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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 2021

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 2021 (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 2021 amounted to RMB2,359.8 million, representing an increase of 99.7% from RMB1,181.6 million recorded in 2020.
- Gross profit for the year ended 31 December 2021 amounted to RMB1,003.3 million, representing an increase of 33.3% from RMB752.5 million recorded in 2020.
- Loss for the year for the year ended 31 December 2021 amounted to RMB387.1 million, representing a decrease of 438.6% from profit for the year of RMB114.3 million recorded in 2020.
- Adjusted net profit for the year ended 31 December 2021 amounted to RMB309.0 million, representing an increase of 99.5% from RMB154.9 million recorded in 2020.
- Adjusted EBITDA for the year ended 31 December 2021 amounted to RMB357.1 million, representing an increase of 80.1% from RMB198.3 million recorded in 2020.

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Revenue from contracts with customers	2,359,816	1,181,593
Gross profit	1,003,320	752,489
(Loss)/profit before income tax	(393,881)	130,180
(Loss)/profit for the year	(387,125)	114,343
Basic (loss)/earnings per share (expressed in RMB per share)	(0.287)	0.040
Diluted (loss)/earnings per share (expressed in RMB per share)	(0.287)	0.040
	<u>(387,125)</u>	<u>114,343</u>
<i>Add:</i>		
Share-based compensation expenses ^{(1) (2)}	696,105⁽²⁾	40,775 ⁽¹⁾
Tax effect ⁽³⁾	–	(260)
Adjusted net profit	<u>308,980</u>	<u>154,858</u>
Adjusted EBITDA⁽⁴⁾	<u>357,067</u>	<u>198,285</u>

Notes:

- (1) 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.
- (2) In May 2020 and March 2021, the Board approved the grant of an aggregate of 55,227,573 RSUs and 957,333 RSUs respectively to certain employees and management pursuant to the RSU Schemes. Share-based compensation expenses was recognized based on the vesting period of the RSU Schemes, and amounted to RMB24,113,000 in the current period, tantamount to the economic benefits in relation to the benefit of the certain employees and management obtained from the Company. For further details, please refer to the announcements dated 28 May 2020 and 24 March 2021 of the Company. A subsidiary of the Company has recognized share-based compensation expenses amounting to RMB280,000 in relation to awards granted in 2018 pursuant to its share incentive plan.


On 30 August 2021, the Board proposed to grant in aggregate 80,000,000 share options to 32 eligible persons. The grant includes performance-based share options to grantees, which are generally vested within 10 years. Share Options of each grantee will be vested in four tranches subject to the fulfilment of certain performance targets relating to the Company. The performance targets were determined by the Board. For those awards, evaluations were made on 31 December 2021 to assess the likelihood of meeting the performance targets. Share-based compensation expenses amounting to approximately RMB81,252,000 were recognized in the Reporting Period.

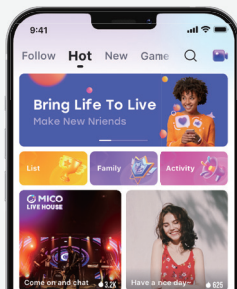
During the reorganization of Beijing Mico occurred during the Reporting Period, the minority shareholders of NBT Social Networking transferred its 11.25% equity interest in NBT Social Networking to a subsidiary of the Group's senior management and the core management team for free to recognize the management team's contribution to the development of the Group. There is no service or performance conditions attached in respect of the transfer of equity interest, therefore in accordance with IFRS 2 Share-based Payments, the Company recorded share-based compensation expense amounting to approximately RMB590,460,000 in general and administrative expenses at the time when such share-based payments arrangement was entered into. The fair value of the share-based payment was determined with reference to the fair value of Beijing Mico determined in the transaction with BGFG Limited ("BGFG").

- (3) Including tax effects on share-based compensation expenses recognised by the subsidiary, which are calculated with a tax rate of 15% in 2020.
- (4) We define adjusted EBITDA as operating profit adjusted by share-based compensation expenses, depreciation and amortization.

BUSINESS HIGHLIGHTS



 **Yummy – Heartbeat**
social networking platform



 **MICO – Open social**
networking platform



 **YoHo – Audio social**
networking platform

DOUBLED REVENUE GROWTH



Revenue
RMB**2.36** billion
increased by **99.7%** YOY

Income from value-added services
RMB**2.06** billion
Increased by **213.7%** YOY

SIGNIFICANT INCREASE IN PROFIT



Adjusted net profit
RMB**0.31** billion
increased by **99.5%** YOY

Adjusted EBITDA
RMB**0.36** billion
increased by **80.1%** YOY

INCREASED INVESTMENT IN RESEARCH AND DEVELOPMENT



Investment in research and development
RMB**0.13** billion
increased by **123.6%** YOY

The number of research and development staff increased to 337 representing 61%, an increase of 18 percentage points

RAPID GROWTH OF SOCIAL NETWORKING BUSINESS



Total downloads of social media APPs
reaching **344** million

Approximately **21.79** million
monthly active users of our social networking products in December 2021, nearly doubled compared to the average monthly active users for the year of 2020

STABLE PROMOTION OF NICHE GAMS STRATEGY



Launching niche games such as **Mergeland**

Upgrading our game framework **Solar Creator**

PROACTIVE EXPLORATION OF THE METAUNIVERSE FIELD



Yummy

Building a metaverse module **Meta Town**

Enriching metauniverse social scenario and experience

CHAIRMAN'S STATEMENT

Dear Shareholders,

Newborn Town Inc. has been focused on going overseas for nearly ten years. Over the years, our team has always taken going overseas as its own responsibility, addressing the diverse needs of global users, and contributing our Chinese solutions to the global market. Nowadays, the Company has grown into a leader in overseas internet platform in the PRC, with a view to becoming the largest overseas internet platform in the PRC.

In the past year under review, the Company developed rapidly in the social networking business leveraging the endeavors through years in the global open social networking industry and the tremendous investment in product development and market operation. The Company's share in the global market continuously increased and we achieved breakthrough in the developed markets of Europe, America, Japan and Korea with the rapid growing value of our users. Benefiting from the strong revenue contribution from our social networking business, our revenue reached RMB2.36 billion, an increase of 99.7% compared with the same period in previous year, which was a record high in annual revenue of the Company. The adjusted net profit of the Company for the year reached RMB0.31 billion, an increase by 99.5% year on year; and the adjusted EBITDA was RMB0.36 billion, an increase by 80.1% year on year, achieving significant growth.

