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BABYTREE GROUP

寶寶樹集團

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1761)

SUPPLEMENTAL ANNOUNCEMENT

DISCLOSEABLE TRANSACTION DISCLOSURE PURSUANT TO RULES 13.13 AND 13.15 OF THE LISTING RULES

Reference is made to the announcement of the Company dated September 19, 2022 (“**Announcement**”) in respect of certain advances made by the Group to BT Market and BT Advisory in relation to various projects. Unless otherwise specified, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcement.

ADDITIONAL INFORMATION

The Company would like to provide the following additional information on the Advances.

Collaboration of business projects with BT Market and BT Advisory

As disclosed in the section headed “REASONS FOR AND BENEFITS OF THE ADVANCES” of the Announcement, the Group agreed to grant the Advances to BT Market and BT Advisory for the purpose of supporting the early development of projects. The Company would like to supplement the following information:

The expansion of our advertising client base and the diversification of our revenue stream have always been among the Company’s long-term strategic plans.

Thus, the Group opted to establish cooperation relationships with enterprises which were already equipped with suitable team members and engaged in relevant industries. Such business relationships would help us with monetization, enlarge the user base, diversify the revenue streams and are at the same time mutually beneficial for both parties.

BT Market (together with BT Advisory) is a company with rich experiences in operation on new media platforms (WeChat, Douyin and Kuaishou), content creation and early education. Since 2019, BT Market had also equipped itself with the ability to expand into the offline merchant business, which provided a variety of channels for monetization from the users on the BabyTree Parenting App. In this context, from December 2019, the Group carried out a total of four projects with BT Market and BT Advisory with a view to achieve monetization and explore investment opportunities in the area of maternity and children.

Terms of the Advances

The Company would like to supplement that the terms of the Advances were determined by the Company, apart from the principal factors set out under the section headed “ADVANCES TO THE BORROWERS” of the Announcement, taking into account the following factors:

- (1) **No fixed loan term:** The Agreements did not specify a fixed loan term because both parties expected that the maturity periods of the projects were generally susceptible to the fluctuations caused by the market environment. From a commercial perspective, both parties intended to keep a flexible loan term during negotiations to promote healthy development of the projects and avoid the possibility that any project had to cease due to the loan reaching maturity while the relevant project had yet to be fully developed.
- (2) **Interest-free period:** The Advances were set with an interest-free period within the expected project lifecycle (i.e. three years) as the Company believed that long-term business growth and economic benefits derived from successful projects to the Company outweighs the short-term gain arising from any interest income. In order to evaluate the potential commercial benefits, prior to the grant of the Advances, the Company had considered the economic benefits, the relevant commercial risks associated therewith and the opportunity cost of providing such Advances and the grant of the Advances was considered to be beneficial to the Company.
- (3) **No security requested:** In relation to the security of the Advances, considering that each of the Borrowers was in the Internet industry, which is an asset-light industry and collaterals were limited, the Company did not require security for the Advances. Nonetheless, the Company had strict measures in monitoring the Advances, including but not limited to closely monitoring (i) the work of the personnel of the Borrowers and (ii) entries and account balances of bank accounts relating to the Advances from time to time.

Based on the aforementioned, given that the Advances would allow the Group the opportunity to derive long-term economic benefits, while maintaining stringent measures to govern the grant and use of the Advances, the Company believes that the terms of the grant of the Advances were fair and reasonable and were in the interest of the Company and its shareholders as a whole.

Due diligence conducted by the Company

During the negotiation of the terms of the Advances, the Company primarily conducted the following due diligence steps:

- (1) conducting management interviews with the Borrowers' management and key project personnel;
- (2) carrying out in-depth background investigations on the backgrounds of the key project personnel, and assessed whether their capabilities could match the needs of the relevant projects;
- (3) reviewing the Borrowers' accounting policies and financial status to understand the accounting policies applied to their daily businesses, the allocation of accounting personnel and accounting procedures;
- (4) reviewing the financial statements and tax returns of the Borrowers over the immediately preceding three years, the Borrowers' bank statements, and their credit status through public credit information search channel to assess the financial risk and credit risk of the Borrowers; and
- (5) reviewing the historical performance of the key project personnel of the Borrowers in other similar projects or preparations for project development so as to evaluate the future performance of these projects and the Borrowers' future repayment capabilities.

Prior to granting the respective Advances, the findings of the abovementioned due diligence steps have been summarized in the business proposal for the relevant project and presented to the executive management committee, which comprised the Company's executive Directors and senior management, for review and approval.

Impairment and repayment of the Advances

As disclosed in the annual report of the Company for the year ended December 31, 2021 ("**Annual Report**"), the Company has recorded a loss allowance of RMB95.8 million on the amounts due from related parties for the years ended 31 December 2020 and 2021. The Company would like to supplement the following information:

During the overall review of the annual business performance for the year ended December 31, 2021 from the end of 2021 to the beginning of 2022, the Company's management and BT Market's key project personnel had conducted in-depth analysis and discussions on the progress of the projects. During such analysis and discussions, it was noted that due to the uncertainties in the macroeconomic environment, the impact of the COVID-19 pandemic and uncertainties in the maternity and children market, prospects for the ongoing projects remained uncertain.

Consequently, after prudent and careful decision-making, it was finally concluded that it may be difficult to recover the expected returns and investment costs from the two of the projects relating to maternity, and any further investments may lead to increased losses. Therefore, the Company and the Borrowers' key project personnel jointly decided to suspend the relevant project operations and recover the book balance of these projects and the funds recoverable from revenue and asset disposal. The Board approved the recognition of impairment of the unrecoverable part of the Advances, which was mainly related to the net cash outflow, including salaries, marketing expenses, capital expenditures minus gains from sales and disposal of assets, in order to reflect the progress of the relevant projects and our actual financial situation. Considering that there were Advances which could not be fully recovered, the parties negotiated and agreed that the Borrowers would transfer the key digital resources of the relevant projects to the Company for continued operation and use.

As regards the other two projects relating to children, as no expenses were incurred and the Advances in relation to these projects had been recovered in full during the first half of 2022, no related impairment had been recognized.

Collection of the impaired and overdue Advances

The Company has requested the Borrowers to repay the relevant Advances by December 31, 2022 through disposing their assets and returning the deposits under the supervision of the Company. In addition, the key digital resources of the relevant projects have also been transferred to the Company for continued operation and use. Furthermore, the Company will continue to pay close attention to the possibility of recycling and incorporating some of the business resources that still possess economic value, including but not limited to preliminary research data, acquired merchants and users and other business partner resources.

Except for the impaired amount, the remaining Advances in the amount of approximately RMB6.35 million is expected to be repaid by the end of December 2022. The Company will also continue to pay close attention to the possibility of recovering the impaired amount.

GENERAL

All other information as set out in the Announcement remain unchanged and shall continue to be valid for all purposes, while this announcement is supplemental to and should be read in conjunction with the Announcement.

By Order of the Board
BabyTree Group
寶寶樹集團
GAO Min
WANG Huainan
Co-Chairmen

Hong Kong, December 6, 2022

As at the date of this announcement, the Board comprises Mr. GAO Min and Mr. XU Chong as executive Directors; Mr. WANG Huainan, Mr. QIAN Shunjiang, Mr. CHEN Bing, Mr. CHEN Weijun, Mr. WU Ying and Mr. Christian Franz REITERMANN as non-executive Directors; and Mr. CHEN Guanglei, Mr. De-chao Michael YU, Mr. SHIAH Hung-Yu and Ms. Jin SU as independent non-executive Directors.