THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker, or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Newborn Town Inc.**, you should at once hand this circular together with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

NEWBORN TOWN INC.
赤子城科技有限公司

(Incorporated in Cayman Islands with limited liability)
(Stock Code: 9911)

MAJOR TRANSACTION
CONNECTED TRANSACTION
ENTERING INTO EQUITY TRANSFER AGREEMENT AND CONVERTIBLE LOAN INVESTMENT AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial adviser to the Company

CMBC CAPITAL

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

SOMERLEY CAPITAL LIMITED

A notice convening the EGM of Newborn Town Inc. to be held at 12/F, Tower A, CEC Development Building, Sanyuanqiao, Chaoyang District, Beijing, PRC on 29 June 2020 at 2:00 p.m. is set out on pages 161 to 162 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the website of the Company at www.newborntown.com/en/. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e. before 2:00 p.m. on 27 June 2020) or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the EGM or any adjourned meeting thereof if they so wish.

11 June 2020

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Acquisition"	the proposed acquisition of approximately 8.85% equity interest of Mico by NewBornTown Network Technology from Phoenix Fortune pursuant to the Equity Transfer Agreement
"Amended Mico Articles"	The amended Mico Articles as agreed pursuant to the Convertible Loan Investment Agreement, of which the details are mentioned under the paragraph "Amended Mico Articles" of this circular
"Board"	the board of directors of the Company
"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
"Contractual Arrangements"	a series of contractual agreements reached to consolidate the interests in NewBornTown Mobile Technology and NewBornTown Network Technology entered into among Shandong NewBornTown Network Technology Co., Ltd. (山東赤子城網絡技術有限公司), NewBornTown Mobile Technology and the shareholders of NewBornTown Mobile Technology
"Conversion"	the conversion of all or part of the Convertible Loan to the newly issued registered capital of Mico pursuant to the Convertible Loan Investment Agreement
"Convertible Loan"	the convertible loan of RMB50 million provided by NewBornTown Network Technology to Mico pursuant to the Convertible Loan Investment Agreement
"Convertible Loan Investment"	the proposed investment pursuant to the Convertible Loan Investment Agreement
"Convertible Loan Investment Agreement"	the convertible loan investment agreement entered into between NewBornTown Network Technology, Mr. Ye Chunjian and Mico on 17 April 2020
"Director(s)"	the directors of the Company

"EGM"	the first extraordinary general meeting of the Company in 2020 to be convened for the purpose of considering and, if thought fit, approving, amongst others, the Equity Transfer Agreement, the Convertible Loan Investment Agreement, the Conversion and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Target Group upon completion of the Acquisition and the Convertible Loan Investment
"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
"General Meeting"	the general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, amongst others, the Equity Transfer Agreement, the Convertible Loan Investment Agreement, the Conversion and the transactions contemplated thereunder
"Group"	the Company and its subsidiaries
"IFRS"	International Financial Reporting Standards as effective and modified from time to time
"Independent Board Committee"	the independent board committee of the Board, comprising Mr. PAN Xiya, Mr. CHI Shujin and Mr. LIU Rong, all being the independent non-executive Directors of the Company
"Independent Financial Adviser" or "Somerley"	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreement, the Convertible Loan Investment Agreement, the Conversion and the transactions contemplated thereunder

"Independent Shareholders"	the Shareholders who are not required to abstain from voting in favour of the resolution for approving the proposed resolutions under the Listing Rules
"Latest Practicable Date"	4 June 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mico" or "Target Company"	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
"Mico Articles"	the articles of association of Mico
"MIIT"	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)
"NewBornTown Mobile Technology"	NewBornTown Mobile Technology (Beijing) Holdings Co., Ltd. (赤子城移動科技(北京)股份有限公司), a company incorporated under the laws of the PRC with limited liability and by virtue of the Contractual Arrangements, accounted for as a subsidiary of the Company
"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 and by virtue of the Contractual Arrangements, accounted for as a subsidiary of the Company. NewBornTown Network Technology is a direct wholly-owned subsidiary of NewBornTown Mobile Technology
"Ningbo Tonghe Chuangyuan"	Ningbo Meishan Bonded Port Tonghe Chuangyuan Enterprise Management Centre (Limited Partnership) (寧波梅山保稅港區通和創源企業管理中心(有限合夥)), a limited partnership established under the laws of the PRC
"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

"PRC"	the People's Republic of China, and for the purpose of this circular, excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan Region
"PRC Equity Holders"	the registered shareholders of NewBornTown Mobile Technology
"Prospectus"	the prospectus of the Company dated 17 December 2019
"RMB"	Renminbi, the lawful currency in the PRC
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
"Shandong NewBornTown" or "WFOE"	Shandong NewBornTown Network Technology Co., Ltd. (山東赤子城網絡技術有限公司), a company incorporated under the laws of the PRC with limited liability and a direct wholly-owned subsidiary of Solo X Technology
"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)
"Shenzhen Leyuyou"	Shenzhen Leyuyou Internet Technology Co., Ltd., a company incorporated under the laws of the PRC with limited liability
"Solo X Technology"	Solo X Technology Limited, a company incorporated in Hong Kong with limited liability and a direct wholly-owned subsidiary of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Group"	Mico and its subsidiaries
"Tianjin Tonghe Chuangyuan"	Tianjin Tonghe Chuangyuan Enterprise Management Consulting Centre (Limited Partnership) (天津通和創源企業管理諮詢中心(有限合夥)), a limited partnership established under the laws of the PRC
"%"	per cent

In this circular, the terms "associate", "connected person", "connected transaction", "controlling shareholder", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

NEWBORN TOWN INC.
赤子城科技有限公司
(Incorporated in Cayman Islands with limited liability)
(Stock Code: 9911)

Executive Directors:
Mr. LIU Chunhe *(Chairman)*
Mr. LI Ping
Mr. WANG Kui

Independent non-executive Directors:
Mr. PAN Xiya
Mr. CHI Shujin
Mr. LIU Rong

Registered office in the Cayman Islands:
The offices of Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Principal place of business in Hong Kong:
Room 1903-04, Floor 19
Hong Kong Trade Centre
161 Des Voeux Road Central
Hong Kong

11 June 2020

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION
CONNECTED TRANSACTION
ENTERING INTO EQUITY TRANSFER AGREEMENT AND CONVERTIBLE LOAN INVESTMENT AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 19 April 2020 in relation to entering into the Equity Transfer Agreement and the Convertible Loan Investment Agreement.

The purpose of this circular is to provide you with, among other things, (i) further information in relation to the above matters; (ii) the recommendation from the Independent Board Committee and the recommendation from Somerley to the Independent Board Committee and the Independent Shareholders; (iii) the financial information of the Group; (iv) the accountants' report of the Target Group; (v) the unaudited pro forma financial information of the Enlarged Group; (vi) the valuation report of Mico; and (vii) a notice for convening the EGM (to consider and, if thought fit, to approve the Equity Transfer Agreement, the Convertible Loan Investment Agreement, the Conversion and the transactions contemplated thereunder).

MAJOR AND CONNECTED TRANSACTION

The Board is pleased to announce that on 17 April 2020 (after trading hours), NewBornTown Network Technology, an entity accounted for as a subsidiary of the Company by virtue of the Contractual Arrangements, entered into the Equity Transfer Agreement with Phoenix Fortune, pursuant to which Phoenix Fortune has conditionally agreed to sell and NewBornTown Network Technology has conditionally agreed to acquire approximately 8.85% equity interest of Mico for the consideration of RMB100 million. Upon the completion of the Acquisition, NewBornTown Network Technology will hold approximately 25.62% equity interest of Mico.

On 17 April 2020 (after trading hours), NewBornTown Network Technology entered into the Convertible Loan Investment Agreement with Mr. Ye Chunjian and Mico, pursuant to which NewBornTown Network Technology has conditionally agreed to provide Mico with a convertible loan of RMB50 million.

In early February 2020, Phoenix Fortune approached the Company for the potential transfer of its equity interest in Mico and proposed that the consideration would be based on the latest investment by NewBornTown Network Technology in Mico in March 2019. Afterwards in February 2020, after reviewing the financial information of Mico and discussing with the management of Mico, the Company had the intention to acquire Phoenix Fortune's equity interest in Mico and communicated with Phoenix Fortune and notified the management of Mico regarding its intention. Subsequently, the management of Mico proposed whether the Company can also provide additional funds to Mico for its further development, in addition to its potential acquisition of Phoenix Fortune's equity. In March to mid-April 2020, the Company negotiated the terms of the Equity Transfer Agreement with Phoenix Fortune and the terms of the Convertible Loan Investment Agreement with Mico. On 17 April 2020, the relevant parties finalised and signed both the Equity Transfer Agreement and the Convertible Loan Investment Agreement.

EQUITY TRANSFER AGREEMENT

Details of the Equity Transfer Agreement are set out below:

Date

17 April 2020 (after trading hours)

Parties

(i) NewBornTown Network Technology;

(ii) Phoenix Fortune; and

(iii) Mico

Equity to be acquired

Pursuant to the Equity Transfer Agreement, Phoenix Fortune has conditionally agreed to sell and NewBornTown Network Technology has conditionally agreed to acquire approximately 8.85% equity interest of Mico.

Consideration and terms of payment

The consideration is RMB100 million which shall be settled in cash by NewBornTown Network Technology within 30 days of the satisfaction or waived by Phoenix Fortune of all conditions agreed in the Equity Transfer Agreement.

In March 2016, Phoenix Fortune subscribed for 20% equity interest of Mico for a consideration of RMB100 million. As disclosed in "Business – Our Strategic Investment" in the Prospectus, Beijing Duanji Network Technology Co., Ltd. was merged with Mico in May 2017 after which Phoenix Fortune held 10% equity interest of Mico. In March 2019, two shareholders of Mico subscribed for new equity interest in Mico. As a result, Phoenix Fortune held approximately 8.85% equity interest of Mico before the Acquisition.

The consideration will be funded by the internal resources of the Company. The Company will not use the proceeds of the global offering to fund the Acquisition.

Basis of determination of the consideration

The consideration was arrived at after arm's length negotiations between NewBornTown Network Technology and Phoenix Fortune and was determined after taking into account the valuation result of the 8.85% equity interest value of Mico as at 31 March 2020 of approximately RMB106,000,000 (rounded), which was prepared by an independent professional valuer, Asia-Pacific Consulting and Appraisal Limited (the "**Valuer**"). The Valuer has performed an independent valuation using the market approach. The market value of Mico was developed by using the leading Price-to-Sales ratio.

In determining the value of the 8.85% equity interest in Mico, the key assumptions include, amongst others, the follows:

(i) It is assumed that the projected revenue for year 2020 could be achieved with the effort of Mico's management;

(ii) All relevant legal approvals and business certificates or licenses to operate the business in which Mico operates or intends to operate have been or would be officially obtained and renewable upon expiry;

(iii) There will be no major change in the political, legal, economic and social environment in which Mico operates or intends to operate;

(iv) Interest rates and exchange rates in the localities for the operation of Mico will not differ materially from those presently prevailing; and

(v) It is assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honored.

The selection of the market approach, instead of income approach and cost approach to be the primary valuation approach is due to that (i) income approach relies on numerous assumptions over a long time horizon and the result may be very sensitive to certain parameters and assumptions; and (ii) the cost approach is generally not considered applicable to the valuation of a going concern business, as it does not directly incorporate information about the economic benefits contributed by the subject assets.

For the valuation of Mico, based on a research of companies listed worldwide on an exhaustive basis, 6 comparable companies are identified, all of which derived over 50% of their revenue from operating social networking platform, especially in live streaming service, in the latest financial year.

The estimated revenue of RMB770 Million for year 2020 of Mico is determined based on the actual revenue for the three months ended 31 March 2020 and the forecast revenue for the remaining nine months in 2020.

Based on Mico's unaudited management account for the three months ended 31 March 2020, Mico recorded the revenue of approximately RMB204.9 million, representing an increase of more than 150% when compared to the same period in 2019, which was mainly due to the result of promotion of attracting users, particularly the continued efforts in operating its social networking apps in the Middle East and Southeast Asia and the launch and promotion of its apps in areas such as North America and South Asia as advised by the management of Mico.

The revenue forecast of Mico for the nine months ending 31 December 2020 was determined by the estimated (i) number of newly registered users; (ii) monthly active users; (iii) number of paying users; (iv) number of orders placed per paying user; and (v) price per order. All these estimated operating data numbers was determined with reference to historical trend of the operating data over certain period of time, future operating plan, and sensitivity analysis with conservative and optimistic scenario on the forecasts of the operating data.

Given the above and after considering (i) the assumptions and the approach adopted in determining the market value of the 8.85% equity interest in Mico as mentioned in above; (ii) the similar business activities of Mico and the 6 selected comparable companies identified by the Valuer; (iii) the leading Price-to-Sales ratio adopted for the valuation is within the range of leading Price-to-Sales ratios of the comparable companies selected; (iv) the historical revenue growth rate of Mico of 266.6% and 81.1% in 2018 and 2019, respectively, based on the audited consolidated financial statements of Mico for three years ended 31 December 2019, which is mainly due to the increase in users and improvement in other relevant operating data (including number of monthly active users and paying users) driven by the Target Group's continued efforts in operating its social networking apps and the marketing and promotion effect; and (v) the drivers of historical revenue growth still subsist as the number of users and other relevant operating data still keep an increasing trend in the first quarter in 2020 due to the Target Group made continued efforts in operating, marketing and promotion of its apps, resulting in the increase of Mico's revenue by more than 150% for the three months ended 31 March 2020 when compared to the same period in 2019 based on the unaudited consolidated management accounts for the three months ended 31 March 2020, the Directors are of the view that the key assumptions used, basis of adopting market approach, selection criteria of the comparables and the outcome of the valuation of the market value of the 8.85% equity interest in Mico are fair and reasonable.

Conditions Precedent

Pursuant to the terms the Equity Transfer Agreement, unless waived in written by NewBornTown Network Technology, NewBornTown Network Technology's obligation to pay for the equity transfer shall be subject to the following conditions precedent being fulfilled:

(1) there are no any judgments, rulings, or injunctions of Chinese laws, courts, arbitration institutions, or relevant government authorities that restrict, prohibit, or cancel the Acquisition, nor have there been any pending or potential litigations, arbitrations, judgments, rulings or injunctions that have or will have a material adverse effect on the Acquisition;

(2) all parties have obtained all third-parties' approval for entering into and performing the transaction documents and the Acquisition, and such entering into and performing shall not cause the party to breach any applicable Chinese laws;

(3) from the execution date of the Equity Transfer Agreement to the date of the completion, the representations and warranties made by each party are completely true, complete and accurate, and they have fulfilled the undertakings to be performed on or before the date of the completion without any violation of the Equity Transfer Agreement;

(4) upon confirmation by Mico, from the execution date of the Equity Transition Agreement to the date of the completion, there are no events, facts, conditions, changes or other situations that have occurred or have been reasonably foreseen that may have a material adverse effect on Mico's assets, financial structure, liabilities and normal operations, and such material adverse change will result in discontinuity of operation of Mico;

(5) the Company has convened the meeting of the Board and the General Meeting and both meetings have approved the Acquisition;

(6) Mico has issued a confirmation letter to NewBornTown Network Technology and Phoenix Fortune confirming that the conditions precedent (1) to (4) relating to Mico have been fulfilled;

(7) Phoenix Fortune has issued a confirmation letter to NewBornTown Network Technology and Mico confirming that the conditions precedent (1) to (3) relating to Phoenix Fortune have been fulfilled.

As at the Latest Practicable Date, except for the meeting of the Board, no condition precedent has been fulfilled or waived.

Business operation before the completion

From the execution date of the Equity Transfer Agreement to the date of the completion, Mico shall operate its business in the normal course of business, and shall spare no efforts to maintain the integrity of the business organization, keep relations with third parties and retain existing management personnel and employees, and maintain Mico's ownership or the current status of all assets and assets used (except for normal operation use and loss).

Subsequent matters after the completion

Mico shall, and Phoenix Fortune shall procure Mico to, convene meetings of the board of directors and/or shareholders (as appropriate) as soon as possible after the completion of the Acquisition to elect a candidate nominated by NewBornTown Network Technology to become a director of Mico and approve the relevant amendments to the Mico Articles. The director to be nominated by NewBornTown Network Technology will replace the director nominated by Phoenix Fortune.

Mico shall complete the business registration or filing procedures related to the Acquisition within one (1) month after the completion.

The terms of the Equity Transfer Agreement were arrived at after arm's length negotiations between NewBornTown Network Technology and Phoenix Fortune.

CONVERTIBLE LOAN INVESTMENT AGREEMENT

Details of the Convertible Loan Investment Agreement are set out below:

Date

17 April 2020 (after trading hours)

Parties

(i) NewBornTown Network Technology;

(ii) Mr. Ye Chunjian; and

(iii) Mico

Loan

The amount of the loan under the Convertible Loan Investment Agreement is RMB50 million; the term is two (2) years (subject to 365 days per year) and shall end on the day before the two-year term from the date of NewBornTown Network Technology's remittance (in case of non-business day, it shall be postponed to the next business day).

NewBornTown Network Technology shall remit the loan to the account designated by Mico within five (5) business days after the execution date of the Convertible Loan Investment Agreement and the conditions precedent of the completion are met. The Convertible Loan Investment will be funded by the internal resources of the Company. The Company will not use the proceeds of the global offering to fund the Convertible Loan Investment.

Mico shall return all principals in one lump sum according to the terms of the Convertible Loan Investment Agreement on the expiry of the loan term, and NewBornTown Network Technology shall not charge any interest.

Mico shall repay the loan in a timely manner. If Mico fails to repay the entire principal on the agreed repayment date and does not reach an agreement with NewBornTown Network Technology, it shall constitute a breach of contract. NewBornTown Network Technology has the right to charge overdue interest at the rate of 0.05% per day for overdue loans from the date of the expiry to the date of actual repayment.

The loan amount of RMB50 million is determined by taking into consideration of the financial availability of NewBornTown Network Technology and the financial needs of Mico. As Mico has a plan for the expansion in the US market for marketing and promotion by utilizing approximately RMB35 million and hiring personnel and acquiring equipment for development of new products by utilizing approximately RMB15 million, after considering its cash and cash equivalents of approximately RMB39.4 million as at 31 December 2019, Mico considers it is for the Target Group's benefit to fund by the Convertible Loan Investment as it is interest-free during its two-year term. The Board determined the loan amount by taking into consideration the following factors: (i) the financial availability of NewBornTown Network Technology; (ii) the expansion plan of Mico; and (iii) the loan is used for the development of Mico's business, which the economic benefits derived from Mico's operations will be enjoyed by the Group as its major shareholder. And the overdue interest rate of 0.05% is based on the standard terms generally used in relation to loan agreements in the PRC. The Directors consider that terms of the Convertible Loan Investment Agreement are fair and reasonable.

The loan under the Convertible Loan Investment Agreement shall be solely used for the development of Mico's business. Without the prior written consent of NewBornTown Network Technology, Mico shall not use the loan for any other purposes (including but not limited to the repayment of Mico's other loans, etc.).

The right of conversion

NewBornTown Network Technology, within the loan term, has the right to convert all or part of the loan to the newly issued registered capital of Mico with reference to the valuation of equity interest value of Mico as at 31 March 2020 which serves as the basis of consideration of the Equity Transfer Agreement. If NewBornTown Network Technology converts all of the loan to the newly issued registered capital of Mico, NewBornTown Network Technology will hold approximately 28.60% equity interest of Mico after the issuance of the new registered capital due to such conversion.

Conditions precedent

Pursuant to the terms the Convertible Loan Investment Agreement, unless waived in written by NewBornTown Network Technology, NewBornTown Network Technology's obligation to remit the loan payment shall be subject to the following conditions precedent being fulfilled:

(1) there are no any judgments, rulings, or injunctions of Chinese laws, courts, arbitration institutions, or relevant government authorities that restrict, prohibit, or cancel the Convertible Loan Investment, nor have there been any pending or potential litigations, arbitrations, judgments, rulings or injunctions that have or will have a material adverse effect on Convertible Loan Investment;

(2) Mico has made resolutions of board of directors' meeting regarding the signing of transaction documents and approval of the Convertible Loan Investment; including but not limited to, Mico's board of directors' meeting has approved: (a) the Convertible Loan Investment; (b) entering into of all documents related to the Convertible Loan Investment;

(3) Mico has convened board of directors' meeting regarding the approval of: (a) the Amended Mico Articles; (b) formation of a new board of directors in accordance with the Amended Mico Articles. New board of directors of Mico has been formed in accordance with the Amended Mico Articles, and directors nominated by NewBornTown Network Technology have been elected.

(4) Mico's shareholders Tianjin Tonghe Chuangyuan and Ningbo Tonghe Chuangyuan respectively have held partner meetings and adopted resolutions: (1) accepting NewBornTown Network Technology as partners of Tianjin Tonghe Chuangyuan and Ningbo Tonghe Chuangyuan; (2) appointing NewBornTown Network Technology as executive partners of Tianjin Tonghe Chuangyuan and Ningbo Tonghe Chuangyuan, and removing Mr. Ye Chunjian from the position of the general partners; Tianjin Tonghe Chuangyuan and Ningbo Tonghe Chuangyuan have entered into relevant transaction documents with NewBornTown Network Technology.

(5) all parties have obtained all third-parties' approval for entering into and performing the transaction documents and the Convertible Loan Investments, and such entering into and performing shall not cause the party to breach any applicable Chinese laws;

(6) from the execution date of the Convertible Loan Investment Agreement to the date of the completion, each party shall ensure that the statements and guarantees made in the Convertible Loan Investment Agreement are entirely true, complete and accurate, and shall perform the undertakings agreed to be performed on or before the date of the completion without any violation of the transaction documents;

(7) from the execution date of the Convertible Loan Investment Agreement to the date of the completion, there are no events, facts, conditions, changes or other situations that have occurred or have been reasonably foreseen that may have a material adverse effect on Mico's assets, financial structure, liabilities and normal operations;

(8) the Company has convened the meeting of the Board and the General Meeting and both meetings have approved the Convertible Loan Investment;

(9) the completion of the Equity Transfer Agreement;

(10) Mico has issued a confirmation letter to NewBornTown Network Technology confirming that all the above conditions precedent have been fulfilled and a payment notification letter with its bank account information regarding the Convertible Loan Investment.

As at the Latest Practicable Date, except for the meeting of the board of directors of Mico and the Board meeting, no condition precedent has been fulfilled or waived.

Undertakings of Mico and Mr. Ye Chunjian

Mico shall and Mr. Ye Chunjian shall procure Mico to, after the execution date of the Convertible Loan Investment Agreement, convene a shareholders' meeting to approve (a) the Convertible Loan Investment; (b) entering into of all documents related to the Convertible Loan Investment; (c) the Amended Mico Articles; and (d) formation of a new board of directors in accordance with the Amended Mico Articles.

Mico shall and Mr. Ye Chunjian shall procure Mico to, after the execution date of the Convertible Loan Investment Agreement, submit and complete filings of the Amended Mico Articles and new board of directors with the competent industrial and commercial registration authority and provide NewBornTown Network Technology with a copy of the completion of filings.

Mico shall grant NewBornTown Network Technology an unconditional and irrevocable right to exclusively use the intellectual property rights, core technology and commercial secret of Mico when NewBornTown Network Technology requires. The consideration and term of the authorisation will be determined by NewBornTown Network Technology and Mico according to market practice. NewBornTown Network Technology and Mico will enter into authorisation and licensing agreements separately.

Mico has undertaken to NewBornTown Network Technology, that before the total repayment of the principals and after the Conversion:

(1) Mico and its wholly owed and controlled subsidiaries, representatives and offices shall comply with all the laws and regulations related to the Convertible Loan Investment Agreement and strictly comply with and perform the duties and obligations under the Convertible Loan Investment Agreement;

(2) The activities of Mico and its wholly owned and controlled subsidiaries, representatives and offices should always comply with applicable laws and the requirements of relevant government departments in all major respects, and must not violate any applicable laws that would cause material adverse effects on Mico and its wholly owned and controlled subsidiaries, representatives and offices;

(3) Mico and its wholly owned and controlled subsidiaries, representatives and offices should comply with applicable laws to obtain and maintain all necessary certificates for conducting business. Mico and its wholly owned and controlled subsidiaries, representatives and offices should ensure the timely filing, registration and renewal of relevant certificates with applicable government departments in accordance with relevant laws and regulations;

(4) If any breach under the Convertible Loan Investment Agreement or any event may affect the ability of Mico and its wholly owed and controlled subsidiaries, representatives and offices to perform its obligations under the Convertible Loan Investment Agreement occurs, Mico shall inform NewbornTown Network Technology of relevant details in writing as soon as possible;

(5) Without the prior consent of NewBornTown Network Technology, Mico shall not set any mortgage, pledge or other guarantees on the assets of Mico and its wholly owed and controlled subsidiaries, representatives and offices in any form, and shall not transfer or dispose of any major assets of Mico and its wholly owed and controlled subsidiaries, representatives and offices in any other ways;

(6) Without the prior consent of NewBornTown Network Technology, Mico and its wholly owed and controlled subsidiaries, representatives and offices shall not provide loans to third parties in any forms, nor shall it obtain any forms of loans from third parties, or make other credit arrangements similar to the aforesaid;

(7) Mico shall strive to maintain the normal operation of Mico and its wholly owed and controlled subsidiaries, representatives and offices, and inform NewBornTown Network Technology of any major events related to Mico and its wholly owed and controlled subsidiaries, representatives and offices in a timely manner;

(8) Without prior consent of Mico, NewBornTown Network Technology can transfer all or part of the rights under the Convertible Loan Investment Agreement to its related parties. Mico shall sign reasonable and necessary documents and take reasonable and necessary actions for the purpose of transfer, and complete the corresponding statutory procedures. The condition precedent is that the related parties have the qualification and ability to legally exercise the rights of NewBornTown Network Technology under the Convertible Loan Investment Agreement and perform the corresponding obligations in accordance with applicable laws.

