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newborntown

NEWBORN TOWN INC.

赤子城 科技 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9911)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

The board of directors (the “**Board**”) of Newborn Town Inc. (the “**Company**”) is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2020 (the “**Annual Results**”). The Annual Results have been reviewed by the Company’s Audit Committee.

In this announcement, “we”, “us”, and “our” refer to the Company and where the context otherwise requires, the Group.

FINANCE HIGHLIGHT

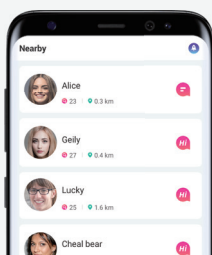
- Revenue from contracts with customers for the year ended 31 December 2020 amounted to RMB1,181.6 million, representing an increase of 203.2% from RMB389.7 million recorded in 2019.
- Gross profit for the year ended 31 December 2020 amounted to RMB752.5 million, representing an increase of 187.7% from RMB261.5 million recorded in 2019.
- Profit for the year for the year ended 31 December 2020 amounted to RMB114.3 million, representing an increase of 67.1% from RMB68.4 million recorded in 2019.
- Adjusted net profit for the year ended 31 December 2020 amounted to RMB154.9 million, representing an increase of 41.5% from RMB109.4 million recorded in 2019.

	Years ended 31 December	
	2020	2019
	RMB'000	RMB'000
Revenue from contracts with customers	1,181,593	389,685
Gross profit	752,489	261,512
Profit before income tax	130,180	78,386
Profit for the year	114,343	68,415
Basic earnings per share (expressed in RMB per share) ⁽¹⁾	0.040	0.082
Diluted earnings per share (expressed in RMB per share) ⁽¹⁾	0.040	0.082
	<u>114,343</u>	<u>68,415</u>
Profit for the year	114,343	68,415
<i>Add:</i>		
Share-based compensation expenses ^{(2) (3)}	40,775⁽³⁾	36,847 ⁽²⁾
Listing expenses ⁽⁴⁾	–	35,407 ⁽⁴⁾
<i>Less:</i>		
Interest income from the application monies locked-up during the initial public offering	–	(20,926)
Fair value changes of convertible redeemable preferred shares ⁽⁴⁾	–	(7,434)
Tax effect ⁽⁵⁾	(260)	(2,867)
Adjusted net profit	<u>154,858</u>	<u>109,442</u>

Notes:

- (1) The weighted average number of ordinary shares in issue used for the calculation of basic and diluted earnings per share for the years ended 31 December 2020 and 2019 have been retrospectively adjusted for the capitalisation issue before listing. The new shares of the Company issued on 14 May 2019 to the pre-IPO investors, the shares repurchased in June 2019, the issuance of Initial Public Offering in December 2019 and the purchase of shares in September 2020 and October 2020 were accounted at time portion basis.
- (2) In June 2019, the Company repurchased certain Series B Preferred Shares (as defined in the Prospectus) which the holders had a put option to sell to certain senior management members of the Company. A one-off share-based compensation expense of RMB36,847,000 was recorded which represented the deemed economic benefits in relation to the reduction in the redemption liabilities of such senior management members.
- (3) In May 2020, the Board approved the grant of an aggregate of 55,227,573 RSUs to certain employees and management pursuant to the RSU Schemes. Share-based compensation expenses was recognised based on the vesting period of the RSU Schemes, and amounted to RMB39,045,000 in the current period, equivalent to the economic benefits certain employees and management obtained from the Company. For further details, please refer to the announcement dated 28 May 2020 of the Company. A subsidiary of the Company has recognised share-based compensation expenses amounting to RMB1,730,000 in relation to awards granted in 2018 pursuant to its share incentive plan.
- (4) Such item is non-recurring as it was derived from a one-off event.
- (5) Including tax effects on listing expenses and share-based compensation expenses recognised by the subsidiary, which are calculated with a tax rate of 15%.

BUSINESS HIGHLIGHTS



Yiyo — Video social networking platform



MICO — Open social networking platform



YoHo — Audio social networking platform

RAPID INCREASE IN TOTAL REVENUE



Total revenue

RMB**1.18** billion
increased by **203.2%** YoY

SIGNIFICANT INCREASE IN PROFIT FOR THE YEAR



Profit for the year

RMB**0.11** billion
increased by **67.1%** YoY

RAPID INCREASE IN REVENUE FROM VALUE-ADDED SERVICES



Revenue from value-added services

RMB**0.66** billion
increased by **5,549.8%** YoY

SIGNIFICANT INCREASE IN REVENUE FROM TRAFFIC MONETISATION



Revenue from traffic monetisation

RMB**0.52** billion
increased by **38.6%** YoY

SUFFICIENT CASH FLOWS



Net cash inflow from operating activities

RMB**295.7** million
increased by **68.5%** YoY

INCREASE IN INVESTMENTS IN R&D



Investments in R&D

RMB**58.5** million
increased by **188.8%** YoY

CHAIRMAN’S STATEMENT

Dear Shareholders,

In 2020, under the influence of COVID-19 epidemic, the need of social networking and entertainment from global users have increased significantly and there is a phenomenal growth in “stay-at-home economy”. In order to ride on the changes of the global market, the Company launched the “Traffic+” strategy. Leveraging on the sizable traffic ecology previously accumulated and the deployment in social networking industry over the years, we strived to develop comprehensively in the open social networking segment and actively explored games and other diversified business, delivering a rapid and significant growth.

2020 has become a critical year for the Company to achieve breakthrough growth. With the development of “Traffic+” strategy, especially the “Traffic + Social Networking” strategy, the Company has achieved continuous expansion in the scale of its core social networking products, continuous improvement in stickiness, increasingly refinement in global deployment, steady enhancement in monetisation efficiency and significant growth in revenue. Overall speaking, the Company has continued to enhance its market shares and competitiveness in the global open social networking segment.

Being a leader in the overseas internet platform industry of China, the Company will maintain its position in the global market and focus on the social networking business while keep expanding our boundary, exploring market opportunities and uncovering greater values.

I hereby present the Group’s financial position and operating highlights for 2020, review the business development in 2020, and summarise strategies and outlook of the Company for 2021.

BUSINESS REVIEW

1. Unlock the value of traffic ecology

In 2020, through implementing “Traffic+” strategy in social networking and game segments, our traffic ecology continued to expand. Besides, rapid growth is realised through refined operations and the effect of organic growth is obvious.

Through comprehensively unlocking the value of traffic ecology, our user scale, revenue and net profit have achieved rapid growth. Currently, the scale of revenue increased to RMB1.18 billion, representing an increase of 203.2% year on year.