We enhanced our effort in the localization of operation in multiple markets throughout the world, and succeeded in localization in various aspects such as product usage, corporate management, user service, social responsibilities. We improved our operating efficiency in various markets by continuously integrating the concept of "localization" into the corporate strategy to allow more and more global users to access to the high-quality social networking products and services we provide. In general, the market shares and competitiveness of the Company in the global open social networking industry have been enhanced at accelerating speed.

In addition, we focused on our social networking business and seized various opportunities of the development in overseas market while actively developing innovative businesses. In 2021, the Company adhered to the policy of providing niche games and made steady breakthroughs. Meanwhile, we actively explored the metaverse and started to launch deployment in an aim to construct the Meta Town models of metaverse to keep enriching and upgrading the social networking scenario and experience in the metaverse social networking.

Being a leader in the overseas internet platform industry, the Company will maintain its position in the global market and focus on the social networking business while keeping expanding our boundary, seizing market opportunities and uncovering greater values. We hope the development and expansion of the Company would further diversify the social networking and entertainment of our users around the world.

I hereby present the Company's financial position and operating highlights for 2021, and summarise strategies and outlook of the Company for 2022.

BUSINESS REVIEW

I. Social products breaking circle globally

Currently, the global audio and video social market size is growing at a high pace. The audio social market size and the video social market size are expected to increase from US\$15.4 billion and US\$31.9 billion in 2019 to US\$52.6 billion and US\$128.7 billion in 2024, respectively. The share of audio and video social networking in the global social networking market is expected to grow from 33.48% in 2019 to 60.33% in 2024.

The Company launches broad deployment in audio and video social networking, and actively builds content social networking focusing on PUGC community. At the beginning of 2021, the Company launched Yumy, a heartbeat social networking platform, which focuses on “video matching” and “10-second heartbeat”, enabling users to receive an immersive social experience. It has quickly gained more than 50 million global users in one year, and has ranked among the top 10 of Google Play social app downloads and bestsellers in dozens of countries and regions.

By putting more in research and development and keeping launching new products, the Company has formed a portfolio of audio and video social products represented by Yumy, MICO and YoHo, and created multiple forms of audio and video social scenarios such as video matching, open social networking and multiplayer voice rooms, which catered to the diversified social needs of users across the world.

While keeping launching new products, we conducted an iteration upgrade of technology. Based on the global traffic pool of over 1.3 billion users at current stage, the Company sticks to optimizing middle platform systems such as the AI engine Solo Aware and user scenario engine to precisely target the segmented needs of users in each market. As a result, not only can products achieve rapid research and development, but also core products such as Yumy, MICO, YoHo can be continuously optimized, which have improved the efficiency of matching and development and operation of our social products.

Our localized operation in a number of emerging markets over the years has formed a set of reproducible methodology, which not only allows us to find key markets first after launching new social networking products, quickly combine local differentiation to carry out product innovation, and finally quickly verify the market but also allows the Company to greatly improve its operational efficiency when exploring developed markets such as Europe and the America. Before that, the Company has been rooted in emerging markets for many years and has become mainstream social networking platform in the Middle East, Southeast Asia, South Asia and other markets. In 2021, our social networking products have achieved breakthroughs in developed markets such as Europe, America, Japan and Korea, with significant growing value of users and enhancing global brand influence.

In particular, Yummy ranks top 20 among the social networking apps in terms of downloads in developed countries including the US, Canada, UK and France, and is a top-10 social networking app in terms of sales in countries and regions such as Denmark, Portugal and New Zealand; MICO is a top-10 social networking app in terms of sales in Canada, UK, Italy and other countries and regions, topped the list in Sweden, Belgium and Portugal and other countries, and remained a top-20 social networking app in terms of sales in the US; YoHo is a top-10 social networking app in terms of sales in the US, France and other European and American countries. The Company's global social networking layout is improving day by day. We believe that with continuous in-depth localized business concept, the Company's operational efficiency around the world will be further improved.

As at the end of 2021, the total downloads of our social networking products reached 344 million; the monthly active users of our social networking products was approximately 21.79 million in December 2021, nearly doubled compared to the average monthly active users for the whole year of 2020. Benefiting from the rapid development of our social networking business, our revenue from value-added service increased significantly, representing a year-on-year growth of 213.7% to RMB2.06 billion, accounting for 87.4% of our total revenue, which became a main driver of the Company's revenue growth. At present, the Company has varied ways of monetising its high-quality social networking products, including virtual items purchases, membership subscriptions, premium feature purchases and gift rewards.

Overall, in 2021, our social networking business achieved high-quality growth and featured significant potential for value-added services revenue in our monetization model.

II. Niche games launched globally

We focus on social networking business, explore diversified development opportunities and extend our innovative businesses such as games. In 2021, the Company made steady breakthrough in games and other niche segments. We have been firmly sticking to niche games. The Company launched Mergeland in 2021, which is a middle-core handheld game, and is monetized through IAP (in-app purchase) and a few incentive video advertisements.

The high-quality synthesis game Mergeland is an S-grade handheld game. Its many core data in the testing stage has reached the top level worldwide. The product incorporates elements of construction and management on the classic synthesis gameplay, with novel gameplay and exquisite art style. As at the end of 2021, Mergeland's next-day retention rate was nearly 60%, and its long-term retention and user market and other data were outstanding.

Solar Creator intelligent game framework is a longer-term layout after we decided to develop niche games. Our technical R&D team has more than 12 years of game development experience. It is a complete set of personalized solutions for mobile game clients independently developed by us based on the Unity engine and Tencent xLua plug-in. It is an engine module and a technology middle platform, which is mainly combined with the Company's product planning and operational needs, through the in-depth customization and packaging of a series of multi-functional core modules to greatly avoid reinventing the wheel in the process of game development, reducing the technical threshold of game development and saving a lot of labor costs for the Company. With the Company's original AI technology and the support of the middle platform, it can greatly improve the efficiency of daily development, effectively reduce the cost of research and development, and significantly improve the performance, memory, picture quality, sound quality and overall performance of the game. Currently, we have applied for a number of national technology patents, adhering to the spirit of innovation, constantly exploring new breakthrough points, and providing a more interesting, efficient and convenient development model for game research and development.