Amended Mico Articles

Pursuant to the Convertible Loan Investment Agreement, Mico has agreed to amend the Mico Articles. The articles relating to the control of Mico in the Amended Mico Articles are set out below:

Power of the shareholders' meeting of Mico

The shareholders' meeting of Mico consists of all the shareholders. It is the organ of power of Mico and exercises the following functions and powers:

(1) to decide the business operation policies and investment plans of Mico;

(2) to examine and approve reports of the board of directors of Mico;

(3) to examine and approve annual financial budgets and final accounts of Mico;

(4) to examine and approve the profit distribution plans and loss recovery plans of Mico;

(5) to pass resolutions concerning the increase or reduction of the registered capital of Mico;

(6) to pass resolutions on matters such as the merger, division, dissolution, liquidation or change in the organizational form of Mico;

(7) to amend the Mico Articles;

(8) to consider other matters that should be decided by the shareholders' meeting according to the laws, administrative regulations, department rules and the Mico Articles.

The shareholders shall exercise their voting rights according to their contribution proportion at the shareholders' meeting. Resolutions adopted at the shareholders' meeting to amend the Mico Articles, increase or decrease the registered capital of Mico, and resolutions on the merger, division, dissolution or change of the form of Mico must be passed by shareholders representing at least two thirds of the voting rights, including NewBornTown Network Technology.

In respect of the functions and powers of the shareholders' meeting of Mico as stipulated above, the shareholders' meeting of Mico authorizes the board of directors of Mico to exercise the following resolutions on its behalf:

(1) to decide on the business operation policies and investment plan of Mico;

(2) to examine and approve the annual financial budgets and final accounts of Mico;

(3) to examine and approve the profit distribution plans and loss recovery plans of Mico.

The shareholders agree that the cancellation of the above authorization must be approved by shareholders representing more than half of the voting rights, including NewBornTown Network Technology.

Power of the board of directors of Mico

The board of directors of Mico shall have five members nominated by the shareholders and elected by the shareholders' meeting. NewBornTown Network Technology has the right to nominate three directors (including the director replacing the one director nominated by Phoenix Fortune), the management has the right to nominate one director, and Ms. Cao Wen, a shareholder of Mico, has the right to nominate one director. Members of the board of directors shall serve a term of three years and may be re-elected upon expiration.

The board of directors of Mico shall exercise the following functions and powers:

(1) to develop and decide on annual financial budget and final accounts of Mico as authorized by the shareholders' meeting of Mico;

(2) to develop and decide on the profit distribution plan and loss recovery plans of Mico as authorized by the shareholders' meeting of Mico;

(3) to develop and decide on plans for Mico to increase or decrease its registered capital, issue bonds or other securities and go public;

(4) to develop plans for the acquisition of Mico's shares or the merger, division, dissolution of Mico or change of the company form;

(5) to appoint or dismiss the general manager of Mico; to appoint or dismiss senior management personnel such as deputy general manager, financial officer according to the nomination of the general manager; and to decide on matters of remuneration, rewards and punishments;

(6) to decide on matters such as external investment, purchase and sale of assets, external guarantee and related transactions as authorized by the shareholders' meeting of Mico;

(7) to determine the liabilities or capital expenditures for growth of a single transaction exceeding RMB5 million in a single fiscal year beyond the annual budget of Mico;

(8) to decide to discharge or otherwise exempt any liability of RMB2 million or above or to waive any right of material value (including but not limited to any claim);

(9) to determine whether Mico or any of its majority-controlled subsidiaries shall provide any external guarantee in excess of RMB10 million;

(10) to determine whether Mico or any of its majority-controlled subsidiaries shall provide any guarantee for the affiliates;

(11) to review the employee equity incentive plans and programs;

(12) to determine any provision of intellectual property or assignment or licensing of intellectual property by Mico to third parties;

(13) to decide whether Mico should purchase assets irrelevant to the core business or enter the non-core business fields, or enter any speculative or arbitrage business fields.

Each director shall have one vote for the resolutions of the board of directors of Mico. More than one third of the directors may propose a board meeting. The matters discussed by the board of directors of Mico shall be valid only if they are voted and approved by more than half of the directors.

The terms of the Convertible Loan Investment Agreement were arrived at after arm's length negotiations among NewBornTown Network Technology, Mr. Ye Chunjian and Mico.

INFORMATION ON THE PARTIES TO THE EQUITY TRANSFER AGREEMENT AND THE CONVERTIBLE LOAN INVESTMENT AGREEMENT

The Company

The Company is a fast-growing global AI information distribution platform, developing mobile applications and providing mobile advertising platform services based on AI technology.

NewBornTown Network Technology

NewBornTown Network Technology is an entity accounted for as a subsidiary of the Company by virtue of the Contractual Arrangements, and is engaged in proprietary app traffic monetisation.

Phoenix Fortune

Phoenix Fortune is a limited partnership established under the laws of the PRC, the general partner of which is Beijing Phoenix Fortune Innovation Investment Co., Ltd., which is held as to 20% and 80% by Mr. Wu Shichun and Beijing Phoenix Fortune Holdings Group Co., Ltd., which in turn controlled by Mr. Du Li. Mr. Wu Shichun is a director of NewBornTown Mobile Technology, an entity accounted for as a subsidiary of the Company by virtue of the Contractual Arrangements, and therefore a connected person of the Company. The limited partners of Phoenix Fortune are Hangzhou Maitian Trade Co., Ltd. ("**Hangzhou Maitian**") and Shenzhen Tongfang HowNet Technology Co., Ltd. ("**Shenzhen Tongfang**"), who hold approximately 49.99% and 49.99% of the economic interest in Phoenix Fortune as at the Latest Practicable Date, respectively. Hangzhou Maitian is a limited liability company established under the laws of the PRC which is indirectly controlled by an Independent Third Party Mr. Lu Yuanhong. Shenzhen Tongfang is a limited liability company established under the laws of the PRC which is indirectly controlled by an Independent Third Party Ms. Li Yan. Phoenix Fortune is principally engaged in business of investment management, focussing on long-term equity investment projects in the new economic sector, including investment upgrading, overseas mobile services and internet finance industries.

Mico and its subsidiaries

Mico and its subsidiaries operates a social networking platform with users from more than 150 countries and regions. Its core apps are MICO and Kitty Live, which feature strangers social networking, group video chat, live streaming and short videos. MICO and Kitty Live are leading social networking apps in regions such as Middle East, Southeast Asia and North America.

As at the Latest Practicable Date, Mr. Ye Chunjian holds an equity interest of approximately 23.27% in Mico and approximately 3.45% in the Company. Mr. Ye Chunjian was also a director of NewBornTown Network Technology until 13 May 2019. In addition, before the completion of the Convertible Loan Investment Agreement, Mr. Ye Chunjian is the executive partners of Tianjin Tonghe Chuangyuan and Ningbo Tonghe Chuangyuan.

Before the completion of the Acquisition and the Convertible Loan Investment and as at the Latest Practicable Date, NewBornTown Network Technology held approximately 16.77% equity interest of Mico. The shareholding of all shareholders are set out below:

Shareholder	**Percentage**
Ye Chunjian	23.27%
Cao Wen	17.12%
NewBornTown Network Technology	16.77%
Phoenix Fortune	8.85%
Tianjin Tonghe Chuangyuan *Note 1*	8.01%
Ningbo Tonghe Chuangyuan *Note 1*	7.96%
Wang Xiaobin	3.10%
Wang Xinming	3.10%
Ningbo Meishan Bonded Port Beichen Xinshineng Equity Investment Partnership Enterprise (Limited Partnership)	2.65%
Wu Shichun	2.43%
Ningbo Meihua Mingshi Investment Partnership Enterprise (Limited Partnership)	2.21%
Zhang Qinglai	1.86%
Ye Kai	1.11%
Zhang Wenlong	1.11%
Jiaxing Zizhi No. 1 Equity Investment Partnership Enterprise (Limited Partnership)	0.44%
Total *Note 2*	**100.00%**

Note 1: Employee stock ownership plan platforms, both of which are controlled by Mr. Ye Chunjian through his capacity as the executive partner.

Note 2: Please note that the percentages may not add up to 100.00% due to rounding.

After the completion of the Acquisition and the Convertible Loan Investment, NewBornTown Network Technology will hold approximately 25.62% equity interest of Mico. The shareholding of all shareholders are set out below:

Shareholder	**Percentage**
NewBornTown Network Technology	25.62%
Ye Chunjian	23.27%
Cao Wen	17.12%
Tianjin Tonghe Chuangyuan*Note 1*	8.01%
Ningbo Tonghe Chuangyuan*Note 1*	7.96%
Wang Xiaobin	3.10%
Wang Xinming	3.10%
Ningbo Meishan Bonded Port Beichen Xinshineng Equity Investment Partnership Enterprise (Limited Partnership)	2.65%
Wu Shichun	2.43%
Ningbo Meihua Mingshi Investment Partnership Enterprise (Limited Partnership)	2.21%
Zhang Qinglai	1.86%
Ye Kai	1.11%
Zhang Wenlong	1.11%
Jiaxing Zizhi No. 1 Equity Investment Partnership Enterprise (Limited Partnership)	0.44%
Total*Note 2*	**100.00%**

Note 1: Employee stock ownership plan platforms, both of which will be directed by NewBornTown Network Technology through its capacity as the executive partner.

Note 2: Please note that the percentages may not add up to 100.00% due to rounding.

If NewBornTown Network Technology converts all of the Convertible Loan to the newly issued registered capital of Mico, NewBornTown Network Technology will hold approximately 28.60% equity interest of Mico, after the issuance of the new registered capital due to the Conversion. The shareholding of all shareholders are set out below:

Shareholder	Percentage
NewBornTown Network Technology	28.60%
Ye Chunjian	22.34%
Cao Wen	16.44%
Tianjin Tonghe Chuangyuan[Note 1]	7.69%
Ningbo Tonghe Chuangyuan[Note 1]	7.65%
Wang Xiaobin	2.97%
Wang Xinming	2.97%
Ningbo Meishan Bonded Port Beichen Xinshineng Equity Investment Partnership Enterprise (Limited Partnership)	2.55%
Wu Shichun	2.34%
Ningbo Meihua Mingshi Investment Partnership Enterprise (Limited Partnership)	2.12%
Zhang Qinglai	1.78%
Ye Kai	1.06%
Zhang Wenlong	1.06%
Jiaxing Zizhi No. 1 Equity Investment Partnership Enterprise (Limited Partnership)	0.42%
Total[Note 2]	**100.00%**

Note 1: Employee stock ownership plan platforms, both of which will be directed by NewBornTown Network Technology through its capacity as the executive partner.

Note 2: Please note that the percentages may not add up to 100.00% due to rounding.

As one of the conditions precedent of the Convertible Loan Investment Agreement, Mr. Ye Chunjian, the executive partner of Tianjin Tonghe Chuangyuan and Ningbo Tonghe Chuangyuan, will be removed, and NewBornTown Network Technology will be appointed as the new executive partner. Both of Tianjin Tonghe Chuangyuan and Ningbo Tonghe Chuangyuan serve as the platforms for the employee stock ownership plan of Mico and in aggregate own approximately 15.97% equity interest of Mico.

As one of the conditions precedent of, and undertakings of Mico and Mr. Ye Chunjian under the Convertible Loan Investment Agreement, the shareholders and/or board of directors (as appropriate) will approve the Amended Mico Articles, under which, NewBornTown Network Technology will have majority seats of the board of directors of Mico in voting to determine the relevant activities which significantly affect the operating returns of Mico. After the completion of the Acquisition and the Convertible Loan Investment, NewBornTown Network Technology, being the single largest shareholder with approximately 25.62% equity interest owned by NewBornTown Network Technology and in aggregate approximately 15.97% equity interest owned by Tianjin Tonghe Chuangyuan and Ningbo Tonghe Chuangyuan (as the platforms for the employee stock ownership plan of Mico) directed by NewBornTown Network Technology as the executive partner, will have control over Mico, and therefore, the Company will consolidate financial statements of Mico. On the other hand, NewBornTown Network Technology will not have majority seats of the board of directors of Mico if the Convertible Loan Investment Agreement does not proceed. The Company will not be able to consolidate financial statements of Mico, and will treat Mico as an associate.

Contractual Arrangements

On 26 June 2019, WFOE, NewBornTown Mobile Technology, the PRC Equity Holders, entered into the Contractual Arrangements, which consist of, amongst others,

(i) exclusive business cooperation agreement, pursuant to which the WFOE shall provide exclusive technical services and exclusive management consultancy services to NewBornTown Mobile Technology;

(ii) exclusive equity call option agreement, pursuant to which the PRC Equity Holders shall irrevocably grant the WFOE or its designated purchaser the right to purchase all or part of the equity interests in NewBornTown Mobile Technology;

(iii) exclusive assets call option agreement, pursuant to which the NewBornTown Mobile Technology shall irrevocably grant the WFOE or its designated purchaser the right to purchase all intellectual properties and all other assets in NewBornTown Mobile Technology;

(iv) equity pledge agreement, pursuant to which each of the PRC Equity Holders agreed to pledge all of their respective equity interests in NewBornTown Mobile Technology to WFOE that they own, including any interest or dividend paid for the shares, to the WFOE as a security interest to guarantee the performance of contractual obligations and the payment of outstanding debts;

(v) powers of attorney, pursuant to which the PRC Equity Holders irrevocably appointed the WFOE and its designated persons as its attorneys-in-fact to exercise on its behalf, and agreed and undertook not to exercise without such attorneys-in-fact's prior written consent, any and all right that it have in respect of its equity interests in NewBornTown Mobile Technology; and

(vi) confirmations from the PRC Equity Holders that in the event of his/her death, incapacity, bankruptcy, divorce or any other event which causes his/her inability to exercise his/her rights as a shareholder of NewBornTown Mobile Technology, he/she has taken all necessary actions so that his/her successors (including his/her spouse) will not affect the PRC Equity Holders' interests in NewBornTown Mobile Technology.

The terms and conditions of the Contractual Arrangements are described under the section headed "Contractual Arrangements" in the Prospectus.

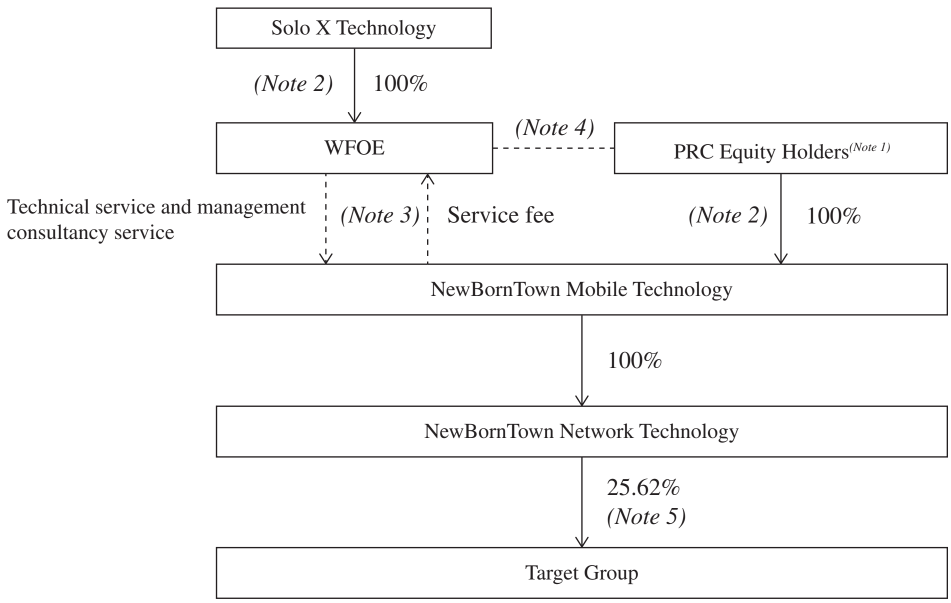
Reasons for the Contractual Arrangements

As disclosed in the Prospectus, the Company are principally engaged in proprietary app traffic monetisation business and mobile advertising platform and related business. Proprietary app traffic monetisation business is considered as value-added telecommunications services in the PRC and ICP Licence is required. The Company apps which are offered in and outside the PRC. Value-added telecommunications services is a sector where foreign investment is subject to restrictions under the PRC laws and regulations. In order to comply with the PRC laws and regulations, while availing the Group of international capital markets and maintaining effective control over all of the Group's operations, the Group have set up the Contractual Arrangements. NewBornTown Mobile Technology and NewBornTown Network Technology keep proprietary app traffic monetisation business and ICP Licence. WFOE has entered into various agreements with and among the PRC Equity Holders and other related parties. Under the Contractual Arrangements, WFOE has acquired effective control over the financial and operational policies of NewBornTown Mobile Technology and NewBornTown Network Technology, which in turn held approximately 16.77% equity interest in Mico before the completion of Acquisition and Convertible Loan Investment as of the Latest Practicable Date, and has become entitled to all economic benefits derived from their operations to the extent permitted under the PRC laws and regulations by means of services fees payable by NewBornTown Mobile Technology and NewBornTown Network Technology to WFOE.

Upon the completion of the Acquisition and the Convertible Loan Investment, Mico will be held as to 25.62% by NewBornTown Network Technology and will be an entity accounted for as a subsidiary of the Company as explained in above and by virtue of the Contractual Arrangements. The Company is of the view that the Contractual Arrangements will continue to be narrowly tailored because Mico is engaged in social networking business with apps offered in and outside the PRC and possesses an ICP Licence (增值電信業務經營許可證), and Shenzhen Leyuyou, the wholly-owned subsidiary, possesses an Internet Culture Business Licence (網絡文化經營許可證). As advised by Jingtian & Gongcheng, the PRC legal adviser of the Company, the social networking business with apps offered in the PRC, in particular that if the relevant company intends to generate revenue in PRC through the operation of such apps, falls into the value-added telecommunications services business as described in Part 7(ii) of the Special Management Measures (Negative List) for the Access of Foreign Investment (2019 version) (《外商投資准入特別管理措施(負面清單)(2019年版)》) with effect from 30 July 2019 (the "**Negative List**"), and the relevant company is requested to apply for a ICP license, which is subject to foreign investment restrictions as per the Negative List; and the Internet Culture Business License will not be granted to any foreign invested enterprise. As further advised by Jingtian & Gongcheng, the change in Mico shareholding upon the completion of the Acquisition and the Convertible Loan Investment will not affect the ICP License and the Internet Culture Business License possessed by Mico. However, the WFOE or Solo X Technology cannot directly invest in Mico and Shenzhen Leyuyou, otherwise it may cause the ICP License and the Internet Culture Business License to be revoked.

Notwithstanding Mico and Shenzhen Leyuyou, are mainly engaged in the social networking business in the PRC and other companies of the Target Group are mainly engaged in, amongst others, the social networking business in overseas and the revenue generated from this business are not subject to the requirement of foreign investment restriction or foreign investment prohibition, all the companies of Target Group are under the same management and operation team, all of them are part and parcel of the business of the Target Group and therefore they are indispensable and inseparable. The investment of 10% equity interest in Shenzhen Laibulai Technology Co., Ltd. was made by the Target Group with the view of the business potential of such company and potential synergy it may have with the business of Mico. In this connection, the other companies (including the investment of 10% equity interest in Shenzhen Laibulai Technology Co., Ltd.) of the Target Group, together with Mico and Shenzhen Leyuyou, as a whole group, shall be controlled by the Company via the Contractual Arrangements.

The following simplified diagram illustrates the flow of economic benefits from NewBornTown Mobile Technology, NewBornTown Network Technology and the Target Group to the Group stipulated under the Contractual Arrangements after the completion of the Acquisition and the Convertible Loan Investment:



Notes:

(1) PRC Equity Holders refer to the registered shareholders of NewBornTown Mobile Technology.

(2) "—>" denotes direct legal and beneficial ownership in the equity interest (except in the case of Huang Mingming, which the beneficial ownership in the equity interest of NewBornTown Mobile Technology is held by Huang Mingming on behalf of Future Capital Discovery Fund I, L.P.).

(3) "---->" denotes contractual relationship, please refer to "Contractual Arrangements – Summary of the Material Terms of the Contractual Arrangements" of the Prospectus for details.

(4) "----" denotes the control by WFOE over the PRC Equity Holders and NewBornTown Mobile Technology through (i) powers of attorney to exercise all shareholders' rights in NewBornTown Mobile Technology, (ii) exclusive equity call options to acquire all or part of the equity interests in NewBornTown Mobile Technology, (iii) exclusive asset call options to acquire all or part of the intellectual property and all other assets of NewBornTown Mobile Technology, and (iv) equity pledges over the equity interests in NewBornTown Mobile Technology.

(5) Upon the Completion of Acquisition and the Loan Convertible Investment, Mico will be held as to 25.62% by NewBornTown Network Technology and will be an entity accounted for as a subsidiary of the Company as explained above.

Legality of the Contractual Arrangements

The Contractual Arrangements are narrowly tailored to minimise the potential conflict with relevant PRC laws and regulations and please refer to the section headed "Contractual Arrangement" of the Prospectus for a discussion of the legality of the Contractual Arrangement. The Directors are of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations, and except for the relevant arbitration clauses as described in "Contractual Arrangements – Dispute Resolution" of the Prospectus, each of the agreements under the Contractual Arrangements is enforceable under the PRC laws and regulations.

As advised by Jingtian & Gongcheng, the Company is not required to sign additional agreements and could control the Target Group via the existing Contractual Arrangements, and the completion of the Acquisition and the Convertible Loan Investment will not affect the legality of the Contractual Arrangements. Jingtian & Gongcheng is also of the view that (i) the Contractual Arrangements do not violate the provisions of the articles of associations of Mico; (ii) the agreements under the Contractual Arrangements would not be deemed as "concealing illegal intentions with a lawful form" such that they also do not fall within circumstance of an illegitimate purpose is concealed under the guise of legitimate acts under Article 52 of the Contract Law of the People's Republic of China; and (iii) the control over Mico under the Contractual Arrangements will not violate under the applicable PRC laws and regulations. Therefore, as a result of these Contractual Arrangements, the Company has obtained control of NewBornTown Mobile Technology, NewBornTown Network Technology and the Target Group through WFOE and, at the Company's sole discretion, can receive all of the economic interest returns generated by NewBornTown Mobile Technology, NewBornTown Network Technology and the Target Group. Accordingly, the results of operations, assets and liabilities, and cash flows of NewBornTown Mobile Technology, NewBornTown Network Technology and the Target Group are consolidated into the Company's financial statements.

As at the Latest Practicable Date, the Group and the Target Group had not encountered any interference of encumbrance from any PRC governing bodies in operating its businesses through NewBornTown Mobile Technology under the Contractual Arrangements.

Loss Sharing

Under the relevant mainland China laws and regulations, none of our Company and the WFOE is legally required to share the losses of, or provide financial support to, NewBornTown Mobile Technology, NewBornTown Network Technology and the Target Group. Further, NewBornTown Mobile Technology, NewBornTown Network Technology and the Target Group are limited liability companies and shall be solely liable for their own debts and losses with assets and properties owned by them. The WFOE intends to continuously provide to or assist NewBornTown Mobile Technology, NewBornTown Network Technology and the Target Group in obtaining financial support when deemed necessary. If NewBornTown Mobile Technology, NewBornTown Network Technology and the Target Group suffer any losses or material difficulties of business, the WFOE may provide financial support as permitted under PRC laws at its discretion to NewBornTown Mobile Technology, NewBornTown Network Technology and the Target Group under the terms of the exclusive business cooperation agreement. In addition, given that our Group conducts a substantial portion of its business operations in mainland China through NewBornTown Mobile Technology, NewBornTown Network Technology and the Target Group, which hold the requisite mainland China operational licences and approvals, and that their financial position and results of operations are consolidated into our Group's financial statements under the applicable accounting principles, our Company's business, financial position and results of operations would be adversely affected if NewBornTown Mobile Technology, NewBornTown Network Technology and the Target Group suffer losses.

Risks relating to the Contractual Arrangements

The risks associated with the use of such Contractual Arrangements include the following.

(a) If the PRC government determines that the Contractual Arrangements do not comply with applicable laws or regulations, or if these laws, regulations or their interpretations change in the future, the Company could be subject to severe penalties or be forced to relinquish its interests in those operations.

(b) Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of the 2015 draft PRC foreign investment law and how it may impact the viability of the Company's current corporate structure, corporate governance and business operations.