Benefiting from premium products continuously launched in the social networking, game and other segments, our monetisation models upgraded to in-app purchase, such as live broadcast rewards, chat duration purchase, member subscription, advanced function purchase and other diversified methods, which have steadily enhanced the user value. In 2020, revenue from value-added service business of the Group significantly grew by 5,549.8% to RMB0.66 billion, accounting for 55.6% of total revenue.

2. Breakthrough in social networking business

In 2020, we strived to implement the “Traffic + Social Networking” strategy, develop open social networking business and expand to global social networking market through Yiyo, MICO, YoHo and other products. With the benefit of “stay-at-home economy”, the audio and video social networking business of the Company achieved rapid growth.

Among the social networking products of the Company, MICO focuses on live-streaming social networking, which includes rich live-streaming ecosystem and various functions such as group video chat. It has developed into a mainstream social networking platform in Middle East, North America, South Asia, Southeast Asia, etc.. Yiyo and YoHo focus on video chat and group voice chat, respectively, and their user scale and revenue maintain a rapid growth.

Currently, MICO ranks first among the social networking apps of App Store in terms of downloads in 71 countries and regions, and is a top-10 social networking app of Google Play in terms of sales in 86 countries and regions. Yiyo is a top-10 social networking app of Google Play in terms of sales in 14 countries and regions. YoHo is a top-10 social networking app of Google Play in terms of sales in 31 countries and regions.

In 2020, the scale of social networking business of the Company achieved a breakthrough, with a cumulative number of 183 million downloads for its social networking products and 11.36 million average monthly active users. The user stickiness and active hours have also maintained a steady growth.

We expanded our market and enlarged global coverage through implementing in-depth localized operation. The Company initially developed in the emerging markets such as the Middle East, Southeast Asia, India, Pakistan and secured early benefits and established entry barriers. Our social networking products also achieved a rapid and solid growth in mature market. In 2020, we achieved breakthrough development in North American market, with MICO as a top-20 social networking product of App Store and Google Play in terms of sales in the United States. At the same time, the Company has started to expand into Japan, Korea and Europe markets to further seize the market shares of high-valued regions. The foundation of global social networking of the Company is well established.

3. Steady expansion towards diversified businesses

The Company explored opportunities for diversified development and expanded to diversified business such as game business while taking social networking business as its core. In 2020, we enlarged our investment in the research and development of game segment to further upgrade the product types by launching integrated type and decryption type of games that are obviously “mid-core” in general, so as to extend the life cycle of products.

We strived to refine premium mid-core games, such as decryption type, integrated type, etc, with beautiful visuals, simple interface design, classic and interesting rules and strong immersion. During the process of continuous researching and developing premium games, the Company continued to enhance the research and operation capacity of its game team. At the same time, the synergies between game business and social networking business gradually appeared.

Through launching these popular games, the scale of our game user has increased rapidly. In 2020, the game products of the Company have a cumulative number of 152 million downloads and 11.51 million average monthly active users, representing an increase of 154% year on year.

4. Continuous upgrade of AI technology

In line with the expansion in traffic ecology of the Company and extension in product types, the amount of data we continued to accumulate became bigger and the Solo Aware, an artificial intelligence engine, has also continued to improve and upgrade in various aspects including algorithm models and labelling, which supported in the research and operation of products. Products like Yiyo, MICO and YoHo can conduct activities like matching of social network and recommendation of content more precisely.

In addition, the continuous refinement of our middle platform has significantly enhanced our research and development, promotion, operational efficiency, which continuously enhanced the efficiency of human resources of the Company.

STRATEGY AND OUTLOOK

1. Continuous efforts in social networking and creating superior products

Unlike the social networking industry of acquaintance which fragmented by giant market leaders, the open social networking market is full of opportunities. It is expected that products of platform with billions of users will keep emerging, thus causing upheaval changes in the historical landscapes of the industry. We will continue to plough deeply into the open social networking sector, and create world-leading open social networking products, in order to enable more users to enjoy quality experiences in social networking.

We will keep optimizing core products, Yiyo, MICO, YoHo, and continue to expand the market scale, improve the user stickiness and duration of use, enrich the form of monetisation and improve the efficiency of monetisation, whereby promoting the growth in revenue and enhancement in profitability of the Company.

We will closely monitor the market trend and focus on the new models of social networking via video, audio and games, while meeting the segmented demands of different countries and different groups, so as to allow the ongoing penetration of global markets and establish our position as the top-tier overseas platform of social networking.

2. Enriching the audio and video ecology and improving the efficiency in monetisation

Leveraging on the characteristics such as reality, high efficiency, realtime and high interaction, etc., audio and video are regarded as the trendy social networking products in the future. We will keep addressing to the social networking habits of the younger generation worldwide in the era of 5G, as well as increasing our investment in research and development of the audio and video social networking products, so as to take the lead in the future.

We will continue to optimise audio and video functions of our products for social networking, in order to enrich the ecology of community, improve the user stickiness and increase the duration per user with quality contents. In addition, we will, based on the current ecology of social networking, explore new opportunities in the field of audio and video, such as live streaming sales and celebrity marketing, etc.

The improvement of duration per user will effectively drive the improvement of monetisation efficiency. In addition, under the model of audio and video social networking, models such as more functional pay points and live streaming rewards can be incorporated naturally. These will facilitate our further expansion of revenue from social networking products.

3. Advancing business diversification while exploring new opportunities

We will keep advancing the strategy of “Traffic + Games” so as to steadily develop the game business. On top of operating current products, stronger efforts will be made on the layout of middle and high-core game product portfolio to expand the user base and market coverage. We will stick to the policy of providing niche products, extending the life cycle of games while creating more hot games.

Meanwhile, we will closely monitor overseas market opportunities and explore diversified businesses such as cross-border e-commerce, etc.

Going overseas is an inevitable path in order to expand the scale of internet products in the future. We will maintain close cooperation with various overseas companies, while identifying outstanding overseas teams as well as making timely investments in and acquisitions of quality products and teams.

4. Optimising the global layout and entering the high value markets

Currently, there is still extensive room for growth in markets such as the Middle East, Latin America, India, Pakistan, Southeast Asia, etc. Our Company will explore deeply in these regions, in order to capture these emerging markets and the young user groups.

In addition, we will focus on exploring mature markets. While continuing to plough deeply into the Northern American market, we will also enter high value markets such as Europe, Japan, Korea, etc., so that our global social networking coverage can be optimised continuously.

During the process of market exploration, we will keep strengthening the operating capacity of localization, and consolidating the upper and lower streams industrial resources, so as to fortify the competition barriers for the Company’s products in various regions of the world.

