates.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

LIQUIDITY AND FINANCIAL RESOURCES (CONTINUED)

Cash used in investing activities

Cash used in investing activities for the six months ended 30 September 2018 mainly comprised of additions in property, plant and equipment, advances to the Berrics joint venture in support of operational growth and integration plans as well as a placement of pledged bank deposits relating to a loan drawdown. Cash used in investing activities was HK$15.2 million for the six months ended 30 September 2018 compared to cash from investing activities of HK$0.6 million in the same period last year, the increase being attributable to renovation costs for the new Hong Kong office headquarters and warehouse in 2018, cash advances in support of the Berrics joint venture which was formed in February 2018, and difference in timing of drawings against our revolving loan compared to the prior year.

Cash from financing activities

Cash from financing activities mainly comprised proceeds from and repayment of bank borrowings and interest payment. Cash from financing activities was HK$12.2 million for the six months ended 30 September 2018, compared to HK$6.5 million in the same period last year. The increase is primarily attributable to an increase in the size of drawdowns against our credit facilities in support of growth and inventory working capital requirements for our e-commerce business. The Group anticipates that its bank borrowings will be settled based on the repayment schedules according to the respective terms of the loans agreements. Interest on the outstanding loans are paid once a month in the same month as incurred according to the relevant bank facility agreements.

The Group continues to review and assess potential investment opportunities, both internally and externally, which may be beneficial in achieving the Group's strategic, financial and other goals. All potential investment opportunities are reviewed in depth by management of the Company to ensure delivery of positive shareholder value.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment represented leasehold improvements, furnitures and fixtures, office equipment and motor vehicle. The increase of approximately HK$3.7 million for the six months ended 30 September 2018 was mainly due to the renovation cost for the new Hong Kong office headquarters and warehouse since May 2018.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

RENTAL DEPOSITS

The increase of HK$4.6 million rental deposits for the six months ended 30 September 2018 was mainly due to the new office rental for Hong Kong headquarters in May 2018 and the new office and retail premise rental in the US in June 2018.

GEARING RATIO

The gearing ratio of the Group as at 30 September 2018 was approximately 11.1% (31 March 2018: approximately 3.3%), which increased significantly as the Group increased its usage of bank borrowings for its e-commerce operation during the six months ended 30 September 2018. 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 respective reporting date.

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 six months ended 30 September 2018.

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. 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.

CHARGES ON GROUP ASSETS

As at 30 September 2018, the Group pledged its bank deposits of approximately HK$7.5 million to a bank as collateral to secure bank facilities granted to the Group. In addition to the pledged bank deposits, as at 30 September 2018, the Group's bank borrowings with carrying amount of approximately HK$17.6 million was guaranteed by a corporate guarantee of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 losses and gains, 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. There has been no change in the capital structure of the Company since then. The share capital of the Company only comprises of ordinary shares.

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

Details regarding the maturity profile of debt as at 30 September 2018, are presented for the Group as disclosed on note 11 of the notes to the unaudited consolidated financial statements.

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$103.7 million as at 30 September 2018 (31 March 2018: HK$34.9 million).

Such increase was mainly attributable to the lease entered by the Group on 21 June 2018 for its office and retail premise in the US.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus and in this report, the Group did not have other approved plans for material investments or capital assets as of 30 September 2018.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

There were no significant investment, material acquisition and disposal of subsidiaries and associated companies by the Company during the six months ended 30 September 2018.

CONTINGENT LIABILITIES

As at 30 September 2018, the Group had no significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2018, the Group employed a total of 272 employees (30 September 2017: 196 employees). Staff costs of our Group (including salaries, allowances, other benefits and contribution to the defined contribution retirement plan) for the six months ended 30 September 2018 were approximately HK$56.0 million (for the six months ended 30 September 2017: approximately HK$36.0 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 will also make 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 has become effective upon Listing. The Share Option Scheme is designed to provide incentives and rewards to our employees.

SIGNIFICANT INVESTMENTS HELD

Except for investment in its subsidiaries, the Group did not hold any significant investments during the six months ended 30 September 2018.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

USE OF PROCEEDS

The net proceeds from the placing of new shares as referred to in the Prospectus was approximately HK$29.7 million, all of which has been utilised as at 30 September 2018 in accordance with the "Statement of Business Objectives and Use of Proceeds" as set out in the Prospectus, which is (i) approximately 29% of the net proceeds, representing approximately HK$8.7 million to enhance the content of our digital media platforms to retain and expand our base of followers and visitors, (ii) approximately 35% of the net proceeds, representing approximately HK$10.3 million to increase the sales and marketing efforts, (iii) approximately 18% of the net proceeds, representing approximately HK$5.5 million to improve working environment and purchase new equipment, (iv) approximately 7% of the net proceeds, representing approximately HK$2.1 million to enhance our e-commerce platform by improving our services and inventory system, (v) approximately 1% of the net proceeds, representing HK$0.4 million for staff development and (vi) approximately 10% of the net proceeds, representing HK$2.7 million for general working capital purposes.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The implementation plan for the business objectives as set out in the Prospectus has been fully completed and the Directors consider such business objectives fully achieved as at 30 September 2018.