(c) Substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of the Company's current corporate structure, corporate governance and business operations.

(d) The Contractual Arrangements may not be as effective in providing operational control as direct ownership and NewBornTown Mobile Technology or the PRC Equity Holders may fail to perform their obligations under the Contractual Arrangements.

(e) The Company may lose the ability to use and enjoy assets and licences held by NewBornTown Mobile Technology and its subsidiaries that are important to the operation of its business if NewBornTown Mobile Technology or any its subsidiaries declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.

(f) The Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that the Company owe additional taxes could substantially reduce its consolidated net income and the value of your investment.

(g) The PRC Equity Holders may potentially have a conflict of interest with the Company, and they may breach their contracts with the Company or cause such contracts to be amended in a manner contrary to its interests.

(h) The Company conducts mobile apps development business in the PRC through NewBornTown Mobile Technology and its subsidiaries by way of the Contractual Arrangements, but certain of the terms of the Contractual Arrangements may not be enforceable under PRC laws.

(i) If the Company exercises the option to acquire equity ownership of NewBornTown Mobile Technology and its subsidiaries, the ownership transfer may subject the Company to certain limitations and substantial costs.

The Company does not maintain an insurance policy to cover the risks relating to its Contractual Arrangements.

Compliance with the Contractual Arrangements

The Group has adopted the following measures to ensure the effective operation of the Group with the implementation of the Contractual Arrangements and its compliance with the Contractual Arrangements:

(i) the powers of attorney are granted to the WFOE, and the related matters are decided by designated persons of the WFOE, including for instance directors and their successors, and the power of attorney will not be exercised by officers or directors of the Company who are also the PRC Equity Holders to prevent any potential conflict of interest;

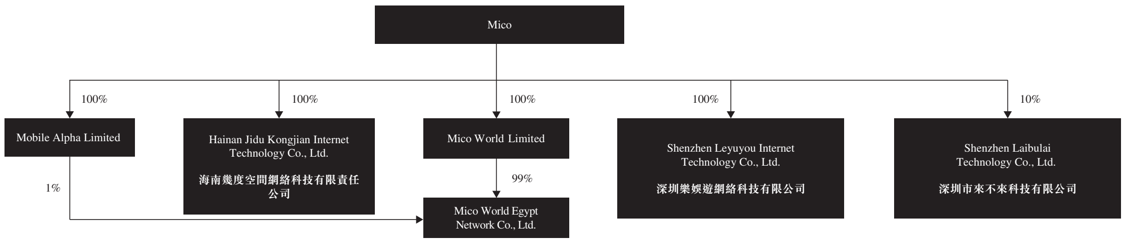
(ii) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;

(iii) the Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;

(iv) the Company will disclose the overall performance and compliance with the Contractual Arrangements in its annual reports; and

(v) the Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of WFOE and NewBornTown Mobile Technology and NewBornTown Network Technology to deal with specific issues or matters arising from the Contractual Arrangements.

The chart below sets out the shareholding structure of the Target Group:



The table below sets forth a summary of key financial information of the Target Group for the years ended 31 December 2017, 2018 and 2019, as extracted from the accountants' report on the Target Group as set out in Appendix II to this circular:

	For the year ended or as at 31 December 2017	**For the year ended or as at 31 December 2018**	**For the year ended or as at 31 December 2019**
	RMB'000	*RMB'000*	*RMB'000*
Net profit/(loss) before taxation	(130,346)	(14,587)	33,731
Net profit/(loss) after taxation	(114,801)	(16,381)	27,359
Total assets less current liabilities	109,916	85,179	219,482
Net assets	100,293	77,333	213,083

Mico operates a social networking platform, consisting of IT infrastructure, mobile applications and its proprietary algorithm, to offer live and interactive streaming services to individual users as its customers. Individual user can acquire Mico's virtual currency, which is non-refundable and does not have expiration date, and purchase virtual items by using Mico's virtual currency on Mico's platforms, and simultaneously present to streamers during their live streaming performance to show their support for their favorite streamers. Mico has sole discretion in designing and establishing pricing of virtual items. Revenue is recognised when virtual items are consumed as they are presented to streamers.

The Target Group turned a net loss in 2017 and 2018 to a net profit in 2019, mainly because the revenue generated from the core apps of the Target Group increased significantly from 2017 to 2019. Leveraging its efforts in optimising the operation of its apps and the enhanced content quality on its apps, the Target Group was able to increase not only its number of paying users and average monthly active users, but also the average revenue per paying user of its apps from 2017 to 2019. Along with the increased popularity of its apps and the growth in its operating metrics, the Target Group continued to expand its business operations from Middle East and Southeast Asia to other regions such as North America and improve its operational efficiency by adopting measures such as supplier selection and management. The Target Group gradually achieved economies of scale as (i) the streamer costs, which were the largest component of its cost of sales, as a percentage in Target Group's revenue recorded decreases from 2017 to 2019; and (ii) the fixed costs, which primarily included staff costs, bandwidth and server custody costs, as a percentage in Target Group's revenue also recorded decreases for the same periods, which enabled the Target Group to achieve lower cost per transaction, despite the increases in revenue from 2017 to 2019.

REASONS AND BENEFITS OF ENTERING INTO THE EQUITY TRANSFER AGREEMENT AND THE CONVERTIBLE LOAN INVESTMENT AGREEMENT

As disclosed in "Business – Our Strategic Investment" in the Prospectus, the Company started business cooperation with Mico in 2015. Through years of cooperation, the Company obtained a deeper understanding of Mico's strengths in product development and operation, as well as its fast-growing business development, and the Company believe in Mico's competitive strengths in technology, data and user acquisition. The Company believe that through the Acquisition and the Convertible Loan Investment and by controlling Mico, Mico's popularity in its target regions such as the Middle East, Southeast Asia and North America will be further strengthened by utilizing the loan under the Convertible Loan Investment Agreement and leverage on the Company's experiences and understanding in overseas markets and our listing platform for potential capital and financing resources.

The loan under the Convertible Loan Investment Agreement will be used (i) for the expansion of the US market and the acquisition of US users since, according to the operating data and analysis of the US market, US users have stronger payment capabilities and willingness to pay; (ii) for the development of new products since Mico will increase the input for the research and development of new products and funds will be used to support the investment of personnel and equipment for new products.

Also, the Company will create a closer partnership with Mico to create synergies across its businesses in the following aspects:

- Mico can provide the Company with strategic value as a publisher in social networking not only by offering stable ad inventories for both its Solo X product matrix and its advertisers on Solo Math mobile advertising platform, but also by offering the Company connections to its broad base of social networking users, which further enhance and strengthen its Solo Math business and facilitate the Company's global traffic ecology. Mico has more than 100 million users. After the Acquisition and the Convertible Loan Investment, the number of Solo X reachable users can be increased, and the data of such users will help Solo Aware to conduct deep learning and improve the matching efficiency of Solo Math. At the same time, the Solo Math platform can provide Mico with advertising services to monetize Mico's advertising inventory;

- by acquiring Mico, its Solo X products diversity was further increased, which helps the overall user acquisition, and Mico's successful product localization experience can help the Company launch more overseas products in the future. The product matrix of Solo X can form cross promotion with Mico, which can help Mico acquire new users to support the development of Mico and expand to the North American market. Mico can also assist Solo X related products on user acquisition; and

- Mico's popularity in regions such as the Middle East, Southeast Asia and North America is realized by its capabilities of globalisation and localisation, which is in line with the Company's development strategies to expand the Company's localised service and distribution network, thereby laying the groundwork for the Company to build and expand the Company's networks and presence in such regions. The Company has launched its own social products. The success experience of Mico can help the expansion of the Group's social products in Southeast Asia countries such as India, through the in-depth cooperation with the influencer association and the reuse of other resources of the industrial chain. At the same time, the experience can also help the expansion of the Company's other products in regions that Mico had popularity.

The Board (including the independent non-executive Directors) considers that the terms and conditions of the Equity Transfer Agreement, the Convertible Loan Investment Agreement and the Conversion are fair and reasonable and on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

FINANCIAL EFFECTS OF THE ACQUISITION AND THE CONVERTIBLE LOAN INVESTMENT

As set out in the Unaudited Pro Forma Financial Information of the Enlarged Group in Appendix III to this circular, on the basis of the notes set out therein to illustrate the impact on the Group's financial position as at 31 December 2019 as if only the Acquisition had taken place (but not the Convertible Loan Investment) on 31 December 2019:

(a) the consolidated total asset of the Group as at 31 December 2019 would be remained unchanged at approximately RMB777,560,000. Investment in associate would be increased by approximately by RMB284,000,000 as the Target Group will be accounted for as an associate using equity method, such increase would be fully offset by the decrease in financial assets measured at fair value through profit or loss of approximately RMB184,000,000 and cash and cash equivalents of approximately RMB100,000,000 due to the settlement of the consideration of the Acquisition;

(b) the consolidated total liabilities of the Group as at 31 December 2019 would be remained unchanged at approximately RMB143,015,000; and

(c) the financial results of Target Group will not be consolidated into that of the Group and it will be accounted for as an investment in an associate using equity method. Therefore, the financial results of the Target Group will be accounted for by equity accounting in the earnings of the Group. No fair value change of Mico will be recognised in the consolidated statement of comprehensive income of the Group.

As set out in the Unaudited Pro Forma Financial Information of the Enlarged Group in Appendix III to this circular, on the basis of the notes set out therein to illustrate the impact on the Group's financial position as at 31 December 2019 as if the Acquisition and the Convertible Loan Investment had taken place on 31 December 2019:

(a) the consolidated total asset of the Group as at 31 December 2019 would be increased from approximately RMB777,560,000 to the consolidated total asset of the Enlarged Group of approximately RMB1,070,212,000. Such increase would be mainly attributable to the addition of the intangible assets and goodwill of the Target Group of approximately RMB216,786,000 and RMB82,405,000 respectively resulting from the Acquisition and the Convertible Loan Investment, which would be partially offset by the decrease in cash and cash equivalents of approximately RMB60,550,000 due to the settlement of the consideration of the Acquisition and the financial assets measured at fair value through profit or loss of approximately RMB184,000,000 due to the consolidating the financial statements of Target Group;

(b) the consolidated total liabilities of the Group as at 31 December 2019 would be increased from approximately RMB143,015,000 to the consolidated total liabilities of the Enlarged Group of approximately RMB261,235,000. Such increase would be mainly attributable to the consolidation of the Target Group's total liabilities of approximately RMB64,281,000 resulting from the Acquisition and pro forma adjustments for the Convertible Loan Investments approximately RMB53,939,000; and

(c) The Target Group will contribute revenue generated from operating a social networking platform to the Enlarged Group, and will enhance the revenue stream of the Enlarged Group and the Enlarged Group's earnings are expected to increase as a result of the completion of the Acquisition and the Convertible Loan Investment.

For details of the Target Group, please refer to the accountants' report on the Target Group in Appendix II and Management Discussion and Analysis of the Target Group in Appendix IV to this circular.

LISTING RULES IMPLICATIONS

Phoenix Fortune is an associate of Mr. Du Li. Through Phoenix Wealth Investment (Holdings) Limited and Phoenix Auspicious FinTech Investment L.P., Mr. Du Li is interested in approximately 15.69% interest of the Company as at the Latest Practicable Date. As such, Phoenix Fortune is a connected person of the Company and the Acquisition constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules.

Mico is an associate of Mr. Ye Chunjian, who was a director of NewBornTown Network Technology until 13 May 2019. As such, Mr. Ye Chunjian and Mico are connected persons of the Company and the Convertible Loan Investment constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios of the Acquisition and the Convertible Loan Investment exceeding 25%, but all such percentage ratios are less than 100%, the Acquisition and the Convertible Loan Investment also constitute a major transaction of the Company under Chapter 14 of the Listing Rules. Therefore, the Company is subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders in respect of the Equity Transfer Agreement, the Convertible Loan Investment Agreement, the Conversion and the transactions contemplated thereunder. Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

THE EGM

A notice convening the EGM to be held on 29 June 2020 at 12/F, Tower A, CEC Development Building, Sanyuanqiao, Chaoyang District, Beijing, PRC is set out in this circular.

According to the Listing Rules, any vote in the EGM must be taken by poll.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, save for Phoenix Wealth Investment (Holdings) Limited, Phoenix Auspicious FinTech Investment L.P., Pixel Perfect Tech Limited, Ningbo Meihua Shunshi Angel Capital Partnership Enterprise (Limited Partnership), Mr. Du Li, Mr. Wu Shichun and Mr. Ye Chunjian, no Shareholders any of their respective close associates have any material interest in the Equity Transfer Agreement, the Convertible Loan Investment Agreement, the Conversion and the transactions contemplated thereunder. As such, save for Phoenix Wealth Investment (Holdings) Limited, Phoenix Auspicious FinTech Investment L.P., Pixel Perfect Tech Limited, Ningbo Meihua Shunshi Angel Capital Partnership Enterprise (Limited Partnership), Mr. Du Li, Mr. Wu Shichun and Mr. Ye Chunjian and their respective close associates, none of the Shareholders are required to abstain from voting in favour of the resolutions approving, amongst others, the Equity Transfer Agreement, the Convertible Loan Investment Agreement, the Conversion and the transactions contemplated thereunder. As at the Latest Practicable Date, Phoenix Wealth Investment (Holdings) Limited, Phoenix Auspicious FinTech Investment L.P., Pixel Perfect Tech Limited, Ningbo Meihua Shunshi Angel Capital Partnership Enterprise (Limited Partnership), Mr. Du Li, Mr. Wu Shichun and Mr. Ye Chunjian and their respective close associates, in aggregate owns 245,509,490 Shares, representing approximately 24.55% of the total issued Shares.

A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the website of the Company at www.newborntown.com/en/. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e. before 2:00 p.m. on 27 June 2020) or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the EGM or any adjourned meeting thereof if they so wish.

RECOMMENDATION

The Board has resolved and approved the resolutions in respect of the Equity Transfer Agreement, the Convertible Loan Investment Agreement and the Conversion. No Director has a material interest in the transactions and has abstained from voting on the board resolutions.

The Board (including the independent non-executive Directors) considers that the terms and conditions of the Equity Transfer Agreement, the Convertible Loan Investment Agreement and the Conversion are fair and reasonable and on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including the independent non-executive Directors) recommends the Shareholders to vote in favour of the resolutions as set out in the notice of the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By Order of the Board
NEWBORN TOWN INC.
赤子城科技有限公司
LIU Chunhe
Chairman

赤子城
newborntown

NEWBORN TOWN INC.
赤子城科技有限公司
(Incorporated in Cayman Islands with limited liability)
(Stock Code: 9911)

To the Independent Shareholders 11 June 2020

Dear Sir or Madam,

MAJOR TRANSACTION
CONNECTED TRANSACTION

ENTERING INTO EQUITY TRANSFER AGREEMENT AND CONVERTIBLE LOAN INVESTMENT AGREEMENT

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the terms and conditions of the Equity Transfer Agreement, the Convertible Loan Investment Agreement and the Conversion are fair and reasonable and on normal commercial terms and in the interest of the Company and the Shareholders as a whole and how to vote.

Having considered the above and the advice of the Independent Financial Adviser in relation thereto as set out on pages 37 to 74 of this circular, we consider that the Acquisition and Convertible Loan Investment, though not in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as a whole, and that the terms of the Equity Transfer Agreement and the Convertible Loan Investment Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of and approve all resolution(s) in relation to the entering into the Equity Transfer Agreement, the Convertible Loan Investment Agreement and the Conversion to be proposed at the EGM.

Yours faithfully,
For and on behalf of the Independent Board Committee

Mr. PAN Xiya	**Mr. CHI Shujin**	**Mr. LIU Rong**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

Set out below is the letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

11 June 2020

To: The Independent Board Committee and the Independent Shareholders of Newborn Town Inc.

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION IN RELATION TO ENTERING INTO EQUITY TRANSFER AGREEMENT AND CONVERTIBLE LOAN INVESTMENT AGREEMENT

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the Acquisition and the Convertible Loan Investment (the "**Transactions**"). Details of the Transactions are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 11 June 2020 (the **"Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 17 April 2020, NewBornTown Network Technology, an entity accounted for as a subsidiary of the Company by virtue of the Contractual Arrangements, 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 "**Consideration**"). Upon the completion of the Acquisition, NewBornTown Network Technology will hold approximately 25.62% equity interest of Mico.

On the same date, NewBornTown Network Technology entered into the Convertible Loan Investment Agreement with Mr. Ye Chunjian and Mico, pursuant to which NewBornTown Network Technology has conditionally agreed to provide Mico with a convertible loan of

RMB50.0 million. If NewBornTown Network Technology converts all of the loan to the newly issued registered capital of Mico, NewBornTown Network Technology will hold approximately 28.60% equity interest of Mico after the issuance of the new registered capital due to such conversion.

Phoenix Fortune is an associate of Mr. Du Li. Through Phoenix Wealth Investment (Holdings) Limited and Phoenix Auspicious FinTech Investment L.P., Mr. Du Li is interested in approximately 15.69% interest of the Company as at the date of the Equity Transfer Agreement. As such, Phoenix Fortune is a connected person of the Company and the Acquisition constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules. Mico is an associate of Mr. Ye Chunjian, who was a director of NewBornTown Network Technology until 13 May 2019. As such, Mr. Ye Chunjian and Mico are connected persons of the Company and the Convertible Loan Investment constitutes a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios of the Transactions exceed 25%, but all such percentage ratios are less than 100%, the Transactions constitute a major transaction of the Company under Chapter 14 of the Listing Rules. Therefore, the Company is subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Pan Xiya, Mr. Chi Shujin and Mr. Liu Rong, has been established to advise the Independent Shareholders on the Equity Transfer Agreement, the Convertible Loan Investment Agreement, the Conversion and the transactions contemplated thereunder and to make recommendation as to voting. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated with the Company, NewBornTown Network Technology, Phoenix Fortune, Mr. Ye Chunjian, Mico or any of their close associates, associates or core connected persons (all as defined in the Listing Rules) and accordingly we are considered eligible to give independent advice on the above matters. Apart from normal professional fee payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, NewBornTown Network Technology, Phoenix Fortune, Mr. Ye Chunjian, Mico or any of their close associates, associates or core connected persons.

In formulating our opinion and recommendation, we have reviewed, among other things, the Equity Transfer Agreement, the Convertible Loan Investment Agreement, the annual report of the Company for the year ended 31 December 2019, the Prospectus, the accountants' report of Mico as set out in appendix II to the Circular, the unaudited pro forma financial information of the Enlarged Group as set out in appendix III to the Circular, the valuation report (the "**Valuation Report**") issued by Asia-Pacific Consulting and Appraisal Limited (the "**Independent Valuer**"), the independent valuer, in relation to the market valuation of approximately 8.85% equity interest of Mico as at 31 March 2020 (the "**Valuation**") set out in appendix V to the Circular and the information as set out in the Circular. We have also discussed with the management of the Group (the "**Management**") about Mico and the future prospects of the Enlarged Group. We have also interviewed and discussed with the Independent Valuer regarding to the Valuation.

We have relied on the information and facts supplied, and the opinions expressed, by the Directors and the Management and have assumed that they are true, accurate and complete. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the business and affairs of the Company and Mico, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation, we have taken into consideration the following principal factors and reasons:

1. Business and financial information of the Group

(a) Business of the Group

The Company is an investment holding company that provides mobile application development services and mobile advertising platform services supported by AI (artificial intelligence) technology. The Company operates through two segments, namely mobile advertising platform and related business and proprietary applications traffic monetisation business. Mobile advertising platform and related business segment is monetised by selling in-app advertising space, and also provides mobile traffic procurement services to advertisers through its own programmatic mobile advertising platform Solo Math. Proprietary applications traffic monetisation business segment provides a wide range of diversified applications to mobile device users free of charge for mobile traffic, and monetises such mobile traffic by selling in-app advertising spaces to advertisers. As of the end of 2019, the Company's mobile applications and mobile advertising platform services have covered users in more than 200 countries and regions around the world.

The Company was listed on the Main Board of the Stock Exchange (stock code: 9911) on 31 December 2019 (the "**IPO**"). The Company expected to use the net proceeds from the IPO to develop, expand and upgrade its Solo X product matrix and Solo Math programmatic advertising platform.

(b) Financial performance of the Group

Set out below is a summary of the Group's financial performance for the years ended 31 December 2019, 2018 and 2017.

	For the year ended 31 December		
	2019	**2018**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Revenue from contracts with customers	389,685	276,686	181,842
Cost of revenue	(128,173)	(135,266)	(111,468)
Gross profit	261,512	141,420	70,374
Selling and marketing expenses	(120,538)	(68,975)	(33,693)
Research and development expenses	(20,271)	(17,492)	(11,538)
General and administrative expenses	(96,755)	(14,981)	(13,459)
Net impairment losses on financial assets	(3,299)	(6,963)	(1,584)
Other income	1,393	58	1,392
Others gain – net	27,838	35,723	25,374
Operating profit	49,880	68,790	36,866
Finance income/(cost) – net	21,072	(180)	(90)
Fair value changes of convertible redeemable preferred shares	7,434	–	–
Profit before income tax	78,386	68,610	36,776
Income tax expenses	(9,971)	(8,873)	(4,795)
Profit for the year	68,415	59,737	31,981

Revenue from contracts with customers of the Group increased from approximately RMB181.8 million for the year ended 31 December 2017 to approximately RMB389.7 million for the year ended 31 December 2019, representing a compound annual growth rate ("**CAGR**") of approximately 46.4%. The revenues of proprietary applications traffic monetisation business and mobile advertising platform and related business accounted for approximately 62.5% and approximately 37.5% respectively of the total revenue from contracts with customers of the Group for the year ended 31 December 2019.

The revenue of proprietary applications traffic monetisation business increased to approximately RMB243.7 million for the year ended 31 December 2019, as compared to that of approximately RMB27.7 million for the year ended 31 December 2017, representing a CAGR of approximately 196.6%. The increase was primarily attributable to (i) continuous efforts in developing and launching new applications and the upgrade of existing applications to maintain and attract users; (ii) increased promotion efforts and the synergy effect to cross-market existing applications to contribute to the growth of user base; and (iii) cooperation with a leading global mobile internet company based in the PRC in 2019 to launch and operate the Group's applications in the PRC market. On the other hand, the revenue of mobile advertising platform and related business enhanced by approximately 19.2% to approximately RMB183.8 million for the year ended 31 December 2018, but it decreased by approximately 20.6% to approximately RMB146.0 million for the year ended 31 December 2019 due to the decrease in the performance-based advertising service. The advertising customers tend to reduce advertising spending for long-tail mobile traffic in view of uncertainties in the global and local economy.

Gross profit for the year ended 31 December 2019 amounted to approximately RMB261.5 million, representing a CAGR of approximately 92.7% from that of approximately RMB70.4 million for the year ended 31 December 2017. The Group's gross profit margins were approximately 67.1%, 51.1% and 38.7% for the years ended 31 December 2019, 2018 and 2017 respectively. The improvement in gross profit margin was mainly due to the increasing proportion of revenue generated from the proprietary applications traffic monetisation business, which had a much higher gross profit margin than that of the mobile advertising platform and related business.

Profit for the year enhanced from approximately RMB32.0 million for the year ended 31 December 2017 to approximately RMB68.4 million for the year ended 31 December 2019, representing a CAGR of approximately 46.3%. The CAGR of net profit was much lower than that of the gross profit of approximately 92.7%, which was largely due to significantly increases in both selling and marketing expenses, and general and administrative expenses. The increase in selling and marketing expenses was mainly resulted from the higher cost for advertising placement for the proprietary applications traffic monetisation business in both the PRC and overseas markets, while the increase in the general and administrative expenses was chiefly attributable to (i) the increase in listing expenses for the year ended 31 December 2019, (ii) a considerable amount of share-based compensation expenses; and (iii) the increase in employee benefit expenses.

(c) Financial position of the Group

Set out below is a summary of the financial position of the Group as at 31 December 2019, 2018 and 2017.

	As at 31 December		
	2019	**2018**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
ASSETS			
Non-current assets			
Intangible assets and goodwill	8,999	9,688	10,262
Financial assets measured at fair value through profit or loss	187,356	66,518	41,485
Others	6,960	12,866	11,710
	203,315	89,072	63,457
Current assets			
Accounts receivable	163,383	183,137	144,190
Financial assets measured at fair value through profit or loss	132,651	197,963	220,178
Cash and cash equivalents	182,863	80,628	71,987
Others	95,348	63,429	18,406
	574,245	525,157	454,761
Total assets	777,560	614,229	518,218
LIABILITIES			
Current liabilities			
Accounts payable	89,938	89,396	65,631
Other payable	32,575	9,086	5,491
Others	8,514	3,230	3,516
	131,027	101,712	74,638
Net current assets	443,218	423,445	380,123
Non-current liabilities			
Deferred tax liabilities	8,914	4,171	–
Lease liabilities	3,074	–	2,999
	11,988	4,171	2,999
Net assets	634,545	508,346	440,581
EQUITY			
Equity attributable to the Shareholders	634,545	508,346	440,581
Non-controlling interests	–	–	–
	634,545	508,346	440,581

The Group's total assets grew from approximately RMB614.2 million as at 31 December 2018 to approximately RMB777.6 million as at 31 December 2019, representing an increase of approximately 26.6%.