5. Continuing to upgrade AI engines and middle platforms

We will keep increasing investments in research and development, and optimising our AI engine-Solo Aware, where algorithm models and the number of labels will continue to improve, whereby extensively uncovering the customisation requirements of users to further improve its accuracy in the efficiency of social networking matching, thus facilitating products research and operation.

Meanwhile, we will also keep upgrading the middle platform system, where efficient integration of data, algorithms, infrastructure and development framework, etc. will be conducted continuously, with a view to increasing the speed of research and development, strengthening data management and reducing development cost, whereby drawing up an efficient and standardized procedure in aspects such as resource allocation, etc.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

Our total revenue increased by 203.2% to RMB1,181.6 million for the year ended 31 December 2020 as compared to RMB389.7 million for the year ended 31 December 2019. The following table sets forth a breakdown of our revenue by segments for the years indicated:

	Years ended 31 December				YoY Change
	2020		2019		
	<i>RMB'000</i>	<i>% of Total revenue</i>	<i>RMB'000</i>	<i>% of Total revenue</i>	
Value-added service business	657,520	55.6	11,638	3.0	5,549.8%
In-app purchase	657,520	55.6	11,638	3.0	5,549.8%
Traffic monetisation business	524,073	44.4	378,047	97.0	38.6%
In-app traffic monetisation business	511,202	43.3	232,016	59.5	120.3%
Mobile advertising platform and related business	12,871	1.1	146,031	37.5	-91.2%
Total	<u>1,181,593</u>	<u>100.0</u>	<u>389,685</u>	<u>100.0</u>	<u>203.2%</u>

The revenue from value-added service business increased by 5,549.8% to RMB657.5 million in 2020 as compared to RMB11.6 million in 2019, primarily because (i) our monetisation mode has been upgraded to multiple ways, such as live broadcast rewards, chat duration purchase, member subscription, advanced function purchase, etc; (ii) we explored the global social networking business market by introducing a number of high quality audio and video social networking products and recorded a rapid growth during the year 2020.

The revenue from traffic monetisation business increased by 38.6% to RMB524.1 million in 2020 as compared to RMB378.0 million in 2019, which primarily because (i) our increased research and development investment in the game field, and our continuous efforts in developing and launching new games apps, and the upgrade of our existing apps, which further update our product portfolio and extend the life cycle; (ii) Solo Aware AI engine has assisted our products fine operation and has been of benefit to the growth of in-app traffic monetisation business.

The decrease in the performance-based advertising services was primarily because we scaled down the development of the mobile advertising platform and related business in view of the outbreak of novel coronavirus pandemic and global economic downturn.

Cost of Revenue

Our cost of revenue increased by 234.8% to RMB429.1 million for the year ended 31 December 2020, as compared to RMB128.2 million for the year ended 31 December 2019. The following table sets forth a breakdown of our cost of revenue by nature for the years indicated:

	Years ended 31 December				YoY Change
	2020		2019		
	<i>RMB'000</i>	<i>% of Total revenue</i>	<i>RMB'000</i>	<i>% of Total revenue</i>	
Cost for advertising placement	6,913	0.6	86,557	22.2	-92.0%
Employee benefit expense	39,154	3.3	20,211	5.2	93.7%
Intangible assets amortisation	20,783	1.8	800	0.2	2,497.9%
Server capacity expense	20,344	1.7	16,711	4.3	21.7%
Share-based compensation expenses	25,475	2.2	—	0.0	100.0%
Payment handling cost	82,732	7.0	2,539	0.7	3,158.5%
Revenue sharing to streamer	211,032	17.9	—	0.0	100.0%
Goodwill impairment	5,029	0.4	—	0.0	100.0%
Technical and other service fee	7,437	0.6	—	0.0	100.0%
Others	10,205	0.9	1,355	0.4	653.1%
Total	429,104	36.4	128,173	33.0	234.8%

The following table sets forth a breakdown of our cost of revenue by segments for the years indicated:

	Years ended 31 December				YoY Change
	2020		2019		
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	
Value-added service business	361,080	84.1	3,687	2.9	9,693.3%
Traffic monetisation business	68,024	15.9	124,486	97.1	-45.4%
Total	429,104	100.0	128,173	100.0	234.8%

The significantly increase in the cost of revenue from 2019 to 2020 was primarily attributable to we vigorously promoted the social networking business by introducing the audio and video social networking products, which was in line with the performance of our “Traffic + Social Networking” strategy.

The cost of revenue for value-added service business increased 97 times to RMB361.1 million in 2020 as compared to RMB3.7 million in 2019, primarily due to the revenue sharing to streamer of our social networking business and increase in the payment handling cost, which enabled us to maintain and attract users.

The cost of revenue for traffic monetisation business decreased by 45.4% to RMB68.0 million in 2020 as compared to RMB124.5 million in 2019, primarily due to the downsize of mobile advertising platform and related business.

Gross Profit and Gross Profit Margin

The following table sets forth the gross profit and gross profit margin for the years indicated:

	Years ended 31 December						YoY Change in gross profit
	2020			2019			
	<i>Gross profit</i>	<i>%</i>	<i>Gross Profit margin</i> (RMB'000, except percentages)	<i>Gross profit</i>	<i>%</i>	<i>Gross Profit margin</i>	
Value-added service business	296,440	39.4	45.1%	7,951	3.0	68.3%	3,628.3%
Traffic monetisation business	456,049	60.6	87.0%	253,561	97.0	67.1%	79.9%
Total	752,489	100.0	63.7%	261,512	100.0	67.1%	187.7%

Our gross profit increased by 187.7% to RMB752.5 million for the year ended 31 December 2020 as compared to RMB261.5 million for the year ended 31 December 2019 which was mainly because we explored the social networking business, which had a rapid growth of gross profit during the year.

Our gross profit margin decreased to 63.7% in 2020 from 67.1% in 2019. The gross profit margin of our value-added service business decreased to 45.1% for the year ended 31 December 2020 from 68.3% for the year ended 31 December 2019, which was mainly driven by the revenue sharing to streamer of our social networking business and increase in the payment handling cost. The increase in the gross profit margin of our traffic monetisation business to 87.0% for the year ended 31 December 2020 from 67.1% for the year ended 31 December 2019 was mainly because we shrink mobile advertising platform and related business, which recorded a lower gross profit margin.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 301.1% to RMB483.5 million in 2020 as compared to RMB120.5 million in 2019, primarily due to the increase in the cost for advertising placement for our proprietary app monetisation business as we continued our promotional efforts in marketing our apps in the global market.

General and Administrative Expenses

Our general and administrative expenses decreased by 42.8% to RMB55.3 million as compared to RMB96.8 million in 2019, primarily due to (i) a decrease of RMB35.4 million in listing expenses in 2020; (ii) a decreased of RMB21.3 million in our share-based compensation expenses; and (iii) an increase of RMB12.9 million in employee benefit expenses and consultant and professional service fee in 2020.