We are currently adopting the strategy of “self-development + distribution + investment” to develop our niche game business, pursuing top quality and long-term development from researching and establishing projects, developing and producing to distributing and operating. Meanwhile, our game development team is growing, our research and development expense keeps increasing, and our research and development strength gets greatly improved.

III. Proactively exploring the metauniverse

While continuously improving its business layout, the Company has been paying close attention to metauniverse technology and application development in the past two years. We believe that metauniverse is a very immersive social scenario and the super future of social networking. We are actively exploring the extension of social networking and game products to the metauniverse, and have initially built Meta Town, a metaverse module, in Yumy, which is currently in the internal testing stage.

The reason for our deployment in the metaverse field is that we already have a certain advantage in exploring metauniverse: firstly, we have been deploying in the audio and video social networking field for seven years, and have scale social relationship deposits in major global markets. Platform users have formed good content creation habits so we owned a large amount of UGC content. At the same time, we have profound accumulation in real-time interaction, AI, big data and other technology fields, as well as world leading operational capability in localization, which enables us to open up the link in various global markets and build a global meta-universe platform in the future.

In the current version of Meta Town, users can customize the 3D virtual image and perform heart-matching, video interaction and other functions with the virtual image. The meta-universe social scene and experience in the product is continuously enriched and upgraded.

STRATEGY AND OUTLOOK

1. Deep-rooted into the global open social networking sector

The global open social networking market is expected to reach US\$100 billion in the next five years. In addition, the total global social media market will increase from US\$141.3 billion in 2019 to US\$300.5 billion in 2024. Given that, the global social networking industry has a broad space for development and will maintain rapid growth.

We will keep deep-rooted into the open social networking sector in the global market, put more in social networking business, promote product innovation, and create world-leading open social networking products, while keeping enriching the product portfolio to cater to the diversified needs of global users and serve more groups and offering richer social networking experience for global users and continue to expand our social networking business.

Additionally, we will put more in product research and development, promote the continuous upgrading of technology, optimize our AI engine-Solo Aware, user scenario engine and other middle platform to improve product matching efficiency and research and operation efficiency.

In terms of content carriers of our social networking products, we will continue to focus on the form of video and audio, optimize core products, namely Yumy, MICO, YoHo, create high-quality content ecology within the product, and extensively uncover and quickly respond to the different requirements of users, providing users with a diversified, real-time, efficient and immersive social experience and improving user stickiness and usage time.

Besides, we will keep exploring multiverse social networking. We will implant richer multiverse elements in our products based on users' feedback to their multiverse social experience, and then gradually build a multiverse social networking scenario, to bring global users the next generation of real-time and new social networking experience with a stronger sense of immersion.

2. In-depth promotion of overseas localized business concept

As a global enterprise, Newborn Town Inc. is committed to launching optimal social networking products to the world and enriching the social networking entertainment life of users around the world. Therefore, in addition to keeping exploring and innovating products, one of the most important tasks of the Company is to thoroughly implement the localized business concept and formed a standardized and replicable methodology of global development.

We will continue in-depth development in overseas markets, practice localization in product use, corporate management, user services, social responsibility and other aspects, infuse the concept of "localization" into our corporate strategy, and improve operating efficiency in various places, in ways that provide better social networking products and services to global users.

In addition, we will continue to deeply explore emerging markets such as the Middle East, Southeast Asia, and South Asia, and vigorously explore developed markets in Europe, America, Japan and Korea to further capture shares from high value markets, while exploring the South American, Chinese and other markets to expand the user base and market coverage, optimising our global social networking coverage.

We will further strengthen brand building, establish connections and cooperation with resources around the world, and actively fulfill corporate social responsibility, and pass on positive values, to lay a better foundation for the long-term business planning in next ten or twenty years, and enhance our brand influence in the global market.

3. Exploring diversified development opportunities in overseas markets

The innovative business remains to be one of our focus in which more investment are to put. We will further promote niche games strategy, vigorously develop middle and high-core game product portfolio on top of operating current products, expand the user base and market coverage, improve game quality and extend the life cycle of games while strengthening the synergies between social networking and game.

In addition, we will put more efforts in game research and development, continuously expand our game R&D team, improve R&D strength, invest in operational resources, and continue to optimize Solar Creator intelligent game framework to drive game R&D efficiently. We hope to create more niche and hot games and introduce our games to more players around the world.

Meanwhile, with a global vision, we will keep detecting and uncovering the customisation requirements of global users, focus on diversified development opportunities such as the multiverse, and achieve multi-dimensional growth in overseas markets. We will also maintain close cooperation with various going-overseas companies to enable quality products and services from China to get popular among more overseas users.

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

Our total revenue increased by 99.7% to RMB2,359.8 million for the year ended 31 December 2021 as compared to RMB1,181.6 million for the year ended 31 December 2020. The following table sets forth a breakdown of our revenue by segments for the years indicated:

	Year ended 31 December				YoY Change
	2021		2020		
	<i>RMB'000</i>	<i>% of Total revenue</i>	<i>RMB'000</i>	<i>% of Total revenue</i>	
Value-added service business	2,062,360	87.4	657,520	55.6	213.7%
In-app purchase	2,062,360	87.4	657,520	55.6	213.7%
Traffic monetisation business	297,456	12.6	524,073	44.4	-43.2%
In-app traffic monetisation business	297,456	12.6	511,202	43.3	-41.8%
Mobile advertising platform and related business	—	—	12,871	1.1	-100.0%
Total	<u>2,359,816</u>	<u>100.0</u>	<u>1,181,593</u>	<u>100.0</u>	<u>99.7%</u>

The revenue from value-added service business increased by 213.7% to RMB2,062.4 million in 2021 as compared to RMB657.5 million in 2020, primarily because (i) at the beginning of 2021, we launched Yumy, a heartbeat social product, and it has quickly gained a large amount of users, while enriching our social networking product matrix and offering richer social networking experience for global users; (ii) the operational efficiency around the world has been improved, our social networking products have achieved breakthroughs in developed markets such as Europe, America, Japan and Korea, with significant growing value and monetisation efficiency of users; (iii) we continued to optimizing middle platform systems such as the AI engine Solo Aware and user scenario engine to precisely target the segmented needs of users in each market, which have improved the efficiency of matching and development and operation of our social products.