As at 31 December 2019, financial assets measured at fair value through profit or loss (the "**Financial Assets**") was the largest component of the assets of the Group, which accounted for approximately 41.2% of the total assets. The Financial Assets under the current assets decreased to approximately RMB132.7 million as at 31 December 2019 as compared with that of approximately RMB198.0 million as at 31 December 2018, which was primarily due to the disposal and maturity of the Group's investments in wealth management products. Meanwhile, the Financial Assets under the non-current assets increased to approximately RMB187.4 million as at 31 December 2019 as compared with that of approximately RMB66.5 million as at 31 December 2018. Such increase was chiefly due to the additional investment and the fair value increase in equity interest of Mico. Cash and cash equivalents increased to approximately RMB182.9 million as at 31 December 2019, representing an increase of approximately 126.8% as compared to that in prior year. The enhanced cash position was mainly attributable to cash generated from operations and the net proceeds from the IPO.

During the review period, the Group had maintained a healthy working capital position (i.e. net current assets) of approximately RMB380.1 million to approximately RMB443.2 million.

The gearing ratio, calculated as total liabilities divided by total assets, continued to maintain at a low level of approximately 18.4%, 17.2% and 15.0% as at the end of 2019, 2018 and 2017 respectively. The Group's operations were largely financed by the Shareholders' equity, which has grown from approximately RMB440.6 million as at 31 December 2017 to approximately RMB634.5 million as at 31 December 2019 as a result of, among other things, issue of the Shares upon the IPO and contribution of profits from operations.

2. Reasons for and benefits of the Transactions

As discussed in the letter from the Board contained in the Circular, the Company has started business cooperation with Mico since 2015 and, therefore, understands the strengths of Mico in product development, operations and fast-growing business development. Through the Transactions and by controlling of Mico, the Company expects that it will be able to leverage on Mico's competitive strengths in technology, data and user acquisition. Also, Mico's business will be further strengthen with, among other things, the Convertible Loan and the Company's experiences and understanding in overseas market.

In particular, it is anticipated that the Company will create a closer partnership with Mico to create synergies across the Company's business in three aspects. First, Mico can provide the Company with strategic value as a publisher in social networking not only by offering stable ad inventories for both the Company's Solo X product matrix and the Company's advertisers on Solo Math mobile advertising platform, but also by offering the Company connections to its broad base of social networking users, which further enhance and strengthen the Company's Solo Math business and facilitate the Company's global traffic ecology. Mico has more than 100 million users. After the Transactions, the number of Solo X reachable users can be increased, and the data of such users will help Solo Aware to conduct deep learning and improve the matching efficiency of Solo Math. At the same time, the Solo Math platform can provide Mico with advertising services to monetise Mico's advertising inventory. Second, the Company's Solo X products diversity will be further increased, which helps the overall user acquisition, and Mico's successful product localisation experience can help the Company to launch more overseas products in the future. The product matrix of Solo X can form cross promotion with Mico, which can help Mico acquire new users to support the development of Mico and expand to the North America market. Mico can also assist Solo X related products on user acquisition. Last but not least, the popularity of Mico in its current operating regions is realised by its capabilities of globalisation and localisation, which is in line with the Company's development strategies to expand its localised service and distribution network, thereby laying the groundwork to build and expand the Company's networks and presence in such regions. The Company has launched its own social products. The successful experience of Mico can help the expansion of the Group's social products in Southeast Asia countries such as India, through the in-depth cooperation with the influencer association and the reuse of other resources of the industrial chain. At the same time, the experience can also help the expansion of the Company's other products in regions that Mico had popularity.

As disclosed in the section headed "Business strategies" in the Prospectus, the Company has the business strategies of, among other things, expanding the Company's localised service and distribution network and exploring strategic investments and acquisitions opportunities. The Company aims to become a company with global influence and it will continue enhancing its local service capabilities in the countries and regions where it operates. It intends to expand its local teams dedicated to marketing and business relationship building to understand the differentiated culture backgrounds and business models in each region. It will seek to enhance its overseas local service capabilities to strengthen its overseas market presence in key local markets. Asia, excluding the PRC, has been the major revenue contributor of the Company. Mico's popularity in the Middle East, Southeast Asia and North America is expected to expand the Company's localised service and distribution network. Furthermore, the Company intends to pursue strategic investment or acquire businesses that are complementary to its current businesses which can help strengthen its operations and enhance its business reputation. The Acquisition is anticipated to be complementary to the Company's current businesses.

Moreover, pursuant to the undertakings of Mico and Mr. Ye Chunjian, Mico shall grant NewBornTown Network Technology a right to exclusively use the intellectual property rights, core technology and commercial secret of Mico when NewBornTown Network Technology requires. This provides additional technological capability to the Group on a flexible manner.

As discussed with the Management, the Convertible Loan Investment does not only allow Mico to have additional financial resources to develop its business, but also provides the Company the opportunity to secure the additional equity interest in Mico at the current pricing and to realise a potential upside in the future. In addition, the loan under the Convertible Loan Investment Agreement will be used (i) for the expansion in the US market and the acquisition of US users since, according to the operating data and analysis of the US market, US users have stronger payment capabilities and willingness to pay; and (ii) for the development of new products since Mico will increase the input for the research and development of new products and funds will be used to support the investment of personnel and equipment for new products.

Also, upon completions of the Transactions, the Company will have control over Mico and therefore the Company will consolidate the financial results of Mico, which may further strengthen the financial performance of the Group.

3. Principal terms of the Equity Transfer Agreement

Date

17 April 2020

Parties

(i) NewBornTown Network Technology;

(ii) Phoenix Fortune; and

(iii) Mico.

Subject

NewBornTown Network Technology has conditionally agreed to acquire and Phoenix Fortune has conditionally agreed to sell approximately 8.85% equity interest of Mico.

Consideration and terms of payment

The consideration is RMB100.0 million, which shall be settled in cash by NewBornTown Network Technology within 30 days of the satisfaction or waived by Phoenix Fortune of all conditions agreed in the Equity Transfer Agreement. The Consideration will be funded by the internal resources of the Company.

Basis of determination of the Consideration

The Consideration was arrived at after arm's length negotiations between NewBornTown Network Technology and Phoenix Fortune and was determined after taking into account the valuation result of the 8.85% equity interest value of Mico as at 31 March 2020 of approximately RMB106 million (rounded), which was prepared by the Independent Valuer. The Consideration represents a discount of RMB6.0 million or approximately 5.7% to the Valuation. The Independent Valuer has performed an independent valuation using the market approach. The market value of Mico was developed by using the leading Price-to-Sales ratio. Please refer to the sub-section headed "(a) Business Valuation" in the section headed "7. Analysis of the Consideration" in this letter for the details of the Valuation, basis of projected revenue for year 2020 and our assessment on the Valuation. Further details of the key assumptions in determining the value of the 8.85% equity interest in Mico can be referred to the sub-section headed "Basis of determination of the consideration" in the letter from the Board contained in the Circular.

Conditions precedent

Pursuant to the terms the Equity Transfer Agreement, unless waived in writing by NewBornTown Network Technology, NewBornTown Network Technology's obligation to pay for the equity transfer shall be subject to the conditions precedent, among other things, being fulfilled:

(i) upon confirmation by Mico, from the execution date of the Equity Transfer Agreement to the date of the completion, there are no events, facts, conditions, changes or other situations that have occurred or have been reasonably foreseen that may have a material adverse effect on Mico's assets, financial structure, liabilities and normal operations, and such material adverse change will result in discontinuity of operation of Mico; and

(ii) the Company has convened the meeting of the Board and the General Meeting and both meetings have approved the Acquisition.

Other conditions precedent to the Equity Transfer Agreement are set out in the letter from the Board contained in the Circular. As at the Latest Practicable Date, except for the meeting of the Board, no condition precedent has been fulfilled or waived.

Business operation before the completion

From the execution date of the Equity Transfer Agreement to the date of the completion, Mico shall operate its business in the normal course of business, and shall spare no efforts to maintain the integrity of the business organisation, keep relations with third parties and retain existing management personnel and employees, and maintain Mico's ownership or the current status of all assets and assets used (except for normal operation use and loss).

Subsequent matters after the completion

Mico shall, and Phoenix Fortune shall procure Mico to, convene meetings of the board of directors and/or shareholders (as appropriate) as soon as possible after the completion of the Acquisition to elect a candidate nominated by NewBornTown Network Technology to become a director of Mico and approve the relevant amendments to the Mico Articles. The director to be nominated by NewBornTown Network Technology will replace the director nominated by Phoenix Fortune.

4. Principal terms of the Convertible Loan Investment Agreement

Date

17 April 2020

Parties

(i) NewBornTown Network Technology;

(ii) Mr. Ye Chunjian; and

(iii) Mico.

Subject

NewBornTown Network Technology shall provide a loan of RMB50.0 million to Mico. The Convertible Loan Investment will be funded by the internal resources of the Company.

The loan under the Convertible Loan Investment Agreement shall be solely used for the development of Mico's business. Without the prior written consent of NewBornTown Network Technology, Mico shall not use the loan for any other purposes (including but not limited to the repayment of Mico's other loans, etc.).

As stated in the letter from the Board contained in the Circular, the loan amount of RMB50.0 million is determined by taking into consideration of the financial availability of NewBornTown Network Technology and the financial needs of Mico. Furthermore, it is stated that Mico has a plan for the expansion in the US market for marketing and promotion by utilising approximately RMB35.0 million and hiring personnel and acquiring equipment for development of new products by utilising approximately RMB15.0 million. After considering its cash and cash equivalents of approximately RMB39.4 million as at 31 December 2019, Mico considers it is for the Target Group's benefit to fund the above plan by the Convertible Loan as it is interest-free during its two-year term.

Term and interest rates

The term of the Convertible Loan is two years and the Convertible Loan is interest-free. If Mico fails to repay the entire principal on the agreed repayment date and does not reach an agreement with NewBornTown Network Technology, it shall constitute a breach of contract. NewBornTown Network Technology has the right to charge overdue interest at the rate of 0.05% per day for overdue loans from the date of the expiry to the date of actual repayment. The overdue interest rate of 0.05% is based on the standard terms generally used in relation to loan agreements in the PRC.

The right of conversion

NewBornTown Network Technology, within the loan term, has the right to convert all or part of the loan to the newly issued registered capital of Mico, with reference to the valuation of equity interest value of Mico as at 31 March 2020 which serves as the basis of consideration of the Equity Transfer Agreement. If NewBornTown Network Technology converts all of the loan to the newly issued registered capital of Mico, NewBornTown Network Technology will hold approximately 28.60% equity interest of Mico after the issuance of the new registered capital due to such conversion.

Based on the Valuation (i.e. the appraised value of the approximately 8.85% equity interest of Mico as at 31 March 2020 of approximately RMB106 million), the implied value of Mico's 100% equity interest amounts to approximately RMB1,198 million. Upon the full conversion of the Convertible Loan, the implied post-money value of Mico will become approximately RMB1,248 million (being the sum of the implied value of Mico's 100% equity interest of approximately RMB1,198 million and the principal amount of the Convertible Loan of RMB50 million). Accordingly, the value of the Convertible Loan Investment represents approximately 4.01% of the implied post-money value of the issued share capital of Mico as enlarged by the full conversion of the Convertible Loan (being the Convertible Loan of RMB50 million divided by the implied post-money value of approximately RMB1,248 million), which is equivalent to the incremental equity interest of Mico to be held by NewBornTown Network Technology upon the full conversion of the Convertible Loan. In other words, the Convertible Loan Investment is made at the same valuation of Mico in the Acquisition.

Conditions precedent

Pursuant to the terms the Convertible Loan Investment Agreement, unless waived in writing by NewBornTown Network Technology, NewBornTown Network Technology's obligation to remit the loan payment shall be subject to the conditions precedent, among other things, being fulfilled:

(i) Mico has convened board of directors' meeting regarding the approval of: (a) the Amended Mico Articles; (b) formation of a new board of directors in accordance with the Amended Mico Articles. New board of directors of Mico has been formed in accordance with the Amended Mico Articles, and directors nominated by NewBornTown Network Technology have been elected;

(ii) Mico's shareholders Tianjin Tonghe Chuangyuan and Ningbo Tonghe Chuangyuan respectively have held partner meetings and adopted resolutions: (1) accepting NewBornTown Network Technology as partners of Tianjin Tonghe Chuangyuan and Ningbo Tonghe Chuangyuan; (2) appointing NewBornTown Network Technology as executive partners of Tianjin Tonghe Chuangyuan and Ningbo Tonghe Chuangyuan, and removing Mr. Ye Chunjian from the position of the general partners; Tianjin Tonghe Chuangyuan and Ningbo Tonghe Chuangyuan have entered into relevant transaction documents with NewBornTown Network Technology;

(iii) from the execution date of the Convertible Loan Investment Agreement to the date of the completion, there are no events, facts, conditions, changes or other situations that have occurred or have been reasonably foreseen that may have a material adverse effect on Mico's assets, financial structure, liabilities and normal operations;

(iv) the Company has convened the meeting of the Board and the General Meeting and both meetings have approved the Convertible Loan Investment; and

(v) the completion of the Equity Transfer Agreement.

Other conditions precedent to the Convertible Loan Investment Agreement are set out in the letter from the Board contained in the Circular. As at the Latest Practicable Date, except for the meeting of the board of directors of Mico and the Board meeting, no condition precedent has been fulfilled or waived.

The Convertible Loan Investment is conditional upon the Acquisition and not vice versa. In other words, the Convertible Loan Investment and the Acquisition are not inter-conditional with each other. Accordingly, there may be a circumstance that only the Acquisition proceeds but not the Convertible Loan Investment.

Amended Mico Articles

Pursuant to the Convertible Loan Investment Agreement, Mico has agreed to amend the Mico Articles. In addition, as one of the conditions precedent of, and undertakings of Mico and Mr. Ye Chunjian under the Convertible Loan Investment Agreement, the shareholders and/or board of directors (as appropriate) will approve the Amended Mico Articles, under which, NewBornTown Network Technology will have majority seats of the board of directors of Mico in voting to determine the relevant activities of Mico.

For details of the Amended Mico Articles, please refer to the letter from the Board contained in the Circular.

5. Information on Mico

(a) Business of Mico

Mico (formerly known as Beijing Zhongluo Technology Co., Ltd.) is a limited liability company incorporated under the laws of the PRC on 30 May 2014. Mico and its subsidiaries operate a social networking platform with users from more than 150 countries and regions. Its core apps are MICO and Kitty Live, which feature strangers social networking, group video chat, live streaming and short videos. MICO and Kitty Live are leading social networking apps in regions such as Middle East, Southeast Asia and North America.

The social networking platform consists of IT infrastructure, mobile applications and proprietary algorithm to offer live and interactive streaming services to individual users as Mico's customers. Individual user can acquire Mico's virtual currency, which is non-refundable and does not have expiration date, and purchase virtual items by using Mico's virtual currency on Mico's platforms, and simultaneously present to streamers during their live streaming performance to show their support for their favorite streamers. Mico has sole discretion in designing and establishing pricing of virtual items. Revenue is recognised when virtual items are consumed as they are presented to streamers.

(b) Shareholding structure of Mico

As at the Latest Practicable Date, Mr. Ye Chunjian held an equity interest of approximately 23.27% in Mico and approximately 3.45% in the Company. Mr. Ye Chunjian was also a director of NewBornTown Network Technology until 13 May 2019. Set out in the table below are the shareholding structures of Mico (i) as at the Latest Practicable Date; (ii) immediately upon completions of the Acquisition and/or the Convertible Loan Investment; and (iii) immediately upon the full conversion of the Convertible Loan.

Shareholders	**As at the Latest Practicable Date**	**Immediately upon completions of the Acquisition and/or the Convertible Loan Investment**	**Immediately upon the full conversion of the Convertible Loan**
NewBornTown Network Technology	16.77%	25.62%	28.60%
Ye Chunjian	23.27%	23.27%	22.34%
Cao Wen	17.12%	17.12%	16.44%
Phoenix Fortune	8.85%	–	–
Tianjin Tonghe Chuangyuan *(Note 1)*	8.01%	8.01%	7.69%
Ningbo Tonghe Chuangyuan *(Note 1)*	7.96%	7.96%	7.65%
Others *(Note 2)*	18.02%	18.02%	17.28%
Total	**100.00%**	**100.00%**	**100.00%**

Notes:

1. Tianjin Tonghe Chuangyuan and Ningbo Tonghe Chuangyuan are employee stock ownership plan platforms, both of which (i) were controlled by Mr. Ye Chunjian (as at the Latest Practicable Date); and (ii) will be directed by NewBornTown Network Technology (immediately upon completions of the Acquisition and/or the Convertible Loan Investment and immediately upon the full conversion of the Convertible Loan.), through his/its capacity as the executive partner.

2. Others include nine other shareholders of Mico.

As one of the conditions precedent of, and undertakings of Mico and Mr. Ye Chunjian under the Convertible Loan Investment Agreement, the shareholders and/or board of directors (as appropriate) will approve the Amended Mico Articles, under which, NewBornTown Network Technology will have majority seats of the board of directors of Mico in voting to determine the relevant activities which significantly affect the operating returns of Mico. After completions of the Transactions, NewBornTown Network Technology, being the single largest shareholder with approximately 25.62% equity interest together with the approximately 15.97% equity interest owned by Tianjin Tonghe Chuangyuan and Ningbo Tonghe Chuangyuan (as the platforms for the employee stock ownership plan of Mico), both of which will be directed by NewBornTown Network Technology as the executive partner, will have control over Mico and therefore, the Company will consolidate the financial statements of Mico.

In the event that the conditions precedent of the Convertible Loan Investment are not fully satisfied or waived (as applicable) and the Convertible Loan Investment does not proceed, NewBornTown Network Technology will not have majority seats of the board of directors of Mico and Tianjin Tonghe Chuangyuan and Ningbo Tonghe Chuangyuan will not be directed by NewBornTown Network Technology. In such circumstances, while NewBornTown Network Technology will continue own approximately 25.62% equity interest of Mico, NewBornTown Network Technology will not have the control of Mico and therefore, the Company will not consolidate the financial statements of Mico, and Mico will be accounted for as an associate of the Company.

(c) Operating metrics of Mico

Based on our discussion with the Management, we noted that Mico experienced rapid business growth in the past few years. Set out below in the table are the growth rates of certain key operating metrics of Mico.

	As at/For the year ended 31 December	
	2019	**2018**
	Annual growth rate	*Annual growth rate*
Number of newly registered users	67.7%	63.6%
Average monthly active users ("**MAU**")	67.4%	64.0%
Number of paying users	48.1%	230.6%
Number of orders placed per paying user	-3.1%	62.2%
Average price per order	24.0%	-18.3% *(Note)*
Average revenue per paying user	22.3%	10.9%

Note: The average price per order for 2017 has only taken into account the operating data since July 2017 to avoid misleading results since Mico had just acquired Beijing Duanji Network Technology Co., Ltd. in early 2017 and the relevant operating data was anomaly.

(d) Financial performance of Mico

Set out below is a summary of the financial performance of the Target Group (i.e. Mico and its subsidiaries) for the years ended 31 December 2019, 2018 and 2017 (the "**Track Record Period**") prepared in accordance with International Financial Reporting Standards as extracted from the accountants' report of Mico in appendix II to the Circular.

	For the year ended 31 December		
	2019	**2018**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Revenue	382,308	211,146	57,599
Cost of sales	(315,620)	(204,331)	(126,817)
Gross profit/(loss)	66,688	6,815	(69,218)
Other income/(loss)	4,951	1,216	(178)
Selling and marketing expenses	(11,045)	(4,381)	(8,039)
Research and development expenses	(15,007)	(9,997)	(8,617)
General and administrative expenses	(11,733)	(8,053)	(44,074)
Profit/(loss) from operations	33,854	(14,400)	(130,126)
Finance costs	(123)	(187)	(220)
Profit/(loss) before taxation	33,731	(14,587)	(130,346)
Income tax	(6,372)	(1,794)	15,545
Profit/(Loss) for the year attributable to the equity shareholders of Mico	27,359	(16,381)	(114,801)

The Target Group's revenue was primarily generated from the social networking business. The revenue from the provision of live streaming services accounted for the significant majority of the revenue of the Target Group throughout the Track Record Period.

In the Track Record Period, the revenue of the Target Group experienced a significant growth due to the successful execution of the live streaming services strategy. The revenue for the year ended 31 December 2018 jumped more than 3 times to approximately RMB211.1 million as compared with that for the year ended 31 December 2017, which was mainly due to the increased popularity of the Target Group's social networking apps in the Middle East and Southeast Asia. The growth trend continued for year ended 31 December 2019 as the revenue enhanced by approximately 81.1% to approximately RMB382.3 million mainly due to the Target Group's continued efforts in operating its social networking apps in the Middle East and Southeast Asia and the launch and promotion of its apps in areas such as North America and South Asia. Also, as seen in the sub-section headed "(c) Operating metrics of Mico" in this section, the aforesaid growths were mainly attribute to the overall increase in the number of paying users. Leveraging its efforts in optimising the operation of its apps and the enhanced content quality on its apps, the Target Group was able to increase not only its number of paying users and average monthly active users, but also the average revenue per paying user of its apps during the period from 2017 to 2019.

Combined with growing revenue from the core apps and gradually achieved economies of scale and relatively stable fixed costs, the Target Group recorded gross profits of approximately RMB66.7 million and RMB6.8 million for the years ended 31 December 2019 and 2018 respectively.

For the years ended 31 December 2019, 2018 and 2017, the Target Group recorded a net profit of approximately RMB27.4 million and net losses of approximately RMB16.4 million and RMB114.8 million, respectively. The net loss of RMB114.8 million for the year ended 31 December 2017, which was mainly attributable to (i) the relatively high operating costs incurred by the Target Group in the early stage of its business; and (ii) the equity-settled share-based payment expenses totalled approximately RMB70.3 million. The net loss reduced to approximately RMB16.4 million for the year ended 31 December 2018 and it turned to a net profit for the year ended 31 December 2019 mainly due to the continued expansion and increased revenue of the Target Group.

(e) Financial position of Mico

Set out below is a summary of the financial position of the Target Group as at 31 December 2019, 2018 and 2017.

	As at 31 December		
	2019	**2018**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
ASSETS			
Non-current assets			
Property and equipment	3,219	4,949	7,223
Intangible asset	24,764	28,150	31,786
Goodwill	139,456	139,456	139,456
Deferred tax assets	19,794	26,320	28,642
	187,233	198,875	207,107

	As at 31 December		
	2019	**2018**	**2017**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Current assets			
Accounts and other receivables	47,078	31,112	25,866
Non-equity investments	3,341	393	1,729
Cash and cash equivalents	39,353	17,109	10,137
Restricted bank deposits	359	351	334
	90,131	48,965	38,066
Total assets	277,364	247,840	245,173
LIABILITIES			
Current liabilities			
Accounts and other payables	50,968	157,991	130,361
Other current liabilities	6,914	4,670	4,896
	57,882	162,661	135,257
Net current asset/(liabilities)	32,249	(113,696)	(97,191)
Non-current liabilities	6,399	7,846	9,623
Net assets	213,083	77,333	100,293
EQUITY			
Paid-in capital	2,390	2,140	2,140
Reserves	210,693	75,193	98,153
	213,083	77,333	100,293

The majority of the assets of the Target Group as at 31 December 2019 was goodwill, accounting for approximately 50.3% of the total assets held by the Target Group, which was mainly attributable to a merger between Mico and Beijing Duanji Network Technology Co., Ltd. in 2017.

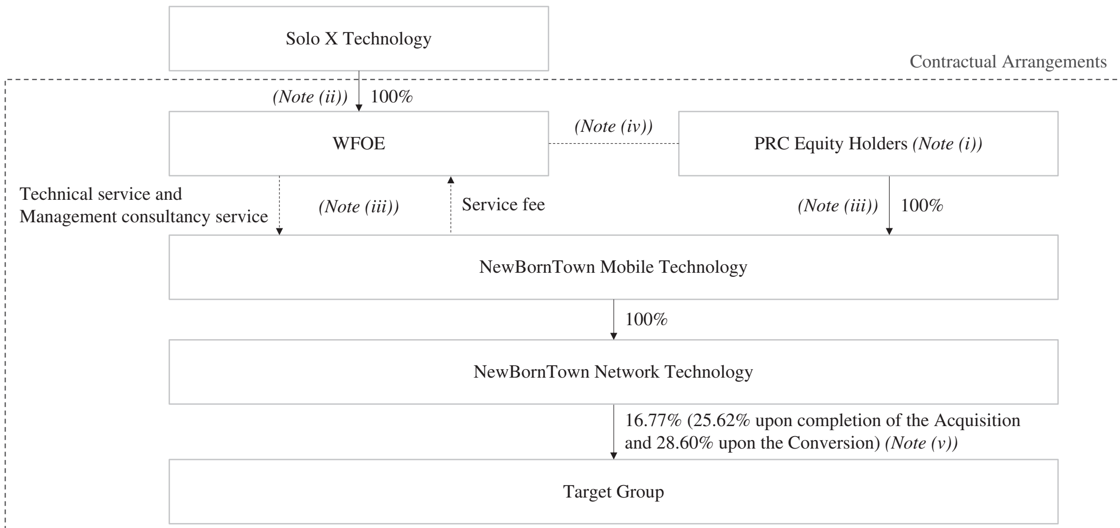
The Target Group did not have any borrowings. Accounts and other payables accounted for the majority of the liabilities of the Target Group during the Track Record Period. Working capital position had improved during the Track Record Period, from net current liabilities of approximately RMB97.2 million and approximately RMB113.7 million as at 31 December 2017 and 2018 respectively to net current assets of approximately RMB32.2 million as at 31 December 2019.