Operating Profit

For the year ended 31 December 2020, our operating profit increased by 164.8% to RMB132.1 million as compared to RMB49.9 million in 2019, primarily due to (i) an increase of RMB491.0 million in our gross profit; (ii) an increase of RMB363.0 million in our selling and marketing expenses due to our increased promotional efforts in marketing our apps; (iii) a decrease of RMB41.4 million in general and administrative expenses; (iv) an increase of RMB38.3 million in research and development expenses; and (v) a decrease of RMB47.0 million in our other gain due to decrease in the fair value change of financial assets measured at FVPL and exchange gain.

Finance Income/(Cost), net

For the year ended 31 December 2020, the finance income decreased to RMB(1.9) million as compared to RMB21.1 million in 2019. It was mainly due to the higher interest income arising from the application monies locked-up during the initial public offering in 2019.

Fair Value Changes of Convertible Redeemable Preferred Shares

Upon the completion of the initial public offering on 31 December 2019, all our convertible redeemable preferred shares granted in 2019, as disclosed in our prospectus dated 17 December 2019, were converted into ordinary shares. Therefore, no convertible redeemable preferred shares were recognised as at 31 December 2020.

Income Tax

Income tax expense increased to RMB15.8 million in 2020 as compared to RMB10.0 million in 2019, mainly driven by the increase of our taxable profits.

Profit for the Year

As a result of the foregoing, our profit for the year increased by 67.1% to RMB114.3 million in 2020 as compared to RMB68.4 million in 2019.

Non-IFRS Measures

To supplement our unaudited condensed consolidated statement of comprehensive income, which are presented in accordance with IFRS, we also use adjusted net profit as additional financial measures, which are not required by, or presented in accordance with, IFRS. We believe that these non-IFRS measures help our investors to identify underlying trends in our business and provide useful information to our investors in understanding and evaluating our results of operation by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance, which is in the same manner as the action of our management when comparing financial results across accounting periods. We also believe that these non-IFRS measures provide useful information about our operating results, enhance the overall understanding of our past performance and future prospects and allow for greater visibility with respect to key metrics used by our management in its financial and operational decision-making.

We define adjusted net profit as profit for the period adjusted by share-based compensation expenses, listing expenses and fair value changes of convertible redeemable preferred shares, net of their respective tax effects. The use of adjusted net profit has limitations as an analytical tool because they do not reflect all items of income and expenses that affect our operations. When assessing our operating and financial performance, you should not consider adjusted net profit in isolation from or as a substitute for our financial performance or financial position as reported in accordance with IFRS. The terms adjusted net profit are not defined under IFRS, and such terms may not be comparable to other similarly titled measures used by other companies.

The following table sets forth the reconciliations of our non-IFRS financial measures, net of tax effects on the adjustments, for the years indicated, to the nearest measures prepared in accordance with IFRS:

	Years ended 31 December	
	2020	2019
	RMB'000	RMB'000
Profit for the year	114,343	68,415
<i>Add:</i>		
Share-based compensation expenses ^{(1) (2)}	40,775⁽²⁾	36,847 ⁽¹⁾
Listing expenses ⁽³⁾	–	35,407 ⁽³⁾
<i>Less:</i>		
Interest income from the application monies locked-up during the initial public offering	–	(20,926)
Fair value changes of convertible redeemable preferred shares ⁽³⁾	–	(7,434)
Tax effect ⁽⁴⁾	(260)	(2,867)
Adjusted net profit	<u>154,858</u>	<u>109,442</u>
Adjusted net profit growth	41.5%	82.3%

Notes:

- (1) In June 2019, the Company repurchased certain Series B Preferred Shares (as defined in the Prospectus) which the holders had a put option to sell to certain senior management members of the Company. A one-off sharebased compensation expense of RMB36,847,000 was recorded which represented the deemed economic benefits in relation to the reduction in the redemption liabilities of such senior management members.
- (2) In May 2020, the Board approved the grant of an aggregate of 55,227,573 RSUs to certain employees and management pursuant to the RSU Schemes. Share-based compensation expenses was recognised based on the vesting period of the RSU Schemes, and amounted to RMB39,045,000 in the current period, equivalent to the economic benefits certain employees and management obtained from the Company. For further details, please refer to the announcement dated 28 May 2020 of the Company. A subsidiary of the Company has recognised share-based compensation expenses amounting to RMB1,730,000 in relation to awards granted in 2018 pursuant to its share incentive plan.
- (3) Such item is non-recurring as it was derived from a one-off event.
- (4) Including tax effects on listing expenses and share-based compensation expenses recognised by the subsidiary, which are calculated with a tax rate of 15%.

Capital Structure

We continued to maintain a healthy and sound financial position. Our total assets grew from RMB777.6 million as at 31 December 2019 to RMB1,268.2 million as at 31 December 2020, while our total liabilities increased from RMB143.0 million as at 31 December 2019 to RMB481.2 million as at 31 December 2020. Liabilities-to-assets ratio increased from 18.4% at the end of 2019 to 37.9% at the end of 2020.

Financial Resources and Operating Cash Flow

We funded our cash requirement principally from capital contribution from shareholders and cash generated from our operations.

As at 31 December 2020, our cash and cash equivalents was RMB431.0 million, compared with RMB182.8 million as at 31 December 2019.

Compared with RMB154.5 million in 2019, the cash generated from operations in 2020 increased to RMB298.7 million.

Financial Assets Measured at Fair Value Through Profit or Loss

To preserve funds for future capital expenditure and new business opportunities, we continue to invest surplus cash in commercial bank wealth management products and funds issued by major and reputable financial institutions, which generate relatively low risk income for us. We recognised such investments as financial assets measured at fair value through profit or loss of current portion and manage such investments in accordance with our internal policies as disclosed in the Prospectus. As at 31 December 2020, the fair value of such investments increased to RMB178.0 million, compared with RMB132.7 million as at 31 December 2019. Such increase was primarily due to the increase in our purchase of wealth management products and funds.

Capital Expenditure

As at 31 December 2020, our capital expenditure primarily consisted of expenditures on property and equipment, including purchases of computers and other office equipment. The capital expenditure increased from RMB0.2 million in 2019 to RMB2.1 million in 2020, primarily due to the increase in the purchase of vehicle, computers and other electronic devices during the year ended 31 December 2020.