The revenue from traffic monetisation business decreased by 43.2% to RMB297.5 million in 2021 as compared to RMB524.1 million in 2020, which was primarily because we iterated the traffic monetisation business and focused on the research and development of middle-core handheld games.

The decrease in the revenue of mobile advertising platform and related business 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 216.1% to RMB1,356.5 million for the year ended 31 December 2021, as compared to RMB429.1 million for the year ended 31 December 2020. The following table sets forth a breakdown of our cost of revenue by nature for the years indicated:

	Year ended 31 December		2020		YoY Change
	2021				
	<i>RMB'000</i>	<i>% of Total revenue</i>	<i>RMB'000</i>	<i>% of Total revenue</i>	
Revenue sharing to streamers	892,521	37.8	211,032	17.9	322.9%
Payment handling costs	224,470	9.5	82,732	7.0	171.3%
Employee benefit expense	93,206	3.9	39,154	3.3	138.0%
Server capacity expense	43,244	1.8	20,344	1.7	112.6%
Intangible assets amortisation	40,766	1.7	20,783	1.8	96.2%
Share-based compensation expenses	29,830	1.3	25,475	2.2	17.1%
Technical and other service fee	13,836	0.6	7,437	0.6	86.0%
Cost for advertising placement	–	–	6,913	0.6	-100.0%
Goodwill impairment	–	–	5,029	0.4	-100.0%
Others	18,623	0.8	10,205	0.9	82.5%
Total	1,356,496	57.4	429,104	36.4	216.1%

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

	Year ended 31 December		2020		YoY Change
	2021				
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	
Value-added service business	1,316,612	97.1	361,080	84.1	264.6%
Traffic monetisation business	39,884	2.9	68,024	15.9	-41.4%
Total	1,356,496	100.0	429,104	100.0	216.1%

The significant increase in the cost of revenue from 2020 to 2021 was primarily because we promoted the social networking business vigorously by introducing the audio and video social networking products.

The cost of revenue for value-added service business increased by 264.6% to RMB1,316.6 million in 2021 as compared to RMB361.1 million in 2020, primarily due to the increase in revenue sharing to streamers of our social networking business and payment handling cost, which enabled us to maintain and attract users.

The cost of revenue for traffic monetisation business decreased by 41.4% to RMB39.9 million in 2021 as compared to RMB68.0 million in 2020, primarily due to we iterated the traffic monetisation business and reduced the investment.

GROSS PROFIT AND GROSS PROFIT MARGIN

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

	Year ended 31 December						YoY Change in gross profit
	2021		2020				
	<i>Gross profit</i>	<i>%</i>	<i>Gross Profit margin</i> <i>(RMB'000, except percentages)</i>	<i>Gross profit</i>	<i>%</i>	<i>Gross Profit margin</i>	
Value-added service business	745,748	74.3	36.2%	296,440	39.4	45.1%	151.6%
Traffic monetisation business	257,572	25.7	86.6%	456,049	60.6	87.0%	-43.5%
Total	<u>1,003,320</u>	<u>100.0</u>	<u>42.5%</u>	<u>752,489</u>	<u>100.0</u>	<u>63.7%</u>	<u>33.3%</u>

Our gross profit increased by 33.3% to RMB1,003.3 million in 2021 as compared to RMB752.5 million in 2020 which was mainly because we kept deep-rooted into the open social networking sector in the global market, and put more in our social networking business. With the explosively growth of revenue, gross profit also increased significantly.

Our gross profit margin decreased to 42.5% in 2021 from 63.7% in 2020, primarily because the increase in the proportion of gross profit of value-added service business, which recorded a lower gross profit margin. The gross profit margin of our traffic monetisation business decreased to 86.6% in 2021 from 87.0% in 2020. The gross profit margin of our value-added service business decreased to 36.2% in 2021 from 45.1% in 2020, which was mainly driven by the increase in revenue sharing to streamers of our social networking business and payment handling cost.

SELLING AND MARKETING EXPENSES

For the year ended 31 December 2021, our selling and marketing expenses increased by 4.4% to RMB504.9 million as compared to RMB483.5 million for the year ended 31 December 2020, primarily because we continued our promotional efforts in marketing our apps in the global market.

RESEARCH AND DEVELOPMENT EXPENSES

For the year ended 31 December 2021, our research and development expenses increased by 123.6% to RMB130.9 million as compared to RMB58.5 million for the year ended 31 December 2020, primarily due to the increase in employee benefit expenses.

GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended 31 December 2021, our general and administrative expenses increased by 1,219.4% to RMB730.1 million as compared to RMB55.3 million for the year ended 31 December 2020, primarily due to (i) an increase of RMB651.0 million in share-based compensation expenses; and (ii) an increase of RMB17.0 million in employee benefit expenses.

OPERATING (LOSS)/PROFIT

For the year ended 31 December 2021, we recorded an operating loss amounting to RMB390.1 million as compared to RMB132.1 million of operating profit for the year ended 31 December 2020, primarily due to (i) an increase of RMB651.0 million from share-based compensation expenses in general and administrative expenses; (ii) with the explosively growth of revenue, gross profit increased RMB250.8 million; and(iii) an increase of RMB72.3 million in research and development expenses.

FINANCE INCOME/(COST), NET

For the year ended 31 December 2021, we recorded a net finance cost of RMB3.6 million as compared to a net finance cost of RMB1.9 million for the year ended 31 December 2020. Such change was primarily due to an increase of finance cost recognized relating to the deferred consideration for the acquisition of approximately 23.27% equity interest of a subsidiary.

INCOME TAX

For the year ended 31 December 2021, we recorded income tax credits of RMB6.8 million as compared to the income tax expense of RMB15.8 million for the year ended 31 December 2020, primarily due to the change in tax rate. In 2021, one of our subsidiaries was accredited as a software enterprise under the relevant PRC laws and regulations since 2020 and is entitled to tax exemption in 2020 and 2021 pursuant to the Enterprise Income Tax Law. The related deferred tax assets and deferred tax liabilities attributable to this subsidiary as at 31 December 2021 were calculated based on the applicable future tax rates accordingly, which led to RMB5.1 million of deferred income tax credits being recognized in current period.