The operations of the Target Group were largely financed by the shareholders' equity. Benefitting from the net profit generated for the year ended 31 December 2019, the net assets of the Target Group had strengthened and experienced a substantial increase from approximately RMB77.3 million as at 31 December 2018 to approximately RMB213.1 million as at 31 December 2019, representing a growth of approximately 1.8 times.

6. The Contractual Arrangements

As stated in the letter from the Board contained in the Circular, Mico is engaged in social networking business with apps offered in and outside the PRC and possesses an ICP Licence (增值電信業務經營許可證), and Shenzhen Leyuyou, a wholly-owned subsidiary of Mico, possesses an Internet Culture Business Licence (網絡文化經營許可證). Pursuant to the legal opinion issued by the PRC legal adviser of the Company, Jingtian & Gongcheng (the "**PRC Legal Adviser**"), in relation to the Acquisition (the "**Legal Opinion**"), the social networking business with apps offered in the PRC, in particular that if the relevant company intends to generate revenue in PRC through the operation of such apps, falls into the value-added telecommunications services business as described in Part 7(ii) of the Special Management Measures (Negative List) for the Access of Foreign Investment (2019 version) (《外商投資准入特別管理措施(負面清單)(2019年版)》) with effect from 30 July 2019 (the "**Negative List**"), and the relevant company is requested to apply for an ICP license, which is subject to foreign investment restrictions as per the Negative List; and the Internet Culture Business License will not be granted to any foreign invested enterprise. As further advised by the PRC Legal Adviser, the change in Mico shareholding upon completions of the Transactions will not affect the ICP License and the Internet Culture Business License possessed by Mico. However, the Group cannot directly invest in Mico and Shenzhen Leyuyou, otherwise it may cause the ICP License and the Internet Culture Business License to be revoked. Thus, the additional equity interest to be acquired through the Acquisition has to be held by way of the Contractual Arrangements.

The following simplified diagram illustrates the flow of economic benefits from the Company's consolidated affiliated entities (including the Target Group) to the Group under the Contractual Arrangements after completions of the Transactions:



Notes:

(i) PRC Equity Holders refer to the registered shareholders of NewBornTown Mobile Technology.

(ii) "—>" denotes direct legal and beneficial ownership in the equity interest (except in the case of Huang Mingming, which the beneficial ownership in the equity interest of NewBornTown Mobile Technology is held by Huang Mingming on behalf of Future Capital Discovery Fund I, L.P.).

(iii) "--->" denotes contractual relationship.

(iv) "----" denotes the control by WFOE over the PRC Equity Holders and NewBornTown Mobile Technology through (i) powers of attorney to exercise all shareholders' rights in NewBornTown Mobile Technology, (ii) exclusive equity call options to acquire all or part of the equity interests in NewBornTown Mobile Technology, (iii) exclusive asset call options to acquire all or part of the intellectual property and all other assets of NewBornTown Mobile Technology, and (iv) equity pledges over the equity interests in NewBornTown Mobile Technology.

(v) Upon completions of the Transactions, Mico will be held as to 25.62% by NewBornTown Network Technology and will be an entity accounted for as a subsidiary of the Company as explained above.

In relation to the legality of the Contractual Arrangements, we referred to the opinion issued by the PRC Legal Adviser, which stated in the Prospectus that the Contractual Arrangements are narrowly tailored to minimise the potential conflict with relevant PRC laws and regulations and that, among others:

(i) parties to each of the Contractual Arrangements have obtained all necessary approvals and authorisations to execute and perform the Contractual Arrangements;

(ii) parties to each of the agreements are entitled to execute the agreements and perform their respective obligations thereunder;

(iii) the Contractual Arrangements do not violate the provisions of the articles of associations (or partnership agreements) of Shangdong NewBornTown Network Technology Co., Ltd. and NewBornTown Mobile Technology;

(iv) the parties to each of the Contractual Arrangements are not required to obtain any approvals or authorisations from the mainland China governmental authorities except in certain circumstances; and

(v) each of the Contractual Arrangements is valid, legal and binding under the laws of mainland China except for (i) the dispute resolution that any interim remedies or enforcement order granted by overseas courts such as those of Hong Kong and the Cayman Islands may not be recognisable or enforceable in mainland China; and (ii) the liquidating committee which may not be applicable in the event of a mandatory liquidation required by mainland China laws or bankruptcy liquidation.

As stated in the letter from the Board as contained in the Circular, the Contractual Arrangements are narrowly tailored to minimise the potential conflict with relevant PRC laws and regulations. Furthermore, as advised by the PRC Legal Adviser, the Company is not required to sign additional agreements and could control the Target Group via the existing Contractual Arrangements, and the change in Mico shareholding upon completions of the Transactions will not affect the legality of the ICP License and the Internet Culture Business License possessed by Mico. Furthermore, the PRC Legal Adviser is also of the view that (i) the Contractual Arrangements do not violate the provisions of the articles of associations of Mico; (ii) the agreements under the Contractual Arrangements would not be deemed as "concealing illegal intentions with a lawful form" such that they also do not fall within circumstance of an illegitimate purpose is concealed under the guise of legitimate acts under Article 52 of the PRC Contract Law of the People's Republic of China; and (iii) the control over Mico under the Contractual Arrangements will not violate under the applicable PRC laws and regulations. Therefore, the Directors are also of the view that the adoption of the Contractual Arrangements is unlikely to be deemed ineffective or invalid under the applicable PRC laws and regulations, and except for the relevant arbitration clauses in relation to dispute resolution, each of the agreements under the Contractual Arrangements is enforceable under the PRC laws and regulations.

As at the Latest Practicable Date, the Group and the Target Group had not encountered any interference of encumbrance from any PRC governing bodies in operating its businesses through NewBornTown Mobile Technology under the Contractual Arrangements.

For further details of, among others, loss sharing, risks and compliance regarding the Contractual Arrangements, please refer to the sub-section headed "Contractual Arrangements" under the section headed "Information on the parties to the Equity Transfer Agreement and the Convertible Loan Investment Agreement" in the letter from the Board contained in the Circular and the relevant sections in the Prospectus.

7. Analysis of the Consideration

(a) Business valuation

(i) Introduction

As stated in the letter from the Board contained in the Circular, the Consideration of RMB100.0 million was arrived at after arm's length negotiations between NewBornTown Network Technology and Phoenix Fortune and was determined after taking into account the leading price-to-sales ratios of comparable companies engaged in the operating social networking platform sector. The Company engaged the Independent Valuer to prepare the Valuation Report, which sets out a market valuation on the approximately 8.85% equity interest of Mico as at 31 March 2020 (the "**Valuation Date**"). The full text of the Valuation Report is set out in appendix V to the Circular. The Valuation Report has been prepared with reference to the International Valuation Standards issued by the International Valuation Standards Council.

Independent Shareholders' attention is drawn to the appraised value of the approximately 8.85% equity interest of Mico of RMB106 million as set out in the Valuation Report. The Consideration for the approximately 8.85% equity interest of Mico of RMB100.0 million represents a discount of RMB6 million or approximately 5.7% to the appraised value.

We have reviewed the Valuation Report and interviewed the relevant staff members of the Independent Valuer with particular attention to (i) the Independent Valuer's terms of engagement with the Company; (ii) the Independent Valuer's qualification and experience in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Independent Valuer in performing the Valuation. From our review of the engagement letter between the Company and the Independent Valuer, we are satisfied that the terms of engagement between the Company and the Independent Valuer are appropriate to the opinion the Independent Valuer is required to give. The Independent Valuer confirmed that it was independent from the Company, NewBornTown Network Technology, Phoenix Fortune and the Target Company and their respective related parties. We further understand that the Independent Valuer is a long-established international professional valuation firm with staff possessing the relevant professional qualifications and experience required to perform the Valuation and the person in-charge of the Valuation has over 14 years' experience in conducting valuation services to a wide range of clients in different industries. We note that the Independent Valuer mainly carried out its due diligence through management interviews and conducted its own proprietary research and has relied on public information obtained through its own research as well as the financial and operational information provided by the management of the Group. We were advised by the Independent Valuer that it has assumed the financial and operational information provided by the Company was accurate and it has relied to a considerable extent on such information in arriving at the opinion of value.

(ii) Valuation methodology

We note that the Valuation was primarily based on the market approach. The market approach refers to valuation by comparing the subject company with companies with similar principal business activities. We have discussed with the Independent Valuer the methodologies, bases and assumptions adopted during the course of conducting the Valuation using the market approach. As discussed with the Independent Valuer, the selection of the market approach, instead of income approach and cost approach, to be the primary valuation approach because (i) income approach relies on numerous assumptions over a long time horizon and the result may be very sensitive to certain inputs. Furthermore, it presents a single scenario only. Given the fast-growing characteristics of Mico, the income approach requires subjective assumptions to which the valuation is highly sensitive. Detailed operational information and long-term financial projections are also needed to arrive at an indication of value but such information is not available as at the Valuation Date; and (ii) the cost approach is generally not considered applicable to the valuation of a going concern business, as it does not directly incorporate information about the economic benefits contributed by the subject assets. The Independent Valuer also considered other benefits of the market approach, including its simplicity, clarity, and less reliance on unobservable and subjective assumptions. The market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparables.

(iii) Sample selection

For the valuation of Mico, based on a research of companies listed worldwide on an exhaustive basis, the Independent Valuer identified six comparable companies (the "**Valuation Comparable Companies**"), all of which derived over 50% of their revenue from operating social networking platform, especially in live streaming service, in the latest financial year. As advised by the Independent Valuer, the reason for adopting the above selection criteria was because the revenue generated from the live streaming service accounted for the majority of the total revenue of Mico and it was expected to continue to be the major revenue contributor in future. We discussed with the Independent Valuer its selection criteria and assessed the appropriateness of the Valuation Comparable Companies. Given the similar business activities of Mico and the Valuation Comparable Companies and the anticipated revenue contribution from live streaming service of Mico, we are satisfied with the selection of the Valuation Comparable Companies.

(iv) Choice of valuation multiples

For the selection of the valuation multiple, the Independent Valuer opted for the measure of leading price-to-sales multiples (the "**Leading P/S Multiples**"), which were calculated as the Valuation Comparable Companies' market capitalisation as at 31 March 2020 (i.e. the Valuation Date) divided by their corresponding forecast revenue for the year ending 31 December 2020. As advised by the Independent Valuer, the reason for choosing this valuation multiple was mainly because it was capable to reflect the latest financial performance of Mico.

The forecast revenue of each Valuation Comparable Company was based on analysts' consensus in Capital IQ[1], which was determined with reference to the estimates from, on average, analysts of seven investment banks. Based on the forecast revenue of the Valuation Comparable Companies for the year ending 31 December 2020, the Leading P/S Multiples of the Valuation Comparable Companies as at Valuation Date ranged from approximately 0.93 times to 3.97 times and had an average approximately 1.97 times.

(v) Revenue forecast of Mico

The revenue forecast of Mico for the year ending 31 December 2020 was determined based on the actual revenue for the three months ended 31 March 2020 of approximately RMB204.9 million and the forecast revenue for the remaining nine months ending 31 December 2020 (the "**Forecast Period**"). The forecast revenue for the Forecast Period was determined based on three key parameters, namely number of paying users, number of orders placed per paying user and price per order.

Two revenue forecasts of Mico for the year ending 31 December 2020 were prepared by the Management, namely the conservative scenario and the optimistic scenario.

(1) The conservative scenario

a. <u>The number of paying users</u>

In estimating the number of paying users in each month during the Forecast Period, the Management started with the estimated number of newly registered users (the "**New Users**"). The estimated number of the New Users in each month was determined with reference to that in the previous month. The estimated number of the New Users in April 2020 was determined with reference to the actual number of the New Users in March 2020.

1 Capital IQ is a market intelligence platform designed by S&P Global (also commonly known as Standard & Poor's). The platform is widely used in many areas of corporate finance, including investment banking, equity research and asset management.

Secondly, the Management multiplied the estimated number of the New Users in each month by the historical ratio of the MAU to the number of the New Users for the 12 months ended 31 March 2020 (the "**Trailing 12 Months**") to arrive at the estimated number of the MAU in each month.

Thirdly, the Management multiplied the estimated number of the MAU in each month by the historical ratio of the number of paying users to the number of the MAU for the Trailing 12 Months to arrive at the estimated number of paying users in each month.

b. The number of orders placed per paying user

The estimated number of order placed per paying user in each month was determined based on the actual average number of order placed per paying user in the Trailing 12 Months.

c. The price per order

The estimated price per order in each month was determined based on the actual average price per order in the Trailing 12 Months.

Based on the above, the Management estimated the forecast revenue of Mico in each month of the Forecast Period by multiplying (a) the estimated number of paying users; by (b) the estimated number of orders placed per paying user; and by (c) the estimated price per order. After aggregating the monthly forecast revenue for the Forecast Period and the actual revenue for the first three months in 2020, the forecast revenue of Mico for the year ending 31 December 2020 would be approximately RMB715 million.

(2) The optimistic scenario

Given the strong growth of Mico before the Forecast Period, the Management took the view that the revenue growth in the Forecast Period might sustain and exhibit a similar rising trend as seen in the recent six months. Accordingly, the management also prepared an optimistic scenario on the basis as set out below.

a. The number of paying users

The Management adopted the same basis in the conservative scenario for determining the estimated number of the New Users in the optimistic scenario.

Secondly, the Management multiplied the estimated number of the New Users in each month by the ratio of the MAU to the number of the New Users for a six-month period prior to that month (the "**Moving Six-Month Period**") to arrive at the estimated number of the MAU in each month.

Thirdly, the Management multiplied the estimated number of the MAU in each month by the historical ratio of the number of paying users to the number of the MAU for the Moving Six-Month Period to arrive at the estimated number of paying users in each month.

b. The number of orders placed per paying user

The estimated number of order placed per paying user in each month was determined based on the actual average number of order placed per paying user for the Moving Six-Month Period.

c. The price per order

The estimated price per order in each month was determined based on the actual average price per order for the Moving Six-Month Period.

Based on the revised basis as discussed above, the Management estimated the forecast revenue of Mico for the year ending 31 December 2020 under the optimistic scenario would be approximately RMB823 million.

Having considered the results in conservation and optimistic scenarios, the Management estimated the revenue of Mico for the year ending 31 December 2020 by taking the average of estimated revenue from both conservation and optimistic scenarios and arrived at approximately RMB770 million for the purpose of the Valuation.

(vi) DLOM

Mico is a privately-held company. The Independent Valuer therefore applied for a discount for lack of marketability of 21% (the "**DLOM**") to the estimated value of Mico to reflect the reduced level of marketability as compared to that of the Valuation Comparable Companies. We have discussed the application of the DLOM with the Independent Valuer and noted that the DLOM was commonly applied in valuation of unlisted companies. We understand from the Independent Valuer that the DLOM was computed with reference to the Finnerty Option Pricing Model, which was a commonly adopted method in reflecting the theoretical marketability discount in a private company. We also noted that the DLOM was also adopted by other professional valuers in business valuation of unlisted companies.

To determine the Valuation, the Independent Valuer started by multiplying the average of the Leading P/S Multiples of the Valuation Comparable Companies of approximately 1.97 times by the forecast revenue of Mico for the year ending 31 December 2020 of approximately RMB770 million to arrive at the entire equity value of Mico on a marketable basis of approximately RMB1,517 million. The Independent Valuer then adjusted for the lack of marketability by multiplying the DLOM of 21% to arrive at the appraised value of the entire equity value of Mico on a non-marketable basis of approximately RMB1,198 million. Finally, the Independent Valuer multiplied by the equity percentage of the subject of the Acquisition (i.e. approximately 8.85%) to arrive at the appraised value of the approximately 8.85% equity interest of Mico of approximately RMB106 million.

(b) Comparable Companies

The principal activity of Mico is the operation of a social networking platform, which features stranger social networking, group video chat, live streaming and short videos. In order to assess the fairness and reasonableness of the Consideration, we have also carried out analysis by comparing peer companies engaging in similar principal businesses.

We compared price-to-sales multiple (the "**P/S Multiple**") and price-to-earnings multiple (the "**P/E Multiple**") represented by the Consideration against that of the comparable companies (the "**Comparable Companies**") with majority of the revenue derived from operating social networking platform and at least 50% of the revenue generated from live streaming segment.

Based on the above criteria, we identified the Comparable Companies as set out in the table below, which are considered exhaustive and representative, together with their respective P/S Multiples and P/E Multiples.

Company name	**Stock code**	**Principal activities**	**Market capitalisation as at the Latest Practicable Date** *(RMB million)*	**P/S Multiple** *(Note 1)* *(times)*	**P/E Multiple** *(Note 2)* *(times)*
Tencent Music Entertainment Group	NYSE: TME	It operates an online music entertainment platform and music applications in China and it comprises, among others, a music-centric social live streaming function.	147,371.3	5.76	36.81

Company name	Stock code	Principal activities	Market capitalisation as at the Latest Practicable Date *(RMB million)*	P/S Multiple *(Note 1)* *(times)*	P/E Multiple *(Note 2)* *(times)*
JOYY Inc	Nasdaq: YY	It operates a number of live social networking platforms providing a range of online activities, including music shows, dating shows, live game broadcasting and e-learning.	39,607.7	1.54	11.66
Momo Inc	Nasdaq: MOMO	It operates a live social networking platform which includes a range of functions including, but not limited to, dating shows, live music and entertainment broadcasts.	30,825.9	1.80	10.32
HUYA Inc	NYSE: HUYA	It operates a game live streaming platform in China.	26,012.1	3.09	55.26
Douyu International Holdings Ltd. ("**Douyu**")	Nasdaq: DOYU	It operates a game live streaming platform in China.	20,445.7	2.81	Not meaningful *(Note 3)*
AfreecaTV Co., Ltd. ("**Afreeca TV**")	067160 KS	It operates a live streaming platform in South Korea.	3,905.0	Not meaningful *(Note 4)*	19.94
Inke Ltd.	3700 HK	It operates a live streaming platform in China.	1,932.7	0.59	35.18
Lizhi Inc. ("**Lizhi**")	Nasdaq: LIZI	It operates an audio based live streaming platform in China.	1,458.2	1.23	Not applicable *(Note 5)*
Tian Ge Interactive Holdings Ltd ("**Tian Ge**")	1980 HK	It operates two live streaming platforms in China in relation to game live streaming and e-commerce business.	1,066.1	Not meaningful *(Note 4)*	11.36
			Average	2.40	25.79
			Median	1.80	19.94
			Maximum	5.76	55.26
			Minimum	0.59	10.32
The Acquisition				**2.96** *(Note 6)*	**41.30** *(Note 7)*

Source: Bloomberg and annual reports of the respective Comparable Companies

Notes:

1. The P/S Multiples of the Comparable Companies are calculated based on the market capitalisation of the Comparable Companies as at the Latest Practicable Date divided by the net revenue of the corresponding Comparable Companies for the year ended 31 December 2019.

2. The P/E Multiples of the Comparable Companies are calculated based on the market capitalisation of the Comparable Companies as at the Latest Practicable Date divided by the profit attributable to the shareholders of the corresponding Comparable Companies for the year ended 31 December 2019.

3. Since the profit attributable to the shareholder of Douyu only amounted to approximately RMB39.8 million for the year ended 31 December 2019, the P/E Multiple of Douyu was approximately 512.42 times, which is considered an outliner and not meaningful for our analysis.

4. The revenues of both Afreeca TV and Tian Ge were recognised after deducting the revenue shared with the video streamers, which are considered incomparable to the nature of revenue of Mico and the other Comparable Companies.

5. Since Lizhi was loss-making for the year ended 31 December 2019, its P/E Multiple is not applicable.

6. The implied P/S Multiple of the Acquisition of approximately 2.96 times is calculated based on the Consideration of RMB100.0 million divided by the product of 8.85% (being the approximate percentage of equity interest of Mico to be purchased in the Acquisition) and the revenue of Mico for the year ended 31 December 2019 of approximately RMB382.3 million.

7. The implied P/E Multiple of the Acquisition of approximately 41.30 times is calculated based on the Consideration of RMB100 million divided by the product of 8.85% (being the approximate percentage of equity interest of Mico to be purchased in the Acquisition) and the net profit attributable to the shareholders of Mico for the year ended 31 December 2019 of approximately RMB27.4 million.

8. For illustrative purpose in the table above, conversions of United States dollars, Korean wons ("**KRW**") and Hong Kong dollars ("**HK$**") into RMB are based on the exchange rates of US$1 to RMB7.0, KRW1 to RMB0.0057 and HK$1 to RMB0.9 respectively for conversions of the amounts of market capitalisation and in the annual report of the Comparable Companies for the year ended December 31, 2019.

The P/S Multiples of the Comparable Companies are ranged from approximately 0.59 times to approximately 5.76 times and have an average and a median of approximately 2.40 times and approximately 1.80 times respectively. The implied P/S Multiple of the Acquisition of approximately 2.96 times is higher than the average and the median of the P/S Multiples of the Comparable Companies but it is within range of that of the Comparable Companies.

The P/E Multiples of the Comparable Companies are ranged from approximately 10.32 times to approximately 55.26 times and have an average and a median of approximately 25.79 times and approximately 19.94 times respectively. The implied P/E Multiple of the Acquisition of approximately 41.30 times is higher than the average and the median of the P/E Multiples of the Comparable Companies but it is within range of that of the Comparable Companies.

(c) Comparable Transactions

In order to assess the fairness and reasonableness of the Consideration of RMB100.0 million, we have also identified and reviewed the market transactions in respect of the sales and purchases of companies principally engaged in operation of social media live streaming business (the "**Comparable Transactions**"), announced during the period from 1 April 2017 (i.e. approximately three years before the date of the Equity Transfer Agreement) to the Latest Practicable Date. We consider the aforesaid selection period of three years to be appropriate and representative as it illustrates the range of historical valuation of companies with similar principal activities transacted over a time span with a sufficient and reasonable number of transactions for reference.

Mico and its subsidiaries operate a social networking platform with users from more than 150 countries and regions. Their core apps are MICO and Kitty Live, which feature strangers social networking, group video chat, live streaming and short videos. In our assessment, we have chosen the P/S Multiples of the Comparable Transactions as the parameter for comparison. We have also considered other parameters such as price-to-earnings and price-to-book multiples but since (i) the target companies in the Comparable Transactions were loss-making; and (ii) companies of this kind were generally asset-light, these alternative parameters would not provide meaningful comparison in assessing the fairness and reasonableness of the Consideration.

Based on the above criteria, we identified four Comparable Transactions as set out in the table below, which are considered exhaustive and representative, together with their implied P/S Multiples.

Date of announcement	Name of purchaser/ subscriber	Target company	Principal activities of the target company	Percentage of the target company acquired/ subscribed *(Note 1)*	Transaction value *(RMB million)*	Implied P/S Multiple *(times)* *(Note 2)*
9 April 2020	Sony Corporation	Bilibili, Inc. ("**Bilibili**")	An operator of online entertainment platform providing videos, live broadcasting and mobile games	4.98% *(Note 3)*	2,800	8.25
3 April 2020	Tencent Holdings Ltd. ("**Tencent**")	Huya Inc. ("**Huya**")	Operator of live streaming platform	7.53% *(Note 4)*	1,838	2.90

Date of announcement	Name of purchaser/ subscriber	Target company	Principal activities of the target company	Percentage of the target company acquired/ subscribed *(Note 1)*	Transaction value *(RMB million)*	Implied P/S Multiple *(times)* *(Note 2)*
14 February 2019	Taobao China Holding Limited ("**Taobao**")	Bilibili	See above	7.23% *(Note 5)*	3,010	9.91
3 October 2018	Tencent	Bilibili	See above	8.26% *(Note 6)*	2,226	10.73
					Average	7.95
					Median	9.08
					Maximum	10.73
					Minimum	2.90
	The Acquisition					**2.96** *(Note 7)*

Source: Mergermarket (http://www.mergermarket.com/) and the respective companies' filings in the website of the Securities and Exchange Commission of the United States.

Notes:

1. The percentage of the target company acquired/subscribed is calculated on based on all classes of ordinary shares issued by the relevant target company (if applicable).

2. The implied P/S Multiples of the Comparable Transactions are calculated based on the implied valuation for the 100% equity interest in the target company divided by the revenue of the target company of the financial year immediately preceding to the announcement of the respective Comparable Transactions.

3. The percentage of Bilibili subscribed by Sony Corporation is extracted from the relevant form filed by Bilibili in the website of the Securities and Exchange Commission of the United States.

4. Tencent acquired 16,523,819 class B ordinary shares of Huya, representing approximately 7.53% stake in Huya which is calculated by dividing the aforesaid number of shares by the sum of 67,101,314 class A ordinary shares of Huya and 152,357,321 class B ordinary shares of Huya.