Significant Investment

As at 31 December 2019, we held an equity interest of approximately 16.77% in Mico. On 17 April 2020, NewBornTown Network Technology entered into the Equity Transfer Agreement with Phoenix Fortune, pursuant to which NewBornTown Network Technology has conditionally agreed to acquire, and Phoenix Fortune has conditionally agreed to sell, approximately 8.85% equity interest of Mico for a cash consideration of RMB100.0 million (the “**Acquisition**”). Upon completion of the Acquisition, NewBornTown Network Technology holds approximately 25.62% equity interest of Mico, and in aggregate approximately 15.97% equity interest of Mico owned by Tianjin Tonghe Chuangyuan Enterprise Management Consulting Centre (Limited Partnership) and Ningbo Meishan Bonded Port Tonghe Chuangyuan Enterprise Management Centre (Limited Partnership) (as the platforms for the employee stock ownership plan of Mico) directed by NewBornTown Network Technology as the executive partner. On 17 April 2020, we entered into the Convertible Loan Investment Agreement with Mico, pursuant to which NewBornTown Network Technology has conditionally agreed to provide Mico with a convertible loan of RMB50 million. The Acquisition was completed on 29 June 2020 and we had control over Mico and consolidated financial statements of Mico since then. For further details, please refer to the announcement dated 19 April 2020 and circular dated 11 June 2020 of the Company.

On 17 August 2020, NewBornTown Network Technology entered into an equity transfer agreement with Mr. Ye Chunjian, pursuant to which Mr. Ye Chunjian has conditionally agreed to sell and NewBornTown Network Technology has conditionally agreed to acquire approximately 23.27% equity interest of Mico for a consideration of RMB262,997,528. Upon completion of the acquisition, NewBornTown Network Technology will hold approximately 48.89% equity interest of Mico, and in aggregate approximately 15.97% equity interest of Mico owned by Tianjin Tonghe Chuangyuan Enterprise Management Consulting Centre (Limited Partnership) and Ningbo Meishan Bonded Port Tonghe Chuangyuan Enterprise Management Centre (Limited Partnership) (as the platforms for the employee stock ownership plan of Mico) directed by NewBornTown Network Technology as the executive partner. For further details, please refer to the announcement dated 17 August 2020 of the Company.

Material Acquisition and Disposal of Subsidiaries, Associates and Joint Ventures

Save as disclosed in this announcement, we have made an equity investment accounted by equity method amounting to RMB3.0 million.

Pledge of Assets

As at 31 December 2020, we did not pledge any of our assets.

Future Plans For Material Investments and Capital Assets

We intend to pursue strategic investment or acquire businesses with an expectation to creating synergies across our own business. We aim to target companies that have competitive strengths in technology, data and other areas or participants in the upstream and downstream industries. We intend to use the cash generated from our operating activities to fund such investment or acquisition.

Contingent Liabilities

As at 31 December 2020, we did not have any material contingent liabilities.

Foreign Exchange Risk Management

We operate our business internationally and our major receipts and payments are denominated in the U.S. dollar. We are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar and the Hong Kong dollar. Therefore, foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the respective functional currency of our Group's entities. We managed foreign exchange risk by performing regular reviews of our foreign exchange exposures. We did not hedge against any fluctuations in foreign currency during the year ended 31 December 2020.

Other Principal Risks And Uncertainties

Our operations and future financial results could be materially and adversely affected by various risks. The following highlights the principal risks the Group is susceptible to and is not meant to be exhaustive:

- We face competition in the rapidly evolving industry and we may not be able to keep continuous research and development and innovation, and may not be able to compete successfully against our existing and future competitors.
- If the mobile internet industry fails to continue to develop, our profitability and prospects may be materially and adversely affected.
- Any failure to retain existing advertisers and media publishers or attract new advertisers and media publishers may negatively impact our revenue and business.
- We may be held liable for information or content displayed on, distributed by or linked to our mobile apps and may suffer a loss of users and damage to our reputation.
- Misappropriation or misuse of privacy information and failure to comply with laws and regulations on data protection, including the General Data Protection Regulation, could result in claims, changes to our business practices, monetary penalties, increased cost of operations, or declines in users and customers, or otherwise harm our business.
- If we fail to prevent security breaches, cyber-attacks or other unauthorised access to our systems or our users' data, we may be exposed to significant consequences, including legal and financial exposure and loss of users, and our reputation.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2020, we had a total of 424 full-time employees, based in Beijing, Shenzhen, Guangzhou and Jinan. Among all employees, 181 of them are in R&D department, representing 43% of the total full-time employees. The number of employees employed by the Group varies from time to time depending on needs, and employees are remunerated with reference to market conditions and individual employees' performance, qualification and experience.

With a view to nurturing and retaining talents, the Group has formulated systematic recruitment procedures and offered competitive benefits and training opportunities. The remuneration policy and overall package of the employees are periodically reviewed by the Group. Employees will be rated according to their appraisals, which in turn affect the performance bonus and share awards they receive.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining and promoting stringent corporate governance. The principle of the Company's corporate governance is to promote effective internal control measures, uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business, to ensure that its affairs are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to all Shareholders.

The Company has adopted the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "**Corporate Governance Code**"). The Corporate Governance Code has been applicable to the Company with effect from the Listing Date.

Pursuant to A.2.1 of the Corporate Governance Code, the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Mr. LIU Chunhe is the chairman of the Board and the chief executive officer of our Company. With extensive experience in the mobile app development and mobile advertising platform services industry, Mr. LIU Chunhe is responsible for the overall strategic planning, management and decision-making of the Group and is instrumental to the growth and business expansion since our establishment. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of our Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and high-caliber individuals. The Board currently comprises three executive Directors (including Mr. LIU Chunhe) and three independent non-executive Directors and therefore has a fairly strong independence element in its composition. The Board will review the current structure from time to time and shall make necessary changes when appropriate and inform the shareholders of the Company accordingly.

Save as the above, the Company has complied with the principles and code provisions as set out in the Corporate Governance Code during the Reporting Period.

COMPLIANCE WITH MODEL CODE OF THE LISTING RULES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he has complied with the required standards as set out in the Model Code during the Reporting Period.

EVENT OCCURRING AFTER THE REPORTING PERIOD

On 24 March 2021, the Board has resolved and approved the grant of 957,333 RSUs to 5 grantees pursuant to the Employee RSU Scheme subject to acceptance by the grantees. The total 957,333 RSUs granted to the grantees which amounted to approximately 0.10% of the issued share capital of the Company as at the date of this announcement.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the year ended 31 December 2020, the Company has repurchased a total of 1,150,000 shares on the Stock Exchange at an aggregate consideration of HK\$1,740,440 (of which 1,150,000 repurchased shares have been cancelled as at the date of this announcement).

Save as disclosed above, during the year ended 31 December 2020, neither the Company nor its subsidiaries has purchased, redeemed or sold any of the Company’s listed securities.