(LOSS)/PROFIT FOR THE YEAR

As a result of the foregoing, we recorded a loss for the year amounting to RMB387.1 million for the year ended 31 December 2021, as compared to RMB114.3 million of profit for the year ended 31 December 2020.

NON-IFRS MEASURES

To supplement our consolidated statement of comprehensive income, which are presented in accordance with IFRS, we also use adjusted net profit and adjusted EBITDA 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 year adjusted by share-based compensation expenses, net of its tax effect. And we define adjusted EBITDA as operating profit adjusted by share-based compensation expenses, depreciation and amortization. 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 or adjusted EBITDA 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 or adjusted EBITDA are not defined under IFRS, and such terms may not be comparable to other similarly titled measures used by other companies.

The following tables set 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:

	Year ended 31 December	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
(Loss)/profit for the year	(387,125)	114,343
<i>Add:</i>		
Share-based compensation expenses ⁽¹⁾⁽²⁾	696,105 ⁽²⁾	40,775 ⁽¹⁾
Tax effect ⁽³⁾	—	(260)
Adjusted net profit	308,980	154,858
Adjusted net profit growth	99.5%	41.5%
Adjusted EBITDA⁽⁴⁾	357,067	198,285
Adjusted EBITDA growth	80.1%	56.6%

Notes:

- (1) 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.
- (2) In May 2020 and March 2021, the Board approved the grant of an aggregate of 55,227,573 RSUs and 957,333 RSUs respectively to certain employees and management pursuant to the RSU Schemes. Share-based compensation expenses was recognized based on the vesting period of the RSU Schemes, and amounted to RMB24,113,000 in the current period, tantamount to the economic benefits in relation to the benefit of the certain employees and management obtained from the Company. For further details, please refer to the announcements dated 28 May 2020 and 24 March 2021 of the Company. A subsidiary of the Company has recognized share-based compensation expenses amounting to RMB280,000 in relation to awards granted in 2018 pursuant to its share incentive plan.

On 30 August 2021, the Board proposed to grant in aggregate 80,000,000 share options to 32 eligible persons. The grant includes performance-based share options to grantees, which are generally vested within 10 years. Share Options of each grantee will be vested in four tranches subject to the fulfilment of certain performance targets relating to the Company. The performance targets were determined by the Board. For those awards, evaluations were made on 31 December 2021 to assess the likelihood of meeting the performance targets. Share-based compensation expenses amounting to approximately RMB81,252,000 were recognized in the Reporting Period.

During the reorganization of Beijing Mico occurred during the Reporting Period, the minority shareholders of NBT Social Networking transferred its 11.25% equity interest in NBT Social Networking to a subsidiary of the Group's senior management and core management team for free to recognize the management team's contribution to the development of the Group. There is no service or performance conditions attached in respect of the transfer of equity interest, therefore in accordance with IFRS 2 Share-based Payments, the Company recorded share-based compensation expense amounting to approximately RMB590,460,000 in general and administrative expenses at the time when such share-based payments arrangement was entered into. The fair value of the share-based payment was determined with reference to the fair value of Beijing Mico determined in the transaction with BGFG.

- (3) Including tax effects on share-based compensation expenses recognised by the subsidiary, which are calculated with a tax rate of 15% in 2020.
- (4) We define adjusted EBITDA as operating profit adjusted by share-based compensation expenses, depreciation and amortization.

CAPITAL STRUCTURE

We continued to maintain a healthy and sound financial position. Our total assets grew from RMB1,268.2 million as at 31 December 2020 to RMB1,622.4 million as at 31 December 2021, while our total liabilities increased from RMB481.2 million as at 31 December 2020 to RMB782.3 million as at 31 December 2021. Liabilities-to-assets ratio increased from 37.9% as at 31 December 2020 to 48.2% as at 31 December 2021.

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 2021, our cash and cash equivalents was RMB724.6 million, compared with RMB431.0 million as at 31 December 2020.

Compared with RMB298.7 million for the year ended 31 December 2020, the cash generated from operations in 2021 increased to RMB391.6 million.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

To preserve funds for future capital expenditure and new business opportunities, we continued to invest surplus cash in commercial bank wealth management products and funds issued by major and reputable financial institutions, which generated 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 2021, the fair value of such investments decreased to RMB166.1 million, compared with RMB178.0 million as at 31 December 2020. Such decrease was primarily due to the disposal and maturity of our investments.

CAPITAL EXPENDITURE

As at 31 December 2021, our capital expenditure primarily consisted of expenditures on property and equipment, including purchases of computers and other office equipment. The capital expenditure increased from RMB2.1 million in 2020 to RMB4.0 million in 2021, primarily due to the increase in the purchase of computers and other electronic devices, and the office equipment during the year ended 31 December 2021.

SIGNIFICANT INVESTMENT

On 9 October 2021, the Company entered into an Equity Transfer Agreement with BGFG, pursuant to which BGFG has conditionally agreed to sell, and the Company has conditionally agreed to acquire approximately 11.50% equity interest of NBT Social Networking for a total consideration of HK\$727,580,000, which shall be settled in cash of HK\$281,580,000, and in the issuance of 100,000,000 ordinary shares of the Company to BGFG. This transaction was approved by the shareholders on 17 December 2021. The Company issued 100,000,000 ordinary shares to BGFG on 30 December 2021 accordingly. Upon completion of the acquisition, the Company held approximately 60.39% equity interest of NBT Social Networking.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

We did not have any other material investment, acquisition or disposal of subsidiaries, associates and joint ventures during the year ended 31 December 2021.

PLEDGE OF ASSETS

As at 31 December 2021, 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 of creating synergies with 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 2021, 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 2021.