5. Taobao subscribed 23,645,657 class Z ordinary shares of Bilibili, representing approximately 7.23% stake in Bilibili which is calculated by dividing the aforesaid number of shares by the sum of 85,364,814 class Y ordinary shares of Bilibili, 218,181,421 class Z ordinary shares of Bilibili and 23,645,657 class Z ordinary shares of Bilibili subscribed by Taobao.

6. Tencent subscribed 25,063,451 class Z ordinary shares of Bilibili, representing approximately 8.26% stake in Bilibili which is calculated by dividing the aforesaid number of shares by the sum of 85,364,814 class Y ordinary shares of Bilibili, 193,117,970 class Z ordinary shares of Bilibili and 25,063,451 class Z ordinary shares of Bilibili subscribed by Tencent.

7. The implied P/S Multiple of the Acquisition of approximately 2.96 times is calculated based on the Consideration of RMB100.0 million divided by the product of 8.85% (being the approximate percentage of equity interest of Mico to be purchased in the Acquisition) and the revenue of Mico for the year ended 31 December 2019 of approximately RMB382.3 million.

8. In the Comparable Transactions analysis, we have identified three transactions including (i) acquisitions of equity interests in Beijing Kuaishou Technology Co., Ltd. ("**Kuaishou**") by a consortium led by Tencent announced on 3 December 2019 and 23 March 2017; and (ii) acquisition of equity interest in Yizhibo by Beijing Weibo Internet Technology Co., Ltd.. However, since both Kuaishou and Yizhibo are private companies and have not disclosed its financial information, we are unable to derive the relevant P/S Multiples and the three acquisitions are therefore excluded from the Comparable Transactions analysis.

9. For illustrative purpose in the table above, the conversion of US$ into RMB is based on the exchange rate of US$1 to RMB7.

As illustrated above, the P/S Multiples of the Comparable Transactions are ranged from approximately 2.90 times to 10.73 times and have an average and a median of approximately 7.95 times and 9.08 times respectively. The implied P/S Multiple of the Acquisition of approximately 2.96 times is lower than both the average and the median of the P/S Multiples of the Comparable Transactions.

8. Financial effects of the Transactions on the Group

Set out below are the financial effects on the Group assuming that (a) both the Acquisition and the Convertible Loan Investment have taken place; and (b) only the Acquisition but not the Convertible Loan Investment has taken place.

(a) Assuming both the Acquisition and the Convertible Loan Investment have taken place

(i) Earnings

Prior to completion of the Acquisition, Mico has been accounted for as a financial asset measured at fair value through profit or loss. The change in the fair value of Mico has been accounted for in the consolidated statement of comprehensive income of the Group.

Upon completions of the Transactions, NewBornTown Network Technology will become the single largest shareholder of Mico with approximately 25.62% equity interest and together with the approximately 15.97% equity interest of Mico owned by Tianjin Tonghe Chuangyuan and Ningbo Tonghe Chuangyuan (as the platforms for the employee stock ownership plan of Mico), both of which will be directed by NewBornTown Network Technology as the executive partner, NewBornTown Network Technology will have control over Mico. Therefore, the financial results of the Target Group will be consolidated into the statement of comprehensive income of the Group.

On the assumption that the Transactions were completed at the beginning of 2019, the consolidated net profit of the Group attributable to the Shareholders for the year ended 31 December 2019 would be reduced by the fair value gain on the Group's existing investment in Mico of RMB20.3 million. Nevertheless, the reduction would be partly offset as a result of the consolidation of the profit of the Target Group for the year ended 31 December 2019 of approximately RMB27.4 million, of which approximately 25.62% (or 28.60% upon full conversion of the Convertible Loan) would be attributable to the Shareholders while the rest would be attributable to the non-controlling interests of the Target Group.

In addition to the above, as set out in the unaudited pro forma financial information of the Enlarged Group in appendix III to the Circular, on the assumption that completions of the Transactions had taken place on 31 December 2019, the Enlarged Group would have intangible assets of approximately RMB245.5 million, of which approximately RMB241.6 million would be attributable to the intangible assets of the Target Group such as brand name, user base and technology. As these intangible assets will be subject to annual amortisation over a period of three to ten years according to the Group's accounting policies, the consolidated net profit of the Enlarged Group attributable to the Shareholders will also be reduced by the amortisation expense of these intangible assets of up to approximately RMB33.3 million per year based on the assumption above.

Having said the above, it should be noted that the aforesaid fair value gain is non-operating in nature and both the aforesaid fair value gain and the intangible assets amortisation expenses are non-cash items. Therefore, while the absence of the fair value gain and the recognition of intangible assets amortisation expenses will reduce the consolidated net profit of the Enlarged Group attributable to the Shareholders, they will not affect the cash flow of the Enlarged Group.

(ii) NAV

As mentioned above, upon completions of the Transactions, Mico will become a subsidiary of the Company. Accordingly, the assets and liabilities of Mico will be consolidated into the consolidated balance sheet of the Group.

As set out in the unaudited pro forma financial information of the Enlarged Group in appendix III to the Circular, on the assumption that completions of the Transactions had taken place on 31 December 2019, the Enlarged Group's total assets would be increased from approximately RMB777.6 million, by approximately RMB292.6 million or 37.6%, to approximately RMB1,070.2 million. The increase was mainly attributable to (i) increase in intangible assets (i.e. user base, technology and brand name) of Mico of approximately RMB241.6 million; and (ii) goodwill generated from the Transactions of approximately RMB221.9 million. On the same basis, the Enlarged Group's total liabilities would be increased from approximately RMB143.0 million, by approximately RMB118.2 million or 82.7%, to approximately RMB261.2 million. The increase was primarily attributable to the consolidation of accounts and other payables of approximately RMB56.9 million and the recognition of deferred tax liabilities of approximately RMB53.7 million in relation to the intangible assets of the Target Group. As a result, the net asset value of the Enlarged Group (inclusive of non-controlling interests) would be increased from approximately RMB634.5 million, by approximately RMB174.5 million or 27.5%, to approximately RMB809.0 million. Excluding the effect of the estimated professional fees of approximately RMB5.9 million (relating to the Transactions), the aforesaid increase in the NAV would be entirely attributable to the non-controlling interest (i.e. the other shareholders of Mico) and accordingly, there will be no change in the NAV of the Group attributable to the Shareholders as a result of completions of the Transactions.

Assuming the conversion of the Convertible Loan also took place on 31 December 2019, the changes in the total assets, the total liabilities and the net assets (inclusive of non-controlling interests) of the Group would be the same as those stated in the above paragraph. Similar to the above, the increase in the NAV would be largely attributable to the non-controlling interest (i.e. the other shareholders of Mico) and there will be an insignificant increase in the NAV of the Group attributable to the Shareholders as a result of completions of the Transactions and conversion of the Convertible Loan. Further details of the unaudited pro forma financial information of the Enlarged Group are set out in appendix III to this circular.

Shareholders are reminded that the pro forma financial information set out above is for illustrative purpose only. The actual impact on the NAV of the Group shall be determined by reference to the valuation of the assets and liabilities of Mico as at completions of the Transactions.

(iii) Gearing

As at 31 December 2019, the Group's gearing ratio, calculated as total liabilities divided by total assets was 18.4%. As set out in the unaudited pro forma financial information of the Enlarged Group in appendix III to the Circular, on the assumption that completion had taken place on 31 December 2019, the Enlarged Group's gearing ratio would be increased to 24.4%, which was mainly due to the consolidation of accounts and other payables of approximately RMB56.9 million and the recognition of deferred tax liabilities of approximately RMB53.7 million in relation to the intangible assets of the Target Group.

(iv) Liquidity

As at 31 December 2019, the Group had cash and cash equivalents of approximately RMB182.9 million, net current assets (i.e. total current assets less total current liabilities) of approximately RMB443.2 million and a current ratio (i.e. total current assets divided by total current liabilities) of approximately 4.4 times.

As set out in the unaudited pro forma financial information of the Enlarged Group in appendix III to the Circular, on the assumption that completions of the Transactions had taken place on 31 December 2019, the Enlarged Group's net current assets would be decreased by approximately RMB73.7 million or 16.6% to approximately RMB369.5 million and the current ratio would be decreased to approximately 2.9 times. The decrease was mainly due to the payment of the Consideration of RMB100.0 million in cash and increased accounts payable in the current liabilities.

(b) Assuming only the Acquisition but not the Convertible Loan Investment had been completed

(i) Earnings

Prior to completion of the Acquisition, the change in the fair value of Mico has been accounted for in the consolidated statement of comprehensive income of the Group. Upon completion of the Acquisition, the Company will hold approximately 25.62% equity interest of Mico. The financial results of Mico will not be consolidated into that of the Group and Mico will be accounted for as an investment in an associate using equity method. Therefore, the financial results of the Target Group will be accounted for by equity accounting in the consolidated statement of comprehensive income of the Group.

On the assumption that the Acquisition was completed at the beginning of 2019, the consolidated net profit of the Group attributable to the Shareholders for the year ended 31 December 2019 would be reduced by the fair value gain on the Group's existing investment in Mico of RMB20.3 million. Nevertheless, the reduction would be partly offset by the recognition of the profit of the Target Group for the year ended 31 December 2019 attributable to the Group, i.e. approximately 25.62% (or 28.60% upon full conversion of the Convertible Loan) of the profit of the Target Group of approximately RMB27.4 million.

(ii) NAV

As set out in the unaudited pro forma financial information of the Enlarged Group in appendix III to the Circular, on the assumption that completion of the Acquisition had taken place on 31 December 2019, the NAV of the Group of approximately RMB634.5 million would remain unchanged since the investment in Mico, currently classified as a Financial Asset, will be reclassified, together with the cash Consideration, as an investment in associate in the consolidated balance sheet of the Group.

(iii) Gearing

As set out in the unaudited pro forma financial information of the Enlarged Group in appendix III to the Circular, on the assumption that completion of the Acquisition had taken place on 31 December 2019, the total assets and total liabilities would remain unchanged, and hence the gearing ratio would also remain unchanged.

(iv) Liquidity

As set out in the unaudited pro forma financial information of the Group in appendix III to the Circular, on the assumption that completion of the Acquisition had taken place on 31 December 2019, the Group's net current assets would be decreased by RMB100.0 million or approximately 22.6% to approximately RMB343.2 million and the current ratio would be decreased to approximately 3.6 times. The decrease was mainly due to the payment of the cash Consideration of RMB100.0 million. Having considered above, the Acquisition will not result in significant illiquidity of the Group.

DISCUSSION AND ANALYSIS

The Group is principally engaged in the provision of mobile application development services and mobile advertising platform services supported by AI technology. The Company operates its business through two segments, namely mobile advertising platform and related business and proprietary applications traffic monetisation business. Since 2015, the Company has started business cooperation with Mico and the strengths of Mico in product development, operations and fast-growing business development had been well perceived by the Company. In particular, with the social networking platform sector expanding rapidly, the operating and financial performances of Mico have seen significant improvement in the most recent three financial years as a result of growing number of user base, number of paid users and number of orders placed by paid users.

By acquiring the strategic stake in Mico, it may provide synergies to the Group's Solo X product matrix and Solo Math mobile advertising platform. It may also help improving Solo X products diversity to facilitate the overall user acquisition, and Mico's successful product localisation experience can help the Company launch more overseas products in the future. As such, the management of the Group expects the Transactions will have positive influence on the Group's future performance. The management of the Group also expects the financial performance of Mico will keep up with the business development pace in near future, which has been reflected in the revenue forecast of Mico.

The valuation of the approximately 8.85% equity interest of Mico, as appraised by the Independent Valuer, was approximately RMB106 million. The Consideration for the equity transfer of the approximately 8.85% equity interest of Mico is RMB100.0 million, which represents a discount of approximately 5.7% to the appraised value. The valuation methodology adopted by the Independent Valuer in arriving the fair market value of the approximately 8.85% equity interest of Mico is the market approach based on the Leading P/S Multiples, which is considered to be one of the common approaches in the valuation of similar businesses.

We have also reviewed the pricings of the Comparable Transactions and the Comparable Companies. The P/S Multiples of the Comparable Transactions are ranged from approximately 2.90 times to 10.73 times and have an average and a median of approximately 7.95 times and 9.08 times respectively. The P/S Multiples of the Comparable Companies are ranged from approximately 0.59 times to approximately 5.76 times and have an average and a median of approximately 2.40 times and approximately 1.80 times respectively. The implied P/S Multiple of the Acquisition of approximately 2.96 times is lower than the average and the median of the P/S Multiples of Comparable Transactions and higher than the average and median of the P/S Multiples of the Comparable Companies but it is within range of that of the Comparable Companies. The P/E Multiples of the Comparable Companies are ranged from approximately 10.32 times to approximately 55.26 times and have an average and median of approximately 25.79 times and approximately 19.94 times respectively. The implied P/E Multiple for the Acquisition of approximately 41.30 times is higher than the P/E Multiples of the Comparable Companies but it is within range of that of the Comparable Companies. Although the aforesaid analysis may not deduce a result with perfect unity, they still indicate that the Consideration is within the market norm of similar transactions or companies. More importantly, we are of the view that the above analysis of pricings of the Comparable Transactions and the Comparable Companies provide an additional dimension but are not the sole factor for assessing the Consideration. In evaluating the fairness and reasonableness of the Consideration, we have taken a view in totality of all the relevant factors including, in particular the Consideration was primarily determined based on the independent Valuation and represents a discount of approximately 5.7% to the independent appraised value, as well as (i) the findings of the above analysis of pricings of the Comparable Transactions and the Comparable Companies that the Consideration was within the market norm of similar transactions or companies; (ii) Mico's improving financial performance; and (iii) the potential synergies of the Acquisition with the Group's business. Overall, we are of the view that the Consideration is acceptable.

The Convertible Loan Investment provides the Company the opportunity to secure the additional equity interest in Mico at the current pricing and potential upside in the future. The pricing of the Convertible Loan Investment is the same as that of the Acquisition.

Upon completions of the Transactions, NewBornTown Network Technology will have control over Mico, and therefore, the financial results and assets and liabilities of the Target Group will be consolidated into the financial statements of the Group. On the other hand, if only the Acquisition but not the Convertible Loan Investment is completed, NewBornTown Network Technology will not have control over Mico and the Target Group will only be accounted for as an associate of the Group and the financial results and the assets and liabilities of the Target Group will only be equity accounted for in the financial statements of the Group.

The financial performance and financial position of Mico have been improving in the period under review. In the event that Mico's financial performance continues to improve, the Transactions will bring additional earnings to the Enlarged Group and broaden the Group's earnings base. Although the absence of the fair value gain and the recognition of the Target Group's intangible assets amortisation expenses of the Target Group will negatively affect the financial performance of the Enlarged Group, the aforesaid items are non-cash in nature and therefore will not affect the cash flow of the Enlarged Group.

Assuming completions of the Acquisition and/or the Convertible Loan Investment have taken place as at 31 December 2019, the NAV of the Group attributable to the Shareholders would remain unchanged. Also, except for the scenario that only the Acquisition completed, both the gearing and the liquidity of the Group would be slightly deteriorated but they would be still at healthy levels. Having considered the above, we are of the view that the financial impact of the Transactions to the Group is acceptable.

OPINION AND RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the Acquisition and the Convertible Loan Investment, though not in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as a whole, and that the terms of the Equity Transfer Agreement and the Convertible Loan Investment Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to approve the relevant resolutions to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Danny Cheng
Director

Mr. Danny Cheng is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has over 10 years of experience in corporate finance industry.

1. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for each of the three years ended 31 December 2017, 2018 and 2019 are disclosed in the following documents which have been published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.newborntown.com/en/:

(i) Annual report of the Company for the year ended 31 December 2019 published on 28 April 2020 (pages 76 to 161)
https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0428/2020042800756.pdf

(ii) Prospectus of the Company published on 17 December 2019 (pages I-1 to I-69)
https://www1.hkexnews.hk/listedco/listconews/sehk/2019/1217/2019121700043.pdf

2. INDEBTEDNESS

Borrowings

As of 30 April 2020, the Enlarged Group had bank overdrafts of RMB0.2 million. As of 30 April 2020, the Enlarged Group did not have any bank borrowings and bank facilities.

Lease Liabilities

The Enlarged Group's lease liabilities represent the obligation to make future payments in relation to the lease of our office building. Lease contracts are typically made for fixed periods with fixed lease payments. Lease terms are negotiated on an individual basis and do not impose any covenants, while leased assets may not be used as security for borrowing purposes. As of 30 April 2020, the Enlarged Group recorded lease liabilities of RMB6.8 million.

The following tables set forth a breakdown of our lease liabilities by current and non-current portions and the effective interest rate as of 30 April 2020:

	As of 30 April 2020 *(RMB'000)*
Current	4,570
Non-current	2,272
Total	6,842

	For the four months ended 30 April 2020
Effective interest rate	4.75%

Contingent Liabilities

As of 30 April 2020, the Enlarged Group did not have any material contingent liabilities or guarantees.

Off-balance Sheet Commitments and Arrangements

As of 30 April 2020, the Enlarged Group did not have any material off-balance sheet commitments or arrangements.

Save as disclosed, the Enlarged Group did not have any bank loans or other borrowings, or any loan capital issued and outstanding or agreed to be issued, borrowings or similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, hire purchases or finance lease commitments, guarantees or other material contingent liabilities as of 30 April 2020, being the latest practicable date for our statement of indebtedness.

3. WORKING CAPITAL

The Directors are of the opinion that taking into account the cash flows generated from the operating activities, the financial resources available to the Enlarged Group including internally generated funds, the effect of the Acquisition and the Convertible Loan Investment, the working capital available to the Enlarged Group is sufficient for the Enlarged Group's requirements for at least 12 months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, there is no material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited financial results of the Company were made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Company is a fast-growing global AI information distribution platform, developing mobile applications and providing mobile advertising platform services based on AI technology. Based on two core businesses, we have established a large-scale global traffic ecosystem, accumulated abundant data on user behaviour. As a result, we have the ability to "Traffic +" in different vertical segments, and have practiced in core circuits such as games and social networks, which provides more possibility for beefing up our fast growth in the future.

The Company started business cooperation with Mico in 2015. Mico is a private company which provides a social networking platform with users from more than 150 countries and regions. Through years of cooperation, the Company obtained a deeper understanding of Mico's strengths in product development and operation, as well as its fast-growing business development, and the Company believe in Mico's competitive strengths in technology, data and user acquisition. The Company believe that through the Acquisition and the Convertible Loan Investment and by controlling Mico, Mico's popularity in its target regions such as the Middle East, Southeast Asia and North America will be further strengthened by utilizing the loan under the Convertible Loan Investment Agreement and leverage on the Company's experiences and understanding in overseas markets and our listing platform for potential capital and financing resources.

The following is the text of a report received from the Target Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF BEIJING MICO WORLD TECHNOLOGY CO., LTD. TO THE DIRECTORS OF NEWBORN TOWN INC.

Introduction

We report on the historical financial information of 北京米可世界科技有限公司 (Beijing Mico World Technology Co., Ltd.#) (the "Target Company") and its subsidiaries (together, the "Target Group") set out on pages 79 to 122, which comprises the consolidated statements of financial position of the Target Group as at 31 December 2017, 2018 and 2019, and the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows, for each of the years ended 31 December 2017, 2018 and 2019 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages 79 to 122 forms an integral part of this report, which has been prepared for inclusion in the circular of Newborn Town Inc. (the "Company") dated 11 June 2020 (the "Circular") in connection with the proposed acquisition of 8.85% equity interest in the Target Company.

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

The Underlying Financial Statements of the Target Group as defined on page 79, on which the Historical Financial Information is based, were prepared by the directors of the Target Company. The directors of the Target Company are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB"), and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

English translation for identification purpose only.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the HKICPA. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2017, 2018 and 2019, and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page 79 have been made.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

11 June 2020

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(Expressed in Renminbi ("RMB"))

		Years ended 31 December		
	Note	**2017**	**2018**	**2019**
		RMB'000	*RMB'000*	*RMB'000*
Revenue	*4*	57,599	211,146	382,308
Cost of sales		(126,817)	(204,331)	(315,620)
Gross (loss)/profit		(69,218)	6,815	66,688
Other (loss)/income	*5*	(178)	1,216	4,951
Selling and marketing expenses		(8,039)	(4,381)	(11,045)
Research and development expenses		(8,617)	(9,997)	(15,007)
General and administrative expenses		(44,074)	(8,053)	(11,733)
(Loss)/profit from operations		(130,126)	(14,400)	33,854
Finance costs	*6(a)*	(220)	(187)	(123)
(Loss)/profit before taxation	*6*	(130,346)	(14,587)	33,731
Income tax	*7*	15,545	(1,794)	(6,372)
(Loss)/profit for the year attributable to the equity shareholders of the Target Company		(114,801)	(16,381)	27,359

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(Expressed in RMB)

	Years ended 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
(Loss)/profit for the year	(114,801)	(16,381)	27,359
Other comprehensive income for the year (after tax)			
Item that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements into presentation currency	9,113	(6,579)	256
Total comprehensive income for the year attributable to the shareholders of the Target Company	(105,688)	(22,960)	27,615

The accompanying notes form part of the Historical Financial Information

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in RMB)

	Note	At 31 December 2017	2018	2019
		RMB'000	*RMB'000*	*RMB'000*
Non-current assets				
Property and equipment	*8*	7,223	4,949	3,219
Intangible assets	*9*	31,786	28,150	24,764
Goodwill	*10*	139,456	139,456	139,456
Deferred tax assets	*18(b)*	28,642	26,320	19,794
		207,107	198,875	187,233
Current assets				
Accounts and other receivables	*12*	25,866	31,112	47,078
Non-equity investments	*13*	1,729	393	3,341
Cash and cash equivalents	*14*	10,137	17,109	39,353
Restricted bank deposits		334	351	359
		38,066	48,965	90,131
Current liabilities				
Accounts and other payables	*15*	130,361	157,991	50,968
Lease liability	*16*	2,224	1,548	1,606
Contract liability	*17*	2,672	3,122	4,924
Income tax payable	*18(a)*	–	–	384
		135,257	162,661	57,882
Net current (liabilities)/assets		(97,191)	(113,696)	32,249
Total assets less current liabilities		109,916	85,179	219,482
Non-current liabilities				
Deferred tax liability	*18(b)*	6,895	6,350	5,835
Lease liability	*16*	2,728	1,496	564
		9,623	7,846	6,399
NET ASSETS		100,293	77,333	213,083
EQUITY				
Paid-in capital	*20*	2,140	2,140	2,390
Reserves	*20*	98,153	75,193	210,693
TOTAL EQUITY		100,293	77,333	213,083

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in RMB)

	Paid-in capital RMB'000 (Note 20(a))	Capital reserve RMB'000 (Note 20(b)(i))	Share-based compensation reserve RMB'000 (Note 20(b)(ii))	Exchange reserve RMB'000 (Note 20(b)(iii))	Accumulated loss RMB'000	Total equity RMB'000
Balance at 1 January 2017	890	101,710	–	(5,863)	(104,048)	(7,311)
Changes in equity for 2017:						
Loss for the year	–	–	–	–	(114,801)	(114,801)
Other comprehensive income	–	–	–	9,113	–	9,113
Total comprehensive income	–	–	–	9,113	(114,801)	(105,688)
Issuance of shares for a business combination *(Note 11(a))*	1,250	141,750	–	–	–	143,000
Shares granted under the share incentive plan	–	–	70,292	–	–	70,292
	1,250	141,750	70,292	–	–	213,292
Balance at 31 December 2017 and 1 January 2018	2,140	243,460	70,292	3,250	(218,849)	100,293
Changes in equity for 2018:						
Loss for the year	–	–	–	–	(16,381)	(16,381)
Other comprehensive income	–	–	–	(6,579)	–	(6,579)
Total comprehensive income	–	–	–	(6,579)	(16,381)	(22,960)
Balance at 31 December 2018 and 1 January 2019	2,140	243,460	70,292	(3,329)	(235,230)	77,333

The accompanying notes form part of the Historical Financial Information.