ANNUAL GENERAL MEETING

The forthcoming Annual General Meeting (“**AGM**”) will be held on 31 May 2021. A notice convening the AGM and all other relevant documents will be published and despatched to shareholders of the Company.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend the vote at the AGM to be held on 31 May 2021, the registers of members of the Company will be closed from 26 May to 31 May 2021, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration no later than 4:30 p.m. on 25 May 2021.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained a public float of no less than 25% of the issued shares as at the date of this announcement, which was in line with the requirement under the Listing Rules.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Company has established the Audit Committee with written terms of reference in compliance with the Corporate Governance Code. As at the date of this announcement, the Audit Committee consists of three independent non-executive Directors, namely Mr. CHI Shujin, Mr. PAN Xiya and Mr. LIU Rong. Mr. CHI Shujin is the chairman of the Audit Committee. The annual results of the Group for the year ended 31 December 2020 have been reviewed by the Audit Committee of the Company.

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto in this preliminary announcement of the results of the Group for the year ended 31 December 2020 have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this preliminary announcement.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The shares of the Company were listed on the main board of the Stock Exchange on 31 December 2019 by way of global offering, raising total net proceeds of HK\$166.9 million after deducting professional fees, underwriting commissions and other related listing expenses.

The Group will gradually utilise the net proceeds in accordance with the intended purposes and expected timeline as disclosed in the Prospectus. The breakdown of the intended use and amount utilised as at 31 December 2020 were as follows:

	Budget <i>HK\$ million</i> (approximately)	Amount that had been utilised as at 31 December 2020 <i>HK\$ million</i> (approximately)	Remaining balance as at 31 December 2020 <i>HK\$ million</i> (approximately)	Proposed timetable for the use of unutilised net proceeds
To develop, expand and upgrade our Solo X product matrix	68.6	21.3	47.3	On or before 31 December 2022
To upgrade our Solo Math programmatic advertising platform	57.7	1.8	55.9	On or before 31 December 2022
To enhance the big data and AI capabilities of our Solo Aware AI engine	28.4	9.2	19.2	On or before 31 December 2022
To enhance our local service capabilities and build our global information distribution network	6.5	0.0	6.5	On or before 31 December 2022
To be used for working capital and other general corporate purposes	5.7	2.8	2.9	On or before 31 December 2022
Total	166.9	35.1	131.8	On or before 31 December 2022

Note:

Please refer to the relevant announcement issued by the Company on 24 March 2021 for the latest development on the use of proceeds.

FINAL DIVIDEND

No final dividend would be recommended by the Board for the year ended 31 December 2020.

PUBLICATION OF 2020 ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.newborntown.com. The annual report of the Group for the year ended 31 December 2020 containing all applicable information required by the Listing Rules will be despatched to the shareholders of the Company and published on the above websites in April 2021.

GROUP RESULTS

Newborn Town Inc. (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2020.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
	<i>Note</i>	2020	2019
		RMB' 000	RMB' 000
Revenue from contracts with customers	4	1,181,593	389,685
Cost of revenue	5	(429,104)	(128,173)
Gross profit		752,489	261,512
Selling and marketing expenses	5	(483,513)	(120,538)
Research and development expenses	5	(58,534)	(20,271)
General and administrative expenses	5	(55,335)	(96,755)
Net impairment losses on financial assets		(7,533)	(3,299)
Other income		3,664	1,393
Other (loss)/gain – net		(19,146)	27,838
Operating profit		132,092	49,880
Finance income		1,799	21,167
Finance cost		(3,705)	(95)
Finance (cost)/income, net		(1,906)	21,072
Fair value changes of convertible redeemable preferred shares		–	7,434
Share of net loss of associates accounted for using the equity method		(6)	–
Profit before income tax		130,180	78,386
Income tax expenses	6	(15,837)	(9,971)
Profit for the year		114,343	68,415
Profit attributable to:			
Owners of the Company		39,688	68,415
Non-controlling interests		74,655	–
Other comprehensive income, net of tax			
Items that maybe subsequently reclassified to profit or loss			
Currency translation differences		(7,738)	2,225
Total comprehensive income for the year		106,605	70,640
Total comprehensive income attributable to:			
Owners of the Company		30,401	70,640
Non-controlling interests		76,204	–
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
Basic earnings per share	7	0.040	0.082
Diluted earnings per share	7	0.040	0.082

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As at 31 December	
		2020	2019
		RMB' 000	RMB' 000
ASSETS			
Non-current assets			
Property and equipment		6,886	6,960
Intangible assets		267,189	3,933
Goodwill		197,287	5,066
Financial assets measured at fair value through profit or loss		6,495	187,356
Investments accounted for using the equity method		2,994	—
Other receivable		11,381	—
Deferred tax assets		13,237	—
		<hr/>	<hr/>
Total non-current assets		505,469	203,315
		<hr/>	<hr/>
Current assets			
Other current assets		2,073	1,487
Accounts receivable	9	144,386	163,383
Other receivable		6,020	92,948
Financial assets measured at fair value through profit or loss		178,009	132,651
Cash and cash equivalents		431,015	182,863
Restricted bank deposits		1,192	913
		<hr/>	<hr/>
Total current assets		762,695	574,245
		<hr/>	<hr/>
Total assets		1,268,164	777,560
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED BALANCE SHEET (CONTINUED)

		As at 31 December	
		2020	2019
	<i>Note</i>	RMB' 000	RMB' 000
LIABILITIES			
Current liabilities			
Accounts payable	10	155,937	89,938
Other payable		234,593	32,575
Lease liabilities		3,234	3,238
Contract liabilities		14,872	—
Bank overdraft		17	48
Tax payable		834	5,228
Total current liabilities		409,487	131,027
Non-current liabilities			
Deferred tax liabilities		71,567	8,914
Lease liabilities		102	3,074
Total non-current liabilities		71,669	11,988
Total liabilities		481,156	143,015
EQUITY			
Equity attributable to the owners of the Company			
Share capital		695	696
Share premium		93,701	95,221
Other reserves		314,950	451,190
Retained earnings		127,126	87,438
		536,472	634,545
Non-controlling interests		250,536	—
Total equity		787,008	634,545
Total liabilities and equity		1,268,164	777,560

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020

(Expressed in RMB)