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 2021, we had a total of 554 full-time employees, based in Beijing, Shenzhen and Jinan. Among all employees, 337 of them are in R&D department, representing 61% 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. Since the incorporation of the Company and until 26 August 2021, Mr. LIU Chunhe was the chairman of the Board and the chief executive officer of the Company. As the decision-making mechanism, management structure and operating system of the Company have been fully developed and mature and Mr. LIU Chunhe decided to focus on the Company's strategies, organizational construction and social value in order to continue to create greater and longer-term value for the Company's development, Mr. LIU Chunhe resigned as the chief executive officer of the Group with effect from 26 August 2021. Please refer to the announcement of the Company dated 25 August 2021 for details.

The Board currently comprises four executive Directors 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 13 January 2022, the Board has approved entering into the Partnership Agreement in relation to the proposed establishment of the Fund. The Partnership Agreement is expected to be entered into among the Company, Spriver and Chizicheng Strategy Investment, subject to Independent Shareholders' approval at the EGM. Pursuant to the Partnership Agreement, the total fund-raising target of the Fund to be established shall be in the amount of US\$100 million, of which, the Chizicheng Strategy Investment (as the General Partner) shall make cash Contribution in the amount of US\$0.1 million, Spriver (as the Limited Partner) shall make cash Contribution in the amount of US\$49.9 million, and the Company (as the Limited Partner) shall make cash Contribution in the amount of US\$50 million.

On 24 January 2022, the Company, Spriver Tech Limited, as the Seller and CLSA Limited, as the Sole Placing Agent entered into the Placing and Subscription Agreement, pursuant to which, (i) the Seller agreed to sell, and the Sole Placing Agent agreed, as agent of the Seller, to procure on a best effort basis not less than six purchasers to purchase 92,366,000 Shares held by the Seller at a price of HK\$3.80 per Share, and (ii) the Seller conditionally agreed to subscribe for, and the Company conditionally agreed to issue, 92,366,000 new Shares at a price, which is equivalent to the Purchase Price of HK\$3.80 per Share. The completion of the Placing and the Subscription took place on 27 January 2022 and 4 February 2022, respectively.

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

During the year ended 31 December 2021, 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 23 May 2022. 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 23 May 2022, the registers of members of the Company will be closed from 18 May to 23 May 2022, 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 17 May 2022.

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. GAO Ming and Mr. HUANG Sichen. Mr. CHI Shujin is the chairman of the Audit Committee. The annual results of the Group for the year ended 31 December 2021 have been reviewed by the Audit Committee of the Company.

SCOPE OF WORK OF AUDITOR

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated balance sheet and the related notes thereto in this results announcement of the Group for the year ended 31 December 2021 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 results 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 use and expected timetable disclosed in the prospectus and the announcement dated March 24, 2021. The breakdown of the intended use and amount utilised as at 31 December 2021 were as follows:

	Budget <i>HK\$ million</i> (approximately)	Amount that had been utilised as at 31 December 2021 <i>HK\$ million</i> (approximately)	Remaining balance as at 31 December 2021 <i>HK\$ million</i> (approximately)	Proposed timetable for the use of unutilised net proceeds
To develop, expand and upgrade our Solo X product matrix	126.0	107.3	18.7	On or before 31 December 2022
To enhance the big data and AI capabilities of our Solo Aware AI engine	28.4	20.7	7.7	On or before 31 December 2022
To be used for working capital and other general corporate purposes	10.7	10.7	–	On or before 31 December 2022
To upgrade our Solo Math programmatic advertising platform	1.8	1.8	–	On or before 31 December 2022
Total	166.9	140.5	26.4	On or before 31 December 2022

Note: The remaining proceeds of approximately HK\$26.4 million are expected to be utilised on or before 31 December 2022, and is based on the Directors' best estimation of the future market conditions and thus subject to change.

FINAL DIVIDEND

No final dividend would be recommended by the Board for the year ended 31 December 2021.

PUBLICATION OF 2021 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 2021 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 2022.

GROUP RESULTS

The Company is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2021.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2021
(Expressed in Renminbi (“RMB”))

	Note	Year ended 31 December	
		2021 RMB'000	2020 RMB'000
Revenue from contracts with customers	4	2,359,816	1,181,593
Cost of revenue	5	(1,356,496)	(429,104)
Gross profit		1,003,320	752,489
Selling and marketing expenses	5	(504,918)	(483,513)
Research and development expenses	5	(130,858)	(58,534)
General and administrative expenses	5	(730,089)	(55,335)
Net impairment losses on financial assets		(15,339)	(7,533)
Other income		6,082	3,664
Other loss – net		(18,259)	(19,146)
Operating (loss)/profit		(390,061)	132,092
Finance income		2,214	1,799
Finance cost		(5,829)	(3,705)
Finance cost – net		(3,615)	(1,906)
Share of net loss of associates accounted for using the equity method		(205)	(6)
(Loss)/profit before income tax		(393,881)	130,180
Income tax credits/(expenses)	6	6,756	(15,837)
(Loss)/profit for the year		(387,125)	114,343
(Loss)/profit attributable to:			
Owners of the Company		(286,284)	39,688
Non-controlling interests		(100,841)	74,655
Other comprehensive (loss)/income, net of tax			
Items that will not be reclassified to profit or loss			
Currency translation differences		(3,545)	–
Items that maybe subsequently reclassified to profit or loss			
Currency translation differences		(7,445)	(7,738)
Total comprehensive (loss)/income for the year		(398,115)	106,605
Total comprehensive (loss)/income attributable to:			
Owners of the Company		(292,453)	30,401
Non-controlling interests		(105,662)	76,204
(Loss)/earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
Basic (loss)/earnings per share	7a	(0.287)	0.040
Diluted (loss)/earnings per share	7b	(0.287)	0.040

CONSOLIDATED BALANCE SHEET

as at 31 December 2021

(Expressed in RMB)

	As at 31 December	
	2021	2020
Note	RMB'000	RMB'000
ASSETS		
Non-current assets		
Property and equipment	16,107	6,886
Intangible assets	226,412	267,189
Goodwill	197,287	197,287
Financial assets measured at fair value through profit or loss	26,756	6,495
Investments accounted for using the equity method	2,789	2,994
Other receivable	21,835	11,381
Deferred tax assets	248	13,237
Other non-current assets	5,000	—
	<u>496,434</u>	<u>505,469</u>
Total non-current assets		
Current assets		
Other current assets	5,283	2,073
Accounts receivable	9 146,810	144,386
Other receivable	82,031	6,020
Financial assets measured at fair value through profit or loss	166,119	178,009
Cash and cash equivalents	724,588	431,015
Restricted bank deposits	1,163	1,192
	<u>1,125,994</u>	<u>762,695</u>
Total current assets		
	<u>1,622,428</u>	<u>1,268,164</u>
Total assets		