	Paid-in capital *RMB'000* *(Note 20(a))*	Capital reserve *RMB'000* *(Note 20(b)(i))*	Share-based compensation reserve *RMB'000* *(Note 20(b)(ii))*	Exchange reserve *RMB'000* *(Note 20(b)(iii))*	Accumulated loss *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2019	2,140	243,460	70,292	(3,329)	(235,230)	77,333
Changes in equity for 2019:						
Profit for the year	–	–	–	–	27,359	27,359
Other comprehensive income	–	–	–	256	–	256
Total comprehensive income	–	–	–	256	27,359	27,615
Issuance of shares for capital injection *(Notes 20(a) and 20(b)(i))*	250	99,750	–	–	–	100,000
Shares granted under the share incentive plan	–	–	8,135	–	–	8,135
	250	99,750	8,135	–	–	108,135
Balance at 31 December 2019	2,390	343,210	78,427	(3,073)	(207,871)	213,083

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in RMB)

	Note	Years ended 31 December 2017 RMB'000	2018 RMB'000	2019 RMB'000
Operating activities				
Net cash used in operating activities	14(b)	(59,431)	(16,638)	(34,025)
Investing activities				
Payments for purchase of property and equipment		(695)	(47)	(298)
Payments for purchase of non-equity investment	21(e)	(37,591)	(34,609)	(61,968)
Proceeds from sales of non-equity investment		36,148	36,002	59,311
Net cash inflow from a business combination	11(d)	6,968	–	–
Interest income received		191	20	147
Net cash generated from/(used in) investing activities		5,021	1,366	(2,808)
Financing activities				
Capital element of lease rentals paid	14(c)	(2,636)	(2,317)	(1,565)
Interest element of lease rentals paid	14(c)	(220)	(187)	(123)
Proceeds from advance from a shareholder of the Target Company	14(c)	12,786	24,672	3,759
Repayments of advance from a shareholder of the Target Company	14(c)	–	–	(43,463)
Capital injection	20(b)	–	–	100,000
Net cash generated from financing activities		9,930	22,168	58,608
Net (decrease)/increase in cash and cash equivalents		(44,480)	6,896	21,775
Cash and cash equivalents at the beginning of the year	14(a)	54,969	10,137	17,109
Effect of foreign exchange rate changes		(352)	76	469
Cash and cash equivalents at the end of the year	14(a)	10,137	17,109	39,353

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

1 BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

Beijing Mico World Technology Co., Ltd. (formerly known as "Beijing Zhongluo Technology Co., Ltd.", referred to herein as the "Target Company") was incorporated in the People's Republic of China (the "PRC") on 30 May 2014 under the laws of the PRC with limited liability.

The Target Company and its subsidiaries (together, the "Target Group") are principally engaged in the operation of a social networking platform with users mainly from Southeast Asia, Middle East and other countries. Its core apps are Mico and Kitty Lives, which feature strangers social networking, group video chat, live streaming and short videos.

The Historical Financial Information set out in this report has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all individual IFRSs, International Accounting Standards ("IASs") and related Interpretations issued by the International Accounting Standards Board (the "IASB"). Further details of the significant accounting policies adopted are set out in Note 2.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Historical Financial Information, the Target Group has adopted all applicable new and revised IFRSs to the Relevant Periods and applied IFRS 9 *Financial instruments*, IFRS 15 *Revenue from contracts with customers,* and IFRS 16, *Leases* consistently during the Relevant Periods, except for any new standards or interpretations that are issued but not yet effective for the accounting period beginning on 1 January 2019. The revised and new accounting standards and interpretations issued but not yet effective for accounting year beginning on 1 January 2019 are set out in Note 24.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

As at the date of this report, the Target Company has direct or indirect interests in the following subsidiaries, all of which are private companies:

Company name	Place and date of incorporation/ establishment	Particulars of issued and paid-up capital	Proportion of ownership interest Held by the Target Company	Held by the subsidiary	Principal activities	Name of statutory auditor
Mobile Alpha Limited***	Hong Kong 2 March 2016	Hong Kong dollar ("HKD")1	100%	–	Online entertainment and related business	Smart Team CPA Limited
Mico World Limited***	Hong Kong 24 September 2015	HKD1	100%	–	Online entertainment and related business	Smart Team CPA Limited
Hainan Jidu Kongjian Internet Technology Co., Ltd. (海南幾度空間網絡科技有限公司)*	The PRC 15 January 2019	RMB1,000,000	100%	–	Digital goods and related business	**
Shenzhen Leyuyou Internet Technology Co., Ltd. (深圳樂娛游網絡科技有限公司)*	The PRC 27 September 2017	RMB1,000,000	100%	–	Software development and related business	**

* *The official names of these entities are in Chinese. The English names are for identification purpose only.*

** *These entities were incorporated in the PRC under the laws of the PRC with limited liability. As at the date of this report, no audited financial statements have been prepared for Hainan Jidu Kongjian Internet Technology Co., Ltd. and Shenzhen Leyuyou Internet Technology Co., Ltd.*

*** *The statutory financial statements of these two entities for each of the year ended 31 December 2017 and 2018 were audited by Smart Team CPA Limited. As of the date of this Historical Financial Information, the audited statutory financial statements of these entities for the year ended 31 December 2019 have not been issued yet.*

All companies comprising the Target Group have adopted 31 December as their financial year end date.

2 SIGNIFICANT ACCOUNTING POLICY

(a) Basis of measurement

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis except for other investments (see Note 2(f)) which is stated at their fair values.

The Target Company has its functional currency in RMB. Certain subsidiaries of the Target Company were incorporated in Hong Kong and these subsidiaries considered United State Dollars ("USD") as their functional currency. As the operations of the Target Group are mainly within the PRC, the Target Group determined to present this Historical Financial Information in RMB, unless otherwise stated.

(b) Use of estimates and judgements

The preparation of the Historical Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 3.

(c) Business combinations

The Target Group accounts for business combinations using the acquisition method when control is transferred to the Target Group (see Note 2(d)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see Note 2(e)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(d) Subsidiaries

Subsidiaries are entities controlled by the Target Group. The Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Target Group has power, only substantive rights (held by the Target Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Target Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Target Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

(e) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Target Group's previously held equity interests in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses (see Note 2(j)(ii)). Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(j)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments

Investments in equity securities are recognised/derecognised on the date the Target Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Target Group determines fair value of financial instruments, see Note 21(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

Non-equity investments held by the Target Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see Note 2(q)(ii)).

– fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– fair value at profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Investments in wealth management products are recognised/derecognised on the date the Target Group commits to purchase/sell the investment. The investments are stated at fair value through profit or loss (FVPL), see Note 21(e).

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Target Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income.

(g) Property and equipment

The following items of property and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see Note 2(j)(ii)).

– right-of-use assets arising from leases over leasehold properties where the Target Group is not the registered owner of the property interest; and

– items of equipment, including right-of-use assets arising from leases of underlying equipment (see Note 2(i)).

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property and equipment, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful life
Right of use assets	Over the lease term
Furniture, fixtures and equipment	3 – 5 years

Where parts of an item of property and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Target Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see Note 2(j)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets, including user base, brand name, technologies and software, that are acquired by the Target Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(j)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. These intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

	Estimated useful life
Brand name	10 years
Technologies	5-10 years
User base	9 months
Software	5 years

(i) Leased assets

At inception of a contract, the Target Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Target Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Target Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Target Group enters into a lease in respect of a low-value asset, the Target Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(g) and 2(j)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Target Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Target Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Target Group presents right-of-use assets in 'Property and equipment' and presents lease liabilities separately in the statement of financial position.

(j) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Target Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents, restricted bank deposits and accounts and other receivables).

Financial assets measured at fair value, including non-equity investments measured at FVPL and equity investment designated at FVOCI (non-recycling), are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Target Group in accordance with the contract and the cash flows that the Target Group expects to receive).

The expected cash shortfalls are discounted using effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material:

The maximum period considered when estimating ECLs is the maximum contractual period over which the Target Group is exposed to credit risk.

In measuring ECLs, the Target Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for accounts and other receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Target Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Target Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Target Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Target Group in full, without recourse by the Target Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Target Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Target Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Target Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at fair value through other comprehensive income, for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(q)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Target Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Target Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property and equipment, including right-of-use assets;

– intangible assets;

– goodwill; and

– investments in subsidiaries in the Target Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(k) Accounts and other receivables

A receivable is recognised when the Target Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Target Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(j)(i)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in Note 2(j)(i).

(m) Accounts and other payables

Accounts and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Target Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The Target Company periodically grants restricted ordinary shares to eligible employees and directors, which are subject to service and performance conditions. The fair value of restricted shares granted to employees and directors is recognised as an employee cost with a corresponding increase in capital reserve within equity. The fair value is measured at grant date using the income approach, taking into account the terms and conditions upon which the restricted shares were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the shares, the total estimated fair value of the restricted shares is spread over the vesting period.

During the vesting period, the number of restricted shares that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of restricted shares that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Target Company's shares.

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Target Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Target Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Target Company or the Target Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Target Company or the Target Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

Provisions are recognised when the Target Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue and other income

The Target Group principally derives its revenues from live streaming and other services.

Revenue is recognised when control of a service is transferred to the customer, at the amount of promised consideration to which the Target Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Target Group's revenue and other income recognition policies are as follows:

(i) Live streaming

The Target Group operates a social networking platform, consisting of IT infrastructure, mobile applications and its proprietary algorithm, to offer live and interactive streaming services to individual users as its customers. Individual user can purchase virtual items on the Target Group's platforms, and simultaneously present to streamers during their live streaming performance to show their support for their favorite streamers. The Target Group has sole discretion in designing and establishing pricing of virtual items. Individual user purchases virtual items using the Target Group's virtual currency which is in turn acquired through third-party payment companies. Virtual currency is non-refundable and does not have expiration date.

The Target Group considers live streaming service as one performance obligation to its customers. The consideration received from individual users varies at users' discretion, as they purchase and present variable quantity or value of virtual items to streamers during a performance. The recognition of such variable consideration is constrained until the amount is known, which is when an individual user purchases virtual gifts and simultaneously presents them to streamers during their live streaming performance. Accordingly, revenue is recognised when virtual items are consumed as they are presented to streamers. Unconsumed virtual currency is recorded as contract liability.

A contract liability is recognised when the Target Group has an obligation to transfer services to a customer for which the Target Group has received consideration related to the Target Group's live streaming services from the customer.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Target Group will comply with the conditions attaching to them. Grants that compensate the Target Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Target Group for the cost of an asset are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

(r) Translation of foreign currencies

Foreign currency transactions during the period are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity to which they relate at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency of the entity to which they relate using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Target Company initially recognises such non-monetary assets or liabilities.

The results of foreign operations are translated into Renminbi Yuan, the Target Group's presentation currency, at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired, are translated into Renminbi Yuan at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(s) Related parties

(a) A person, or a close member of that person's family, is related to the Target Group if that person:

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or the Target Group's parent.

(b) An entity is related to the Target Group if any of the following conditions applies:

(i) The entity and the Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the Target Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

In the process of applying accounting policies, management has made the following accounting judgements.

(a) Gross vs net assessment in revenue recognition

As disclosed in Note 4, the Target Group provides live streaming service to its customers, which involve the assessment of revenue recognition on a gross or net basis. The Target Group follows the accounting guidance for principal-agent considerations to assess whether the Target Group controls the specified service before it is transferred to the customer, the indicators of which including but not limited to

(i) whether the entity is primarily responsible for fulfilling the promise to provide the specified service;

(ii) whether the entity has inventory risk before the specified service has been transferred to a customer; and

(iii) whether the entity has discretion in establishing the prices for the specified goods or service.

The management considers the above factors in totality, as none of the factors individually are considered presumptive or determinative, and applies judgment when assessing the indicators depending on each different circumstances.

(b) Deferred tax

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised. In determining the amount of deferred tax assets to be recognised, significant judgement is required relating to the timing and level of future taxable profits, after taking into account future tax planning strategies. The amount of deferred tax assets recognised at future dates are adjusted if there are significant changes from these estimates.

(c) Valuation of the equity value of the Target Group used

As mentioned in Notes 10 and 11, the Target Group completed a merger through absorption in 2017 by issuing ordinary shares. The consideration of the transaction was based on the fair value of underlying ordinary shares of the Target Group. In addition, as disclosed in Note 19, the Target Group has granted restricted shares to its employees under a share incentive plan. The fair value of restricted shares was based on the fair value of underlying ordinary shares.

Significant estimate on assumptions, such as the discount rate, risk-free interest rate and discount for lack of marketability, are required to be made by the Target Group in determining the equity value by using discounted cash flow approach.

4 REVENUE

The principle activities of the Target Group are to operate a social networking platform to offer live and interactive streaming services to individual users as its customers.

(i) Disaggregation of revenue

	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15			
Live streaming	55,338	210,996	381,883
Others	2,261	150	425
	57,599	211,146	382,308

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

Virtual currency is often consumed soon through virtual items presented to streamers after it is purchased. The Target Group has applied the practical expedient in paragraph 121 of IFRS 15 and therefore the information about remaining performance obligations is not disclosed for contracts that have an original expected duration of one year or less.

5 OTHER (LOSS)/INCOME

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Government grants	–	–	321
Income of non-equity investments	228	102	191
Changes in fair value recognised in profit or loss	58	(45)	100
Net foreign exchange (loss)/gain	(655)	1,139	4,192
Interest income on cash at bank	191	20	147
	(178)	1,216	4,951

6 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging:

(a) Finance costs

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Interests on lease liabilities *(Note 14(b))*	220	187	123

(b) Staff costs

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Salaries, wages and other benefits	31,459	32,524	56,064
Contributions to defined contribution retirement plan	2,296	3,122	4,045
Equity-settled share-based payment expenses *(Note 19)*	70,292	–	8,135
	104,047	35,646	68,244

The employees of the subsidiaries of the Target Group established in the PRC (other than Hong Kong) participate in a defined contribution retirement benefit scheme managed by the local government authority, whereby these subsidiaries are required to contribute to the scheme at a rate of 14% to 22% of the employees' basic salaries. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC (other than Hong Kong), from the above mentioned retirement scheme at their normal retirement age.

The Target Group has no further obligation for payment of other retirement benefits beyond the above contributions.

(c) Other items

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Depreciation and amortization	7,000	6,319	6,105
Impairment losses on accounts and other receivables	4,606	1,304	243
Auditor remuneration	84	78	156

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(a) Taxation in the consolidated statements of profit or loss represents:

	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Current taxation *(Note 18(a))*:			
– Provision for corporate income tax in respective jurisdictions	–	–	380
Deferred taxation *(Note 18(b))*:			
– Origination and reversal of temporary differences	(15,545)	1,794	5,992
	(15,545)	1,794	6,372

(b) Reconciliation between tax expense and accounting profit/(loss) at applicable tax rates:

	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
(Loss)/profit before taxation	(130,346)	(14,587)	33,731
Expected tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned *(Notes (i) and (ii))*	(28,969)	(3,337)	9,453
Tax effect of unused tax losses not recognised	5,643	4,848	–
Tax effect of non-deductible expenses	47	36	49
Tax concessions *(Note (iii))*	7,734	247	(3,130)
Income tax	(15,545)	1,794	6,372

Notes:

(i) The Target Company and certain subsidiaries of the Target Group established in the PRC are subject to PRC Corporate Income Tax rate of 25% during the Relevant Periods.

(ii) Certain subsidiaries of the Target Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% during the Relevant Periods.

(iii) The Target Company have obtained approvals from the tax bureau to be taxed as enterprises with advanced and new technologies. As a result, the Target Company enjoyed a preferential PRC Corporate Income Tax rate of 15% during the Relevant Periods. In addition to the preferential PRC Corporate Income Tax rate, the Target Company is also entitled to an additional deductible tax allowance calculated at 75% of the qualified research and development costs incurred by the Target Company during the Relevant Periods.

8 PROPERTY AND EQUIPMENT

Reconciliation of carrying amount

	Right of use assets *RMB'000*	Furniture, fixture and equipment *RMB'000*	Leasehold improvements *RMB'000*	Total *RMB'000*
Cost:				
At 1 January 2017	–	894	1,266	2,160
Additions	637	446	249	1,332
Acquisition through a business combination *(Note 11)*	6,951	30	415	7,396
At 31 December 2017	7,588	1,370	1,930	10,888
Accumulated depreciation:				
At 1 January 2017	–	(189)	(366)	(555)
Charge for the year	(1,790)	(335)	(985)	(3,110)
At 31 December 2017	(1,790)	(524)	(1,351)	(3,665)
Net book value:				
At 31 December 2017	5,798	846	579	7,223
Cost:				
At 1 January 2018 and 31 December 2017	7,588	1,370	1,930	10,888
Additions	409	47	–	456
Disposals	–	(64)	–	(64)
At 31 December 2018	7,997	1,353	1,930	11,280
Accumulated depreciation:				
At 1 January 2018 and 31 December 2017	(1,790)	(524)	(1,351)	(3,665)
Charge for the year	(2,067)	(368)	(248)	(2,683)
Written back on disposals	–	17	–	17
At 31 December 2018	(3,857)	(875)	(1,599)	(6,331)
Net book value:				
At 31 December 2018	4,140	478	331	4,949
Cost:				
At 1 January 2019 and 31 December 2018	7,997	1,353	1,930	11,280
Additions	691	244	–	935
At 31 December 2019	8,688	1,597	1,930	12,215
Accumulated depreciation:				
At 1 January 2019 and 31 December 2018	(3,857)	(875)	(1,599)	(6,331)
Charge for the year	(2,061)	(273)	(331)	(2,665)
At 31 December 2019	(5,918)	(1,148)	(1,930)	(8,996)
Net book value:				
At 31 December 2019	2,770	449	–	3,219

9 INTANGIBLE ASSETS

	Software *RMB'000*	**User Base** *RMB'000*	**Technology** *RMB'000*	**Brand name** *RMB'000*	**Total** *RMB'000*
Cost:					
At 1 January 2017	8	–	–	–	8
Acquired in a business combination *(Note 11)*	–	1,800	1,870	32,000	35,670
At 31 December 2017	8	1,800	1,870	32,000	35,678
Accumulated amortisation:					
At 1 January 2017	(2)	–	–	–	(2)
Charge for the year	(2)	(1,599)	(156)	(2,133)	(3,890)
At 31 December 2017	(4)	(1,599)	(156)	(2,133)	(3,892)
Net book value:					
At 31 December 2017	4	201	1,714	29,867	31,786
Cost:					
At 1 January 2018 and 31 December 2018	8	1,800	1,870	32,000	35,678
Accumulated amortisation:					
At 1 January 2018	(4)	(1,599)	(156)	(2,133)	(3,892)
Charge for the year	(2)	(201)	(233)	(3,200)	(3,636)
At 31 December 2018	(6)	(1,800)	(389)	(5,333)	(7,528)
Net book value:					
At 31 December 2018	2	–	1,481	26,667	28,150
Cost:					
At 1 January 2019	8	1,800	1,870	32,000	35,678
Addition	54	–	–	–	54
At 31 December 2019	62	1,800	1,870	32,000	35,732
Accumulated amortisation:					
At 1 January 2019	(6)	(1,800)	(389)	(5,333)	(7,528)
Charge for the year	(6)	–	(234)	(3,200)	(3,440)
At 31 December 2019	(12)	(1,800)	(623)	(8,533)	(10,968)
Net book value:					
At 31 December 2019	50	–	1,247	23,467	24,764

(i) The amortisation charges for the year are included in "cost of sales" in the consolidated statement of profit or loss.

10 GOODWILL

	RMB'000
Cost:	
At 1 January 2017	–
Increase in a business combination	139,456
At 31 December 2017, 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	139,456
Accumulated impairment losses:	
At 31 December 2017, 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	–
Carrying amount:	
At 31 December 2017, 31 December 2018 and 31 December 2019	139,456

Impairments tests for cash-generating units containing goodwill

The Target Group's goodwill arising from the merger by absorption described in Note 11. As the Target Company integrated the businesses and IT systems of the two companies into one to provide the live streaming service which is the principal business after the merger, the Target Group treated the business of providing live streaming service as the CGU ("Live Streaming CGU") related to the goodwill.

The recoverable amount of the Live Streaming CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

	31/12/2017	**31/12/2018**	**31/12/2019**
Assumptions adopted at end of each reporting period:			
Annual revenue growth rates for first five years *(Note(aa))*	15%-245%	15%-98%	15%-52%
Long-term growth rate *(Note(bb))*	3%	3%	3%
Discount rate *(Note(cc))*	26.33%	25.52%	25.51%

Notes:

(aa) The annual revenue growth rates adopted are based on Live Streaming CGU's historical experience and the Target Group's expectations of future changes in the streaming and adjusted for other factors that are specific to the Live Streaming CGU.

(bb) Cash flows beyond the five-year period are extrapolated used a long-term growth rate based on the relevant industry growth forecasts and does not exceed the average long-term growth rate of the relevant industry.

(cc) The discount rates used are pre-tax and reflect specific risks relating to the Live Streaming CGU.

Based on the impairment test performed, the recoverable amount of the Live Streaming CGU was over its carrying amount as at 31 December 2017, 2018 and 2019 respectively, therefore the management determined such goodwill was not impaired as at 31 December 2017, 2018 and 2019. Management does not expect any reasonable changes in key assumptions disclosed above would cause the carrying amount of the Live Streaming CGU to exceed its recoverable amount.

11 BUSINESS COMBINATION

On 30 April 2017, the shareholders of the Target Company and Beijing Duanji Network Technology Co., Ltd. ("Beijing Duanji") entered into an agreement, pursuant to which the Target Company merged Beijing Duanji and its subsidiary by absorption through issuing new shares to the shareholder of Beijing Duanji. Beijing Duanji is a company established in the PRC with limited liability and principally engaged in operating a social networking platform through an App in Southeast Asia. As a result of the merger by absorption, all the assets, liabilities and business of Beijing Duanji are transferred to the Target Company and the registration of Beijing Duanji was cancelled.

The merger by absorption was completed on 30 April 2017.

(a) Consideration transferred

Target Company issued 1,250,000 ordinary shares to the shareholders of Beijing Duanji, which account for 50% of the outstanding ordinary shares of the enlarged Target Company. The fair value of the ordinary shares issued was based on the equity value of the Target Company at 30 April 2017 of RMB114.4 per share. The fair values of the equity value of the Target Company at the acquisition date was determined using the discounted cash flow approach, and the discounted rates adopted is 26%, which was determined with weighted average cost of capital of the Target Group.

(b) Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at 30 April 2017.

	Note	**Fair value of net identifiable assets acquired** *RMB'000*
Property and equipment	*8*	7,396
Intangible assets	*9*	35,670
Deferred tax assets	*18(b)*	10,166
Accounts and other receivables*		14,085
Cash and cash equivalents		6,968
Accounts and other payables		(55,636)
Contract liability		(676)
Deferred tax liabilities	*18(b)*	(7,478)
Lease liabilities		(6,951)
Fair value of identifiable net assets acquired		3,544

* The account and other receivables comprise gross contractual amounts due of RMB14,102,000 of which provision for credit loss of RMB17,000 has been made at the acquisition date.

The values of assets and liabilities recognised on acquisition are their estimated fair values. In determining the fair values of identifiable assets and liabilities, the directors of the Target Company have referenced the fair value adjustments to valuation report issued by an independent professional valuer. The fair value of the intangible assets acquired were determined using income approach for user base and brand name and cost method for technologies.

From the date of the above acquisition to 31 December 2017, the revenue and net loss that above acquisition contributing to the Target Group were not available as the acquiree had been absorbed and there were only one integrated businesses and one IT/financial system since the acquisition date. Had the above acquisition been completed on 1 January 2017, the directors of the Target Company estimated the consolidated revenue and consolidated net loss for the year ended 31 December 2017 would have been RMB75.3 million and RMB144.8 million, respectively.

(c) Goodwill

	As at 30 April 2017 *RMB'000*
Fair value of total consideration transferred	143,000
Fair value of identifiable net assets	(3,544)
Goodwill	139,456

Goodwill is attributable mainly to the synergies expected to be achieved from integrating the technology for operating and maintaining the social networking platform of Beijing Duanji and the ability to marketing the platform to users of the Target Company into the enlarged Target Group's business. None of the goodwill recognised is expected to be deductible for tax purposes.

(d) Net cash inflow arising on acquisition

	RMB'000
Cash and cash equivalents acquired	6,968

(e) Transaction cost

The transaction costs related to the acquisition is mainly administrative costs which are immaterial. These costs have been included in "general and administrative expenses".

12 ACCOUNTS AND OTHER RECEIVABLES

	At 31 December		
	2017 *RMB'000*	**2018** *RMB'000*	**2019** *RMB'000*
Accounts receivables, net of loss allowance			
– Third parties	17,839	24,978	28,345
– A shareholder of the Target Company	22	23	–
	17,861	25,001	28,345
Amount due from third parties *(Note (i))*	3,614	484	13,938
Other debtors	3,798	4,549	4,469
	7,412	5,033	18,407
Financial assets measured at amortised cost	25,273	30,034	46,752
Prepayments to third parties	593	1,078	326
	25,866	31,112	47,078

Note:

(i) The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

All of the accounts and other receivables, net of loss allowance are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

As at 31 December 2017, 2018 and 2019, the ageing analysis of accounts receivables (which are included in accounts and other receivables), based on invoice date (or date of revenue recognition, if earlier) and net of loss allowance, is as follows:

	At 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Less than 3 months	13,744	24,119	28,122
More than 3 months but less than 6 months	844	7	101
More than 6 months but less than 1 year	2,090	52	120
Over 1 year	1,183	823	2
	17,861	25,001	28,345

Details on the Target Group's credit policy and credit risk arising from accounts and other receivable are set out in Note 21(a).

13 NON-EQUITY INVESTMENTS

	At 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets measured at FVPL			
Wealth management products	1,729	393	3,341

Note: The non-equity investments represent wealth management products issued by financial institutions with variable returns.