	Attributable to owners of the Company					
	Share capital	Combined capital	Share premium	Other reserves	Retained earnings	Total equity
Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2019	–	58,184	–	431,139	19,023	508,346
Profit for the year	–	–	–	–	68,415	68,415
Other comprehensive income	–	–	–	2,225	–	2,225
Total comprehensive income	–	–	–	2,225	68,415	70,640
Transaction with owners:						
Reorganisation of the Group	–	(58,184)	–	58,184	–	–
Conversion of ordinary shares to preferred shares	–	–	(18,059)	–	–	(18,059)
Capital contribution from shareholders	113	–	(113)	–	–	–
Issuance of ordinary shares	58	–	498	–	–	556
Repurchase of shares	(12)	–	(83,025)	(40,358)	–	(123,395)
Capitalisation issue	437	–	(437)	–	–	–
Issuance of shares upon Initial Public Offering	95	–	204,577	–	–	204,672
Share issuance costs	–	–	(19,082)	–	–	(19,082)
Conversion of shares with preferred rights issued in December 2019	5	–	10,862	–	–	10,867
Balance at 31 December 2019	696	–	95,221	451,190	87,438	634,545

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the year ended 31 December 2020

(Expressed in RMB)

<i>Note</i>	Attributable to owners of the Company					Sub-total	Non-	Total
	Share capital	Share premium	Treasury Shares	Other reserves	Retained earnings		controlling interests	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2020	696	95,221	–	451,190	87,438	634,545	–	634,545
Profit for the year	–	–	–	–	39,688	39,688	74,655	114,343
Other comprehensive income	–	–	–	(9,287)	–	(9,287)	1,549	(7,738)
Total comprehensive income	–	–	–	(9,287)	39,688	30,401	76,204	106,605
Transaction with owners:								
Non-controlling interests on acquisition of a subsidiary	–	–	–	–	–	–	267,716	267,716
Transaction with non-controlling interests	–	–	–	(160,563)	–	(160,563)	(93,384)	(253,947)
Purchase of own shares	–	–	(1,521)	–	–	(1,521)	–	(1,521)
Cancellation of shares	(1)	(1,520)	1,521	–	–	–	–	–
Shares-based compensation expenses	–	–	–	40,775	–	40,775	–	40,775
Others	–	–	–	(7,165)	–	(7,165)	–	(7,165)
Balance at 31 December 2020	<u>695</u>	<u>93,701</u>	<u>–</u>	<u>314,950</u>	<u>127,126</u>	<u>536,472</u>	<u>250,536</u>	<u>787,008</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

(Expressed in RMB)

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	298,650	154,496
Interest received	1,799	21,167
Payment of income tax	(4,781)	(143)
Net cash inflow from operating activities	295,668	175,520
Cash flows from investing activities		
Purchase of Wealth Management Products measured at fair value through profit or loss	(517,563)	(521,644)
Maturity of Wealth Management Products measured at fair value through profit or loss	484,184	591,107
Additional investment in equity interest of a private company measured at fair value through profit or loss	–	(100,000)
Investment in an associate accounted for using the equity method	(3,000)	–
Purchase of property and equipment	(2,065)	(184)
Acquisition of a subsidiary, net of cash acquired	19,374	–
Transaction with non-controlling interests	(78,000)	–
Proceeds of loans repayments from third parties	–	36,240
Net cash (outflow)/inflow from investing activities	(97,070)	5,519
Cash flows from financing activities		
Capital injections from shareholders of the companies now comprising the Group	–	560
Net proceeds from issuance of shares upon Initial Public Offering	78,605	80,282
Repayment of lease liabilities (including interest paid)	(4,233)	(3,400)
Purchase of own shares	(1,521)	(160,000)
Net cash inflow/(outflow) from financing activities	72,851	(82,558)
Net increase in cash and cash equivalents	271,449	98,481
Cash and cash equivalents at beginning of year	182,815	80,540
Effects of exchange rate changes on cash and cash equivalents	(23,266)	3,794
Cash and cash equivalents at end of year	430,998	182,815
Including:		
Cash and cash equivalents	431,015	182,863
Bank overdraft	(17)	(48)

NOTES:

(Expressed in RMB unless otherwise indicated)

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 12 September 2018 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together referred as the "Group") are principally engaged in providing value-added service business (mainly including live streaming business), and traffic monetisation business (mainly including in-app traffic monetisation business and mobile advertising platform and related business).

Mr. Liu Chunhe, Mr. Li Ping and Mr. Ye Chunjian are the founders of the Group.

Prior to the incorporation of the Company and the completion of the reorganisation as described below, the business of the Group was carried out by NewBornTown Mobile Technology (Beijing) Holdings Co., Ltd. (赤子城移動科技(北京)股份有限公司, "NewBornTown Mobile Technology") and its subsidiaries, mainly including NewBornTown Network Technology (Beijing) Co., Ltd. ("NewBornTown Network Technology") and Newborn Town International Enterprise Limited ("Newborn Town International").

For the preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, the Group underwent a series of reorganisation (the "Reorganisation") pursuant to which the business of the Group was transferred to the Company.

The Company's initial public offering of its shares ("Initial Public Offering" or "IPO") on the Main Board of The Stock Exchange of Hong Kong Limited was completed on 31 December 2019 with issuance of 136,000,000 new shares with nominal value of USD0.0001 each at an offer price of HKD1.68 per value.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

The consolidated financial information have been prepared under the historical cost convention, as modified by the revaluation of financial instruments measured at fair value through profit and loss ("FVPL").

The Group has already adopted new standards, amendments to standards and interpretations, which are mandatory for the financial year beginning on 1 January 2020, on the financial information since 1 January 2019.

The Group applies all standards, amendment and interpretations to standards consistently throughout the years ended 31 December 2020 and 2019.

3 SEGMENT INFORMATION

The Group's business activities are regularly reviewed and evaluated by the CODM and the Group is organised into segments according to the revenue streams of the Group. Prior to 1 January 2020, mobile advertising platform and related business, and proprietary applications traffic monetisation business were identified as the segments of the Group. Upon the completion of the acquisition of Mico in June 2020, the CODM revisited its assessment of segment and updated its segments to value-added service business and traffic monetisation business to better reflect the operating structure of the Group, and the segment information for the year ended 31 December 2019 has also been retrospectively adjusted.

The CODM assesses the performance of the operating segments based on the gross profit/loss. The reconciliation of gross profit to profit before income tax is shown in the consolidated statements of comprehensive income. There were no separate segment assets and segment liabilities information provided to the CODM, as the CODM does not use this information to allocate resources or to evaluate the performance of the operating segments.