CONSOLIDATED BALANCE SHEET (CONTINUED)

as at 31 December 2021

(Expressed in RMB)

		As at 31 December	
		2021	2020
	Note	RMB'000	RMB'000
LIABILITIES			
Current liabilities			
Accounts payable	10	226,120	155,937
Other payable		478,759	234,593
Lease liabilities		7,504	3,234
Contract liabilities		14,882	14,872
Bank overdraft		32	17
Tax payable		–	834
Total current liabilities		727,297	409,487
Non-current liabilities			
Deferred tax liabilities		51,808	71,567
Lease liabilities		3,229	102
Total non-current liabilities		55,037	71,669
Total liabilities		782,334	481,156
EQUITY			
Equity attributable to the owners of the Company			
Share capital		759	695
Share premium		387,156	93,701
Other reserves		248,046	314,950
(Accumulated losses)/retained earnings		(159,158)	127,126
		476,803	536,472
Non-controlling interests		363,291	250,536
Total equity		840,094	787,008
Total liabilities and equity		1,622,428	1,268,164

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2021

(Expressed in RMB)

	Attributable to owners of the Company					Sub-total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Treasury Shares RMB'000	Other reserves RMB'000	Retained earnings RMB'000			
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 loss	–	–	–	(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	695	93,701	–	314,950	127,126	536,472	250,536	787,008

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

for the year ended 31 December 2021

(Expressed in RMB)

	Attributable to owners of the Company				Sub-total	Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2021	695	93,701	314,950	127,126	536,472	250,536	787,008
Loss for the year	–	–	–	(286,284)	(286,284)	(100,841)	(387,125)
Other comprehensive loss	–	–	(6,169)	–	(6,169)	(4,821)	(10,990)
Total comprehensive loss	–	–	(6,169)	(286,284)	(292,453)	(105,662)	(398,115)
Transaction with owners:							
Shares-based compensation expenses	–	–	359,783	–	359,783	323,891	683,674
Issuance of ordinary shares as consideration for a transaction with non-controlling interests	64	293,455	(2,254)	–	291,265	–	291,265
Transaction with non-controlling interests	–	–	(418,264)	–	(418,264)	(105,474)	(523,738)
Balance at 31 December 2021	<u>759</u>	<u>387,156</u>	<u>248,046</u>	<u>(159,158)</u>	<u>476,803</u>	<u>363,291</u>	<u>840,094</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2021

(Expressed in RMB)

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	391,649	298,650
Interest received	2,214	1,799
Payment of income tax	(13)	(4,781)
Net cash inflow from operating activities	393,850	295,668
Cash flows from investing activities		
Purchase of Wealth Management Products measured at fair value through profit or loss	(266,595)	(517,563)
Maturity of Wealth Management Products measured at fair value through profit or loss	278,462	484,184
Additional investment in equity interest of a private company measured at fair value through profit or loss	(13,000)	–
Investment in an associate accounted for using the equity method	–	(3,000)
Purchase of property and equipment	(4,000)	(2,065)
Acquisition of a subsidiary, net of cash acquired	–	(58,626)
Loan to third parties	(44,964)	–
Prepayment for acquisition of a target company	(5,000)	–
Net cash (outflow)/inflow from investing activities	(55,097)	(97,070)
Cash flows from financing activities		
Net proceeds from issuance of shares upon Initial Public Offering	–	78,605
Repayment of lease liabilities (including interest paid)	(8,680)	(4,233)
Purchase of own shares	–	(1,521)
Transaction with non-controlling interests	(21,153)	–
Net cash (outflow)/inflow from financing activities	(29,833)	72,851
Net increase in cash and cash equivalents	308,920	271,449
Cash and cash equivalents at beginning of year	430,998	182,815
Effects of exchange rate changes on cash and cash equivalents	(15,362)	(23,266)
Cash and cash equivalents at end of year	724,556	430,998
Including:		
Cash and cash equivalents	724,588	431,015
Bank overdraft	(32)	(17)

NOTES:

(Expressed in RMB unless otherwise indicated)

1 GENERAL INFORMATION

Newborn Town Inc. (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).

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

During the year ended 31 December 2021, Beijing Mico World Technology Co., Ltd. (“Beijing Mico”), a subsidiary of the Group, underwent a reorganization, upon completion of which, NBT Social Networking Inc. (“NBT Social Networking”), a direct subsidiary of the Company, has become the foreign corresponding entity holding the business of Beijing Mico. This reorganization was accounted for as a business combination under common control since immediately prior and after the reorganization, the business was carried out through different entities which are all under the control of the Company, and the control is not transitory.

On 9 October 2021, the Company entered into an Equity Transfer Agreement with BGFG Limited (“BGFG”), pursuant to which BGFG has conditionally agreed to sell, and the Company has conditionally agreed to acquire approximately 11.50% equity interest of NBT Social Networking for a total consideration of HK\$727,580,000, which shall be settled in cash of HK\$281,580,000, and in the issuance of 100,000,000 ordinary shares of the Company to BGFG. This transaction was approved by the shareholders on 17 December 2021. And the Company issued 100,000,000 ordinary shares to BGFG on 30 December 2021 accordingly. Upon completion of the acquisition of the non-controlling interests on 30 December 2021, the Company held approximately 60.39% equity interest of NBT Social Networking. This transaction was accounted for as a transaction with non-controlling interests of a subsidiary.

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 and the disclosure requirements of the Hong Kong Companies Ordinance Cap.622.

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 areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements.

The consolidated financial statements 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 applied the following amendments for the first time for their annual reporting period commencing 1 January 2021:

- Interest Rate Benchmark Reform – Phase 2 – amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16;
- Covid-19 – Related Rent Concessions – Amendment to IFRS 16;

The adoption of the above amendments did not have any significant impact on the Group's consolidated financial statements.