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

Long positions in ordinary shares of the Company:

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

* The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 30 September 2018.

Notes:

1. These shares were held by CORE Capital Group Limited ("**CORE Capital**"), a controlled corporation of Mr. Ma Pak Wing Kevin.

2. Ms. Lee Yuen Tung Janice was deemed to be interested in 1,489,160,000 shares of the Company through the interest of her spouse, Mr. Ma Pak Wing Kevin.

DISCLOSURE OF INTERESTS (CONTINUED)

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:

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

* The percentage represents the number of ordinary shares divided by the number of CORE Capital's issued shares as at 30 September 2018.

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

Save as disclosed above, as at 30 September 2018, none of the Directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO.

DISCLOSURE OF INTERESTS (CONTINUED)

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

As at 30 September 2018, the following parties (other than the Directors or the chief executives of the Company) had interests of 5% or more in the shares of the Company as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long positions in ordinary shares of the Company:

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

* The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 30 September 2018.

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

Save as disclosed above, as at 30 September 2018, the Company is not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

COMPETING AND CONFLICT OF INTERESTS

The Directors are not aware of any business or interest of the Directors nor the controlling shareholder of the Company nor any of their respective associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Company and any other conflicts of interest which any such person has or may have with the Group during the six months ended 30 September 2018.

None of the Directors, the controlling shareholders or substantial shareholders of the Company or any of their respective close associates has engaged in or has interest in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the six months ended 30 September 2018.

INTERESTS OF THE COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Lego Corporate Finance Limited to be the compliance adviser. As notified by Lego Corporate Finance Limited, as at 30 September 2018, save for the compliance adviser agreement dated 15 March 2016 entered into between the Company and Lego Corporate Finance Limited, neither Lego Corporate Finance Limited, its directors, employees and close associates had any interest in relation to the Group which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2018.

CORPORATE GOVERNANCE PRACTICE

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

During the six months ended 30 September 2018, the Company has complied with the Corporate Governance Code (the "**CG Code**") set out in Appendix 15 to the GEM Listing Rules, save as the below deviation.

CORPORATE GOVERNANCE PRACTICE (CONTINUED)

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

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted the required standard of dealings set out in the GEM Listing Rules as part of its code of conduct regarding Directors' transactions in the securities of the Company. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings and there was no event of non-compliance for the six months ended 30 September 2018 and up to the date of this report.

SHARE OPTION SCHEME

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

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

SHARE OPTION SCHEME (CONTINUED)

Details of the movements of the two share option schemes of the Company for the six months ended 30 September 2018 are set out below:

(1) Pre-IPO Scheme

Category of grantee	Date of grant	Exercise period	Exercise price per share (HK$)	Number of share options As at 1 April 2018	As at 30 September 2018
Employees in aggregate	18 March 2016	From 18 March 2018 to 17 March 2026	0.026	750,000	750,000
		From 18 March 2019 to 17 March 2026	0.026	8,250,000	8,250,000
		From 18 March 2019 to 17 March 2026	0.052	3,500,000	3,500,000
		From 18 March 2019 to 17 March 2026	0.078	6,000,000	6,000,000
Total				18,500,000	18,500,000

Notes:

(1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

(2) No share options have been granted/exercised/cancelled/lapsed under the Pre-IPO Scheme during the six months ended 30 September 2018.

SHARE OPTION SCHEME (CONTINUED)

(2) Post-IPO Scheme

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

Notes:

(1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

(2) No share options have been exercised/cancelled/lapsed under the Post-IPO Scheme during the six months ended 30 September 2018.

(3) The closing price of the shares of the Company immediately before the date of grant on 10 August 2018 was HK$0.63.

(4) The share options granted are not recognized in the accounts until they are exercised. Rule 23.08 of the GEM Listing Rules states that a listed issuer is encouraged to disclose in its annual report and interim report the value of share options granted to participants as referred to in (i) to (v) of Rule 23.07 during the financial year/period. The Directors considered that it is not appropriate to value the share options granted under the Post-IPO Scheme during the six months ended 30 September 2018 as certain crucial factors for such valuation are variables which cannot be determined accurately. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and could be misleading to the shareholders.

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 six months ended 30 September 2018.

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

Hong Kong, 9 November 2018

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.