The segment results for the years ended 31 December 2020 and 2019 are as follows:

	Traffic monetisation business RMB'000	Value- added service business RMB'000	Total RMB'000
For the year ended 31 December 2020			
Revenue	524,073	657,520	1,181,593
Cost of revenue	(68,024)	(361,080)	(429,104)
Gross profit	456,049	296,440	752,489
For the year ended 31 December 2019			
Revenue	378,047	11,638	389,685
Cost of revenue	(124,486)	(3,687)	(128,173)
Gross profit	253,561	7,951	261,512

4 REVENUE FROM CONTRACTS WITH CUSTOMERS

An analysis of the Group's revenue by category for the years ended 31 December 2020 and 2019 was as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
<i>Recognised at a point in time</i>		
Value-added service business	631,376	11,638
Traffic monetisation business	524,073	378,047
<i>Recognised over time</i>		
Value-added service business	26,144	—
Total	1,181,593	389,685

5 EXPENSES BY NATURE

The details of cost of revenue, selling and marketing expenses, general and administrative expenses and research and development expenses are as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Cost for advertising placement:		
– Cost of revenue	6,913	86,557
– Selling and marketing expense	478,509	114,223
Revenue sharing to streamers	211,032	—
Employee benefit expense	117,795	54,518
Payment handling costs	82,732	2,539
Share-based compensation expenses	40,775	36,847
Server capacity expense	20,479	16,711
Consultancy and professional service fee	8,599	706
Technical and other service fee	11,233	5,552
Depreciation and amortisation	25,418	4,492
Travel expense	3,184	3,603
Rent expense	3,623	87
Listing expense	—	35,407
Auditor's remuneration	3,609	1,300
Impairment of goodwill	5,029	—
Others	7,556	3,195
Total	1,026,486	365,737

6 INCOME TAX EXPENSES

Income tax expenses in the consolidated statement of comprehensive income represents:

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax		
Current tax on profits for the year	383	5,228
Deferred income tax		
Changes in deferred tax assets/liabilities	15,454	4,743
Income tax expenses	15,837	9,971

7 EARNINGS PER SHARE

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Profit attributable to owners of the Company	39,688	68,415
Weighted average number of ordinary shares in issue (thousand)	998,847	834,701
Basic earnings per share (expressed in RMB per share)	0.040	0.082

7a Basic

Basic earnings per share for the years ended 31 December 2020 and 2019 are calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

The weighted average number of ordinary shares in issue used for the calculation of basic earnings per share for the years ended 31 December 2019 have been retrospectively adjusted for the capitalisation issue. The ordinary shares which were issued and allotted by the Company in connection with Reorganisation, had been treated as if these shares were in issue since the beginning. The new shares of the Company issued on 14 May 2019 to the pre-IPO investors, the shares repurchased in June 2019, the issuance of Initial Public Offering in December 2019 and the purchase of shares in September 2020 and October 2020 were accounted at time portion basis.

7b Diluted

For the years ended 31 December 2020 and 2019, there were no dilutive potential ordinary shares on the Company outstanding. Therefore, there was no dilution impact on weighted average number of shares on the Company.

8 DIVIDENDS

No dividends have been paid or declared by the Company during all years presented.

9 ACCOUNTS RECEIVABLE

Aging analysis of the gross accounts receivable as at 31 December 2020 and 2019, based on date of recognition, is as follows:

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 6 months	134,954	131,799
6 months to 1 year	3,169	17,118
1 year to 2 years	12,311	13,275
2 year to 3 years	10,035	12,028
Over 3 years	2,994	3,454
	<hr/>	<hr/>
Gross carrying amount	163,463	177,674
	<hr/>	<hr/>
Less: impairment provision	(19,077)	(14,291)
	<hr/>	<hr/>
Total accounts receivable	144,386	163,383
	<hr/>	<hr/>

10 ACCOUNTS PAYABLE

Aging analysis of the accounts payable as at 31 December 2020 and 2019 based on the date of recognition are as follows:

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	85,239	60,796
3 months to 6 months	24,336	15,938
6 months to 1 year	37,016	63
1 year to 2 years	1,368	2,376
2 years to 3 years	1,789	6,109
More than 3 years	6,189	4,656
	<hr/>	<hr/>
	155,937	89,938
	<hr/>	<hr/>

Accounts payable are usually paid within 1 year of recognition.

DEFINITION

“Audit Committee”	the audit committee of the Company
“Board”	the board of directors
“China” or “PRC”	the People’s Republic of China, and for the purpose of this announcement only, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Company”, “our Company” or “the Company”	Newborn Town Inc. (赤子城科技有限公司), a company with limited liability incorporated in the Cayman Islands whose shares are listed on the Stock Exchange
“Convertible Loan Investment Agreement”	the convertible loan investment agreement entered into between NewBornTown Network Technology, Mr. Ye Chunjian and Mico on 17 April 2020
“Employee RSU Scheme”	the employee RSU scheme adopted by the Board on 11 December 2019
“Equity Transfer Agreement”	the equity transfer agreement in relation to Beijing Mico World Technology Co., Ltd. entered into between NewBornTown Network Technology and Phoenix Fortune on 17 April 2020
“Group,” “our Group,” or “the Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFRS”	the International Financial Reporting Standards, amendments and interpretation issued from time to time by the International Accounting Standards Board
“Listing Date”	31 December 2019, the date on which the Company was listed on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“Mico”	Beijing Mico World Technology Co., Ltd. (北京米可世界科技有限公司) (formerly known as Beijing Zhongluo Technology Co., Ltd. (北京眾絡科技有限公司)), a company incorporated under the laws of the PRC with limited liability
“NewBornTown Network Technology”	NewBornTown Network Technology (Beijing) Co., Ltd. (赤子城網絡技術(北京)有限公司), a company incorporated under the laws of the PRC with limited liability on 28 February 2014

“Phoenix Fortune”	Beijing Phoenix Fortune Interconnection Investment Fund (Limited Partnership) (北京鳳凰祥瑞互聯投資基金(有限合夥)), a limited partnership established under the laws of the PRC
“Prospectus”	the prospectus of the Company dated 17 December 2019
“Reporting Period”	the year ended 31 December 2020
“RMB”	Renminbi, the lawful currency of China
“RSU”	a restricted share unit award granted to a participant under the RSU Schemes
“RSU Schemes”	the employee RSU scheme and the management RSU scheme adopted by the Board on 11 December 2019
“Shares”	ordinary share(s) in the share capital of the Company with a par value of US\$0.0001 each
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States
“We”, “us” or “our”	our Company or our Group, as the context may require
“%”	per cent

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my gratitude to the management and staff of the Group for their commitment and contribution during the year. I would also like to express my appreciation to the guidance from the regulators and continued support from our shareholders and customers.

By order of the Board
Newborn Town Inc.
LIU Chunhe
Chairman

Beijing, 24 March 2021

As at the date of this announcement, the executive Directors of the Company are Mr. LIU Chunhe, Mr. LI Ping and Mr. WANG Kui; and the independent non-executive Directors of the Company are Mr. PAN Xiya, Mr. CHI Shujin and Mr. LIU Rong.

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These forward-looking statements may prove to be incorrect and may not be realised in future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved. Shareholders and potential investors should therefore not place undue reliance on such statements.