New standards and amendments not yet adopted

Certain new standards, amendments to standards and interpretations have been published that are not mandatory for the year ended 31 December 2021 and have not been early adopted by the Group. These are not expected to have a significant effect on the consolidated financial statements of the Group in the current or future reporting periods and on foreseeable future transactions.

3 SEGMENT INFORMATION

The Group's business activities are mainly in value-added services and traffic monetisation services, and are regularly reviewed and evaluated by the chief operating decision maker. As a result of this evaluation, the Group is organised into two segments according to the revenue streams of the Group namely, value-added services and traffic monetisation business.

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 provide 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 2021 and 2020 are as follows:

	Traffic monetisation business RMB'000	Value- added service business RMB'000	Total RMB'000
For the year ended 31 December 2021			
Revenue	297,456	2,062,360	2,359,816
Cost of revenue	(39,884)	(1,316,612)	(1,356,496)
Gross profit	257,572	745,748	1,003,320
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

4 REVENUE FROM CONTRACTS WITH CUSTOMERS

An analysis of the Group's revenue by category for the years ended 31 December 2021 and 2020 was as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
<i>Recognised at a point in time</i>		
Value-added service business	2,040,746	631,376
Traffic monetisation business	297,456	524,073
	<hr/>	<hr/>
<i>Recognised over time</i>		
Value-added service business	21,614	26,144
	<hr/>	<hr/>
Total	2,359,816	1,181,593
	<hr/> <hr/>	<hr/> <hr/>

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	
	2021	2020
	RMB'000	RMB'000
Revenue sharing to streamers	892,521	211,032
Promotion expenses	498,576	478,509
Cost for advertising placement	–	6,913
Employee benefit expense	260,365	117,795
Share-based compensation expenses	696,105	40,775
Payment handling costs	224,470	82,732
Server capacity expense	43,866	20,479
Consultancy and professional service fee	11,134	8,151
Technical and other service fee	15,955	11,233
Depreciation and amortisation	51,023	25,418
Travel expense	4,546	3,184
Rental expense	4,922	3,623
Auditor's remuneration		
– Audit and audit related services	3,600	3,609
– Non-audit services	330	448
Impairment of goodwill	–	5,029
Others	14,948	7,556
	<hr/>	<hr/>
Total	2,722,361	1,026,486
	<hr/> <hr/>	<hr/> <hr/>

6 INCOME TAX (CREDITS)/EXPENSES

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Current tax		
Current tax on profits for the year	14	383
Deferred income tax		
Changes in deferred tax assets/liabilities	(6,770)	15,454
Income tax (credits)/expenses	(6,756)	15,837

On 29 May 2021, one of our subsidiaries was accredited as a software enterprise under the relevant PRC laws and regulations since 2020. Accordingly, this subsidiary is exempt from Enterprise Income Tax for two consecutive years for the years ended 31 December 2021 and 2020, followed by a 50% reduction in the statutory income tax rate of 25% for the next three years from 2022 to 2024. The related deferred tax assets and deferred tax liabilities as at 31 December 2021 were calculated based on the applicable future tax rates accordingly.

7 (LOSS)/EARNINGS PER SHARE

7a Basic

Basic (loss)/earnings per share for the years ended 31 December 2021 and 2020 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.

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
(Loss)/profit attributable to owners of the Company	(286,284)	39,688
Weighted average number of ordinary shares in issue (thousand)	999,124	998,847
Basic (loss)/earnings per share (expressed in RMB per share)	(0.287)	0.040

7b Diluted

For the year ended 31 December 2021, as the Group incurred losses, the potential ordinary shares were not included in the calculation of dilutive loss per share, as their inclusion would be anti-dilutive. For the years ended 31 December 2020, 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. Accordingly, diluted (loss)/earnings per share for the years ended 31 December 2021 and 2020 are the same as basic (loss)/earnings per share of respective years.

8 DIVIDENDS

No dividends have been paid or declared by the Company for the years ended 31 December 2021 and 2020.

9 ACCOUNTS RECEIVABLE

An aging analysis of the gross accounts receivable as at 31 December 2021 and 2020, based on date of recognition, is as follows:

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 6 months	145,760	134,954
6 months to 1 year	538	3,169
1 year to 2 years	12,033	12,311
2 years to 3 years	9,352	10,035
Over 3 years	12,851	2,994
	<hr/>	<hr/>
Gross carrying amount	180,534	163,463
	<hr/>	<hr/>
Less: impairment provision	(33,724)	(19,077)
	<hr/>	<hr/>
Total accounts receivable	146,810	144,386
	<hr/>	<hr/>

10 ACCOUNTS PAYABLE

Aging analysis of the accounts payable as at 31 December 2021 and 2020 based on the date of recognition are as follows:

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 3 months	203,821	85,239
3 months to 6 months	12,279	24,336
6 months to 1 year	1,034	37,016
1 year to 2 years	2,750	1,368
2 years to 3 years	570	1,789
More than 3 years	5,666	6,189
	<hr/>	<hr/>
	226,120	155,937
	<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
“BGFG”	BGFG Limited, a company incorporated under the laws of the British Virgin Islands with limited liability
“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
“Chizicheng Strategy Investment”	Chizicheng Strategy Investment Limited, an exempted company with limited liability incorporated in the Cayman Islands on 11 January 2022 and was wholly owned by Spriver as of the Latest Practicable Date
“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
“EBITDA”	Earnings before interest and other finance costs, taxation, depreciation and amortisation
“Employee RSU Scheme”	the employee RSU scheme adopted by the Board on 11 December 2019
“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)
“Beijing 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

“NBT Social Networking”	NBT Social Networking Inc., a company incorporated under the laws of the Cayman Islands 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
“Prospectus”	the prospectus of the Company dated 17 December 2019
“Reporting Period”	the year ended 31 December 2021
“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)
“Spriver”	Spriver Tech Limited, a BVI business company incorporated in the British Virgin Islands with limited liability on 22 August 2018, the issued shares of which is owned as to 100% by Mr. LIU Chunhe
“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, 31 March 2022

As at the date of this announcement, the executive Directors of the Company are Mr. LIU Chunhe, Mr. LI Ping, Mr. YE Chunjian and Mr. SU Jian; and the independent non-executive Directors of the Company are Mr. GAO Ming, Mr. CHI Shujin and Mr. HUANG Sichen.

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.