14 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	At 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents	10,137	17,109	39,353

(b) Reconciliation of profit before taxation to cash generated from operations

		At 31 December		
	Note	**2017**	**2018**	**2019**
		RMB'000	*RMB'000*	*RMB'000*
Operating activities				
(Loss)/profit before taxation		(130,346)	(14,587)	33,731
Adjustments for:				
Depreciation and amortisation	*6(c)*	7,000	6,319	6,105
Impairment losses of accounts and other receivables	*6(c)*	4,606	1,304	243
Net loss on disposal of property and equipment		–	47	–
Interest income on cash and cash equivalent	*5*	(191)	(20)	(147)
Changes in fair value recognised in profit or loss during the year	*5*	(58)	45	(100)
Investment income on non-equity investment	*5*	(228)	(102)	(191)
Finance costs	*6(a)*	220	187	123
Foreign exchange loss/(gain), net	*5*	655	(1,139)	(4,192)
Equity settled share-based payment expense		70,292	–	8,135
Changes in working capital:				
Increase in restricted deposits		(334)	(17)	(8)
Increase in accounts and other receivables		(13,153)	(6,109)	(12,488)
Increase/(decrease) in accounts and other payables		111	(3,016)	(67,038)
Increase in contract liabilities		1,995	450	1,802
Cash used in operations and net cash used in operating activities		(59,431)	(16,638)	(34,025)

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Target Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Target Group's consolidated cash flow statement as cash flows from financing activities.

	Amount due to a shareholder of the Target Company *RMB'000* *(Note 15)*	**Lease liabilities** *RMB'000* *(Note 16)*	**Total** *RMB'000*
At 1 January 2017	2,246	–	2,246
Changes from financing cash flows:			
Capital element of lease rentals paid	–	(2,636)	(2,636)
Interest element of lease rentals paid	–	(220)	(220)
Proceeds from advances from a shareholder of the Target Company	12,786	–	12,786
Total changes from financing cash flows	12,786	(2,856)	9,930
Other changes:			
Interest expenses *(Note 6(a))*	–	220	220
Increase in lease liabilities from entering into new leases and business combination during the year	–	7,588	7,588
Total other changes	–	7,808	7,808
At 31 December 2017 and 1 January 2018	15,032	4,952	19,984
Changes from financing cash flows:			
Capital element of lease rentals paid	–	(2,317)	(2,317)
Interest element of lease rentals paid	–	(187)	(187)
Proceeds from advances from a shareholder of the Target Company	24,672	–	24,672
Total changes from financing cash flows	24,672	(2,504)	22,168
Other changes:			
Interest expenses *(Note 6(a))*	–	187	187
Increase in lease liabilities from entering into new leases during the year	–	409	409
Total other changes	–	596	596

	Amount due to a shareholder of the Target Company *RMB'000* *(Note 15)*	Lease liabilities *RMB'000* *(Note 16)*	Total *RMB'000*
At 31 December 2018 and 1 January 2019	39,704	3,044	42,748
Changes from financing cash flows:			
Capital element of lease rentals paid	–	(1,565)	(1,565)
Interest element of lease rentals paid	–	(123)	(123)
Proceeds from advances from a shareholder of the Target Company	3,759	–	3,759
Repayments of advances from a shareholder of the Target Company	(43,463)	–	(43,463)
Total changes from financing cash flows	(39,704)	(1,688)	(41,392)
Other changes:			
Interest expenses *(Note 6(a))*	–	123	123
Increase in lease liabilities from entering into new leases during the year	–	691	691
Total other changes	–	814	814
At 31 December 2019	–	2,170	2,170

(d) Total cash outflow for leases

Amounts included in the cash flow statement for leases are as follows:

	2017 *RMB'000*	2018 *RMB'000*	2019 *RMB'000*
Within financing cash flows	2,856	2,504	1,688

These amounts were all related to lease rentals paid.

15 ACCOUNTS AND OTHER PAYABLES

	At 31 December		
	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Accounts payables to third parties	7,104	11,309	19,333
Amounts due to a shareholder of the Target Company *(Note (i))*	15,032	39,704	–
Payroll payable	3,238	3,432	16,001
Payables for promotion and advertising expenses			
– A shareholder of the Target Company	36,011	37,684	–
– Third parties	67,534	65,699	15,269
Others	1,238	163	12
	108,021	106,978	31,282
Financial liabilities measured at amortised cost	130,157	157,991	50,615
Payables for miscellaneous taxes	204	–	353
	130,361	157,991	50,968

Note:

(i) The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

All of the accounts and other payables (including amounts due to a shareholder of the Target Company) are expected to be settled within one year or are repayable on demand.

16 LEASE LIABILITY

The following table shows the remaining contractual maturities of the Target Group's lease liabilities as at 31 December 2017, 2018 and 2019.

	31 December 2017		31 December 2018		31 December 2019	
	Present value of the minimum lease payments	**Total minimum lease payments**	**Present value of the minimum lease payments**	**Total minimum lease payments**	**Present value of the minimum lease payments**	**Total minimum lease payments**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	2,224	2,267	1,548	1,586	1,606	1,646
After 1 year but within 2 years	1,301	1,398	1,301	1,398	434	463
After 2 years but within 5 years	1,427	1,613	195	215	130	144
	2,728	3,011	1,496	1,613	564	607
	4,952	5,278	3,044	3,199	2,170	2,253
Less: total future interest expenses		(326)		(155)		(83)
Present value of lease liabilities		4,952		3,044		2,170

17 CONTRACT LIABILITY

	At 31 December 2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities			
Deferred revenue	2,672	3,122	4,924

The Target Group normally requires its customers to prepay consideration before the promised services rendered. The balances as at 31 December 2017, 2018 and 2019 are expected to be recognised as revenue within one year.

18 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Movement of current taxation in the consolidated statements of financial position are as follows:

	RMB'000
At 1 January 2017, 31 December 2017, 1 January 2018, 31 December 2018 and 1 January 2019	–
Provision for the year ended 31 December 2019	380
Exchange adjustment	4
At 31 December 2019	384

(b) Deferred tax assets and liabilities recognised:

Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statements of financial position and the movements during the Relevant Periods are as follows:

	Assets			Liabilities	
	Impairment losses on financial assets	Unused tax loss	Restricted shares granted	Fair value adjustments on intangible assets and related amortisation	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets/(liabilities) arising from:					
At 1 January 2017	89	3,440	–	–	3,529
Business combination *(Note 11)*	–	10,166	–	(7,478)	2,688
Credited to profit or loss	693	3,725	10,544	583	15,545
Exchange adjustments	–	(15)	–	–	(15)
At 31 December 2017 and 1 January 2018	782	17,316	10,544	(6,895)	21,747
Credited/(charged) to profit or loss	194	(2,533)	–	545	(1,794)
Exchange adjustments	–	17	–	–	17
At 31 December 2018 and 1 January 2019	976	14,800	10,544	(6,350)	19,970
Credited/(charged) to profit or loss	98	(7,825)	1,220	515	(5,992)
Exchange adjustments	–	(19)	–	–	(19)
At 31 December 2019	1,074	6,956	11,764	(5,835)	13,959

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(o), the Target Group has not recognised deferred tax assets in respect of cumulative tax losses of a subsidiary of RMB116.1 million, RMB151.0 million and RMB151.0 million as at 31 December 2017, 2018, 2019, respectively, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

(d) Deferred tax liabilities not recognised

As at 31 December 2017, 2018 and 2019, all the subsidiaries of the Target Group established in the PRC had no undistributed profits, thus there were no deferred tax liabilities not recognised.

19 SHARE-BASED PAYMENTS

The Target Company operates share-based incentive arrangements for eligible employees under which restricted shares are granted over the Target Company's ordinary shares. All of the arrangements under which restricted shares were outstanding during the relevant period are classified as equity settled. For the year ended 31 December 2017, 2018 and 2019, the compensation expense recognized in profit or loss in respect of share-based incentives was RMB70.3 million, RMBNil and RMB8.1 million. The arrangements are as follows:

On 25 August 2017 (the "Adoption Date"), the directors of the Target Company adopted a share-based incentive plan (the "Share Incentive Plan") as a mean of rewarding and retaining employees of the Target Group and to attract suitable personnel for further development with the Target Group. Two limited partnerships (the "Holders"), which are collectively owned by management personnel of the Target Company have been set up for the purpose of administering the Share Incentive Plan.

Pursuant to the Share Incentive Plan, the Holders owned shares of the Target Company and to hold such shares until they are granted to the eligible participants.

The directors of the Target Company may, from time to time, at its discretion select any employee of the Target Group for participation in the Share Incentive Plan and grant such number of restricted shares to any selected employee of the Target Group at consideration calculated based on paid in capital of the Target Company held by the Holders and percentage of share of the Holders granted. The directors of the Target Company are entitled to impose any conditions (including a period of continued service within the Target Group after grant) with respect to the vesting of the restricted shares.

(a) The terms and conditions of the grants are as follows:

	Number of shares granted	**Vesting Conditions**
Shares granted to the employees		
– on 31 December 2017	401,250	Upon date of grant
– on 31 December 2018	53,750	Subject to a four-year service schedule, under which an employee earns an entitlement to vest 25% of total shares at the end of each year from the date of grant of complete service.
– on 31 March 2019	750	Subject to a four-year service schedule, under which an employee earns an entitlement to vest 25% of total shares at the end of each year from the date of grant of complete service.
	455,750	

(b) The movements in the shares during the relevant period are as follows:

	2017 Number of shares	2018 Number of shares	2019 Number of shares
Outstanding on 1 January	–	401,250	455,000
Granted	401,250	53,750	750
Outstanding on 31 December	401,250	455,000	455,750
Vested on 31 December	401,250	401,250	414,688

All the restricted shares vested will be exercisable upon the Target Company's completion of Initial public offering based on the non-vesting condition set in the Share Incentive Plan.

(c) The fair value of restricted shares and assumptions:

The fair value of services received in return for restricted shares granted is measured by reference to the fair value of shares granted. The estimate of the fair value of the restricted shares granted is measured based on discounted cash flow approach. Restricted shares were granted under both service and non-vesting conditions. These conditions has not been taken into account in the grant date fair value measurement of the services received.

The fair value and assumptions of the shares granted in 2017, 2018 and 2019 are as below:

Dates of valuation	**31/12/2017**	**31/12/2018**	**31/03/2019**
Fair value at measurement date (RMB)	176	288	400
Discount for lack of marketability	25%	20%	20%
Risk-free interest rate (20-year yield of Chinese treasury bonds)	4.22%	3.49%	3.46%
Discount rate *(Note(aa))*	23%	22%	22%

Note:

(aa) The discount rate used is determined with weighted average cost of capital of the Target Group.

20 CAPITAL, RESERVES AND DIVIDENDS

(a) Paid-in capital

The registered capital of the Target Company is RMB1,250,000, RMB2,500,000 and RMB2,825,000 as at 31 December 2017, 2018 and 2019 respectively.

Issuance of shares in 2017 is for the purpose of the business combination as set in Note 11.

The capital injection during the year ended 31 December 2019 represents the shares of the Target Company issued to the Company during the year.

(b) Nature and purpose of reserves

(i) Capital reserve

The capital reserve represents (i) difference between the nominal value of the Target Company's shares issued and the fair value of the shares as consideration for the acquisition took place during a business combination of the Target Group in 2017; and (ii) difference between the nominal value of the Target Company's shares issued and the capital injection from the Company based on the fair value of the Target Group as at 31 March 2019.

(ii) Share-based compensation reserve

The share-based compensation reserve represents the grant date fair value of restricted shares granted to employees of the Target Group that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(n)(ii).

(iii) Exchange reserve

The exchange reserve comprises foreign exchange differences arising from the translation of the financial statements of companies outside Mainland China into the presentation currency. The reserve is dealt with in accordance with the accounting policy set out in Note 2(r).

(c) Capital management

The Target Group's primary objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The capital structure of the Target Group consists of net debt including borrowings, net of cash and cash equivalents and equity attributable to owners of the Target Company comprising issued equity, retained profits and other reserves.

The directors of the Target Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The Target Group will balance its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt.

21 FINANCIAL RISK MANAGEMENT

The Target Group's exposure to credit, liquidity, interest rate and currency risks and the financial risk management policies and practices used by the Target Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Target Group. The Target Group's credit risk is primarily attributable to accounts and other receivables. The Target Group's exposure to credit risk arising from cash and cash equivalents, restricted bank deposits is limited because the counterparties are banks and financial institutions for which the Target Group considers to have low credit risk.

Account receivables

The Target Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Target Group has significant exposure to individual customers. At 31 December 2017, 2018 and 2019, 25%, 37%, and 44% of the total accounts receivables was due from the Target Group's largest debtors, 71%, 92%, and 87%of the total accounts receivables was due from the five largest debtors respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Accounts receivables are due within 0-90 days from the date of billing. Normally, the Target Group does not obtain collateral from customers.

The Target Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Target Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Target Group's different customer bases.

The following table provides information about the Target Group's exposure to credit risk and ECLs for account receivables as at 31 December 2017, 2018 and 2019:

	At 31 December 2017		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Current to less than 3 months	0.17%	13,767	23
3 to 6 months	1%	852	8
6 months to 1 year	3%	2,149	59
Over 1 year	20%	1,478	295
		18,246	385

	At 31 December 2018		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Current to less than 3 months	0.07%	24,137	18
3 to 6 months	0%	7	–
6 months to 1 year	5%	55	3
Over 1 year	24%	1,088	265
		25,287	286

	At 31 December 2019		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Current to less than 3 months	0.002%	28,122	–
3 to 6 months	0.01%	101	–
6 months to 1 year	0.05%	120	–
Over 1 year	100%	534	532
		28,877	532

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Target Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance account in respect of accounts receivables during the Relevant Periods is as follows:

	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	235	385	286
Impairment losses recognised/(reversal)	152	(96)	243
Exchange adjustment	(2)	(3)	3
At 31 December	385	286	532

(b) Liquidity risk

The treasury function is centrally managed by the Target Group, which including the short term investment of cash surplus and the raising of loans to cover expected cash demands. The Target Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Target Group's financial liabilities and, which are based on contractual undiscounted cash flows and the earliest date the Target Group can be required to pay:

	At 31 December 2017 Contractual undiscounted cash outflow					
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**	**Total**	**Carrying amount at 31 December**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Lease liabilities	2,267	1,398	1,613	–	5,278	4,952
Accounts and other payables measured at amortised cost	130,157	–	–	–	130,157	130,157
	132,424	1,398	1,613	–	135,435	135,109

	At 31 December 2018 Contractual undiscounted cash outflow					
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**	**Total**	**Carrying amount at 31 December**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Lease liabilities	1,586	1,398	215	–	3,199	3,044
Accounts and other payables measured at amortised cost	157,991	–	–	–	157,991	157,991
	159,577	1,398	215	–	161,190	161,035

	At 31 December 2019 Contractual undiscounted cash outflow					
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**	**Total**	**Carrying amount at 31 December**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Lease liabilities	1,646	463	144	–	2,253	2,170
Accounts and other payables measured at amortised cost	50,615	–	–	–	50,615	50,615
	52,261	463	144	–	52,868	52,785

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Group's interest rate risk arises primarily from interest bearing borrowings. Borrowings issued at variable rates and fixed rates expose the Target Group to cash flow interest rate risk and fair value interest rate risk respectively.

(i) Interest rate profile

The following table details the interest rate profile of the Target Group's borrowings at the end of each reporting period.

	At 31 December 2017		At 31 December 2018		At 31 December 2019	
	Effective interest rate	**Effective interest rate**	**Effective interest rate**			
	%	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*
Fixed rate borrowings						
Lease liability	4.75%	4,952	4.75%	3,044	4.75%	2,170
Fixed rate borrowings as a percentage of total borrowings		100%		100%		100%

(ii) Sensitivity analysis

At 31 December 2017, 2018 and 2019, the Target Group was not exposed to any significant interest rate risk.

(d) Currency risk

The Target Group is exposed to currency risk primarily through cash and cash equivalent, accounts and other receivables and accounts and other payables that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily USD, Indonesian Rupiah ("IDR") and Thai Baht ("THB").

(i) Exposure to currency risk

The following table details the Target Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of operations, which have a functional currency other than RMB, into the Target Group's presentation currency are excluded.

	2017		
	Exposure to foreign currency		
	USD	**IDR**	**THB**
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents	–	1,089	–
Accounts and other receivables	27,984	1,994	9,055
Accounts and other payables	–	(2,257)	(138)
Gross exposure arising from recognised assets and liabilities	27,984	826	8,917

	2018		
	Exposure to foreign currency		
	USD	**IDR**	**THB**
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents	–	2,091	–
Accounts and other receivables	52,081	4,445	9,569
Accounts and other payables	–	(3,335)	(4,131)
Gross exposure arising from recognised assets and liabilities	52,081	3,201	5,438

	2019		
	Exposure to foreign currency		
	USD	**IDR**	**THB**
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents	–	8,176	–
Accounts and other receivables	54,273	3,646	3,622
Accounts and other payables	–	–	(160)
Gross exposure arising from recognised assets and liabilities	54,273	11,822	3,462

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Target Group's profit after tax and retained profits that would arise if foreign exchange rates to which the Target Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2017		2018		2019	
	Increase/ (decrease) in foreign currency exchange rate	**(increase)/ decrease in loss after tax**	**Increase/ (decrease) in foreign currency exchange rate**	**(increase)/ decrease in loss after tax**	**Increase/ (decrease) in foreign currency exchange rate**	**increase/ (decrease) in profit after tax**
	%	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*
USD	10%	2,379	10%	4,427	10%	4,613
	(10%)	(2,379)	(10%)	(4,427)	(10%)	(4,613)
IDR	10%	69	10%	267	10%	987
	(10%)	(69)	(10%)	(267)	(10%)	(987)
THB	10%	745	10%	454	10%	289
	(10%)	(745)	(10%)	(454)	(10%)	(289)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Target Group entities' profit/(loss) after tax and accumulated losses measured in the respective functional currencies, translated into RMB at the exchange rates ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Target Group which expose the Target Group to foreign currency risk at the end of the reporting period, including inter-company receivables within the Target Group which are denominated in a currency other than the functional currencies of the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Target Group's presentation currency.

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Target Group's financial instruments measured at each end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value at 31 December 2017	Fair value measurement as at 31 December 2017 categorised into Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Recurring fair value measurements				
Assets:				
Non-equity investments	1,729	–	–	1,729

	Fair value at 31 December 2018	Fair value measurement as at 31 December 2018 categorised into Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Recurring fair value measurements				
Assets:				
Non-equity investments	393	–	–	393

	Fair value at 31 December 2019	Fair value measurement as at 31 December 2019 categorised into Level 1	Level 2	Level 3
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Recurring fair value measurements				
Assets:				
Non-equity investments	3,341	–	–	3,341

During the Relevant Period, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Target Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Range
Non-equity investments	Discounted cash flow model	Expected return rate	2.8%-3.8%

The fair value of financial assets measured at fair value through profit or loss is determined using the discounted cash flow model and the significant unobservable input used in the fair value measurement is expected return rate, which are 2.8%-3.8% as at 31 December 2017, 2018 and 2019. The fair value measurement is positively correlated to the expected return rate. As at 31 December 2017, 2018 and 2019 it is estimated that with all other variables held constant, an increase/decrease in the expected return rate by 1% would have increased/decreased the Target Group's profit by RMB17,000, RMB4,000 and RMB32,000.

The movements during the Relevant Periods in the balance of the Level 3 fair value measurements are as follows:

	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Non-equity investments:			
At 1 January	–	1,729	393
Addition through purchase	37,591	34,609	61,968
Changes in fair value recognised in profit or loss during the year	58	(45)	100
Redemption on maturity	(35,920)	(35,900)	(59,120)
At 31 December	1,729	393	3,341

(ii) ***Fair value of financial assets and liabilities carried at other than fair value***

The carrying amounts of the Target Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2017, 2018 and 2019.

22 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the balances and transactions disclosed elsewhere in the Historical Financial Information, the Target Group had the following material related party transactions during the Relevant Periods.

Key management personnel remuneration

Remuneration for key management personnel of the Target Group is as follows:

	2017	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*
Short-term employee benefits	911	1,385	1,370
Contributions to defined contribution plan	64	133	120
Equity-settled share-based payment expenses	43,900	–	–
	44,875	1,518	1,490

Total remuneration is included in "staff costs" (see Note 6(b)).

23 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 December 2017, 2018 and 2019, the directors of the Target Company consider there are no immediate parent company and the ultimate holding company for the Target Company.

24 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of the Historical Financial Information, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Target Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 3, *Definition of a business*	1 January 2020
Amendments to IAS 1 and IAS 8, *Definition of material*	1 January 2020
Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2022

The Target Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

25 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of reporting period, on 17 April 2020, the Target Company entered into the Convertible Loan Investment Agreement with Mr. Ye Chunjian and the Company, pursuant to which the Company has conditionally agreed to provide the Target Company with a convertible loan of RMB50 million. The term of the convertible loan is two year, and within which the Company has the right to convert all or part of the loan to the newly issued registered capital of the Target Company with reference to the valuation of equity interest value of the Target Company as at 31 March 2020.

Up to the date on which this Historical Financial Information was issued, although the extent of the impacts of the COVID-19 outbreak on the global macro-economic conditions as a whole are still uncertain, the Target Group was not aware of any material adverse effects to the operation and the Historical Financial Information as a result of the COVID-19 outbreak. The Target Group will keep paying close attention to the development of the COVID-19 outbreak, performing further assessment of its impact and taking relevant measures.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group or its subsidiaries in respect of any period subsequent to 31 December 2019.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "Unaudited Pro Forma Financial Information") has been prepared on the basis of the notes set out below for the purpose of illustrating the effects on the assets and liabilities of the Enlarged Group as if (i) the Acquisition of 8.85% equity interest of Target Company by NewBornTown Network Technology from Phoenix Fortune pursuant to the Equity Transfer Agreement had been completed on 31 December 2019; and (ii) the Convertible Loan Investment of RMB50 million had been provided by NewBornTown Network Technology to Mico on 31 December 2019 pursuant to the Convertible Loan Investment Agreement with all conditions precedent fulfilled had been completed on 31 December 2019.

The Unaudited Pro Forma Financial Information as at 31 December 2019 has been prepared based on (i) the audited consolidated balance sheet of the Group as at 31 December 2019, as set out in its published annual report for the year ended 31 December 2019; (ii) the audited consolidated statement of financial position of the Target Group, as set out in Appendix II to the circular; and (iii) the pro forma adjustments prepared to reflect the effects of the Acquisition and Convertible Loan Investment by the Group as explained in the notes set out below that are directly attributable to the Acquisition and Convertible Loan Investment, not relating to other future events or decisions and are factually supportable.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information contained in this circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors of the Company for illustrative purposes only and is based on a number of assumptions, estimates and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Enlarged Group had the Acquisition and Convertible Loan Investment been completed as at 31 December 2019 or any future date.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP AS AT 31 DECEMBER 2019

		Assume the Acquisition was completed		Assume the Acquisition and the Convertible Loan Investment were completed					
	The Group as at 31 December 2019	Pro forma adjustments for the Acquisition	Unaudited pro forma statement of assets and liabilities of the Group as at 31 December 2019 after the completion of Acquisition	The Target Group as at 31 December 2019	Pro forma adjustments for the Convertible Loan Investment				Unaudited pro forma statement of assets and liabilities of the Enlarged Group as at 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*		*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	
ASSETS									
Non-current assets									
Property and equipment	6,960	–	6,960	3,219	–	–	–	–	10,179
Intangible assets	3,933	–	3,933	24,764	–	–	216,786	–	245,483
Goodwill	5,066	–	5,066	139,456	–	–	82,405	–	226,927
Financial assets measured at fair value through profit or loss	187,356	(184,000)	3,356	–	–	–	–	–	3,356
Investment in subsidiaries	–	–	–	–	–	284,000	(284,000)	–	–
Investment in associate	–	284,000	284,000	–	–	(284,000)	–	–	–
Deferred tax assets	–	–	–	19,794	–	–	–	–	19,794
Total non-current assets	203,315	100,000	303,315	187,233	–	–	15,191	–	505,739
Current assets									
Other current assets	1,487	–	1,487	–	326	–	–	–	1,813
Accounts receivable	163,383	–	163,383	47,078	(18,733)	–	–	–	191,728
Other receivable	92,948	–	92,948	–	18,407	–	–	–	111,355
Financial assets measured at fair value through profit or loss	132,651	–	132,651	3,341	–	–	–	–	135,992
Cash and cash equivalents	182,863	(100,000)	82,863	39,353	97	–	–	–	122,313
Restricted bank deposits	913	–	913	359	–	–	–	–	1,272
Total current assets	574,245	(100,000)	474,245	90,131	97	–	–	–	564,473
Total assets	777,560	–	777,560	277,364	97	–	15,191	–	1,070,212

		Assume the Acquisition was completed		Assume the Acquisition and the Convertible Loan Investment were completed					
	The Group as at 31 December 2019	Pro forma adjustments for the Acquisition	Unaudited pro forma statement of assets and liabilities of the Group as at 31 December 2019 after the completion of Acquisition	The Target Group as at 31 December 2019	Pro forma adjustments for the Convertible Loan Investment				Unaudited pro forma statement of assets and liabilities of the Enlarged Group as at 31 December 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*		*Note 3*	*Note 4*	*Note 5*	*Note 6*	*Note 7*	
LIABILITIES									
Current liabilities									
Accounts payable	89,938	–	89,938	50,968	(16,354)	–	–	–	124,552
Other payable	32,575	–	32,575	–	16,354	–	–	5,969	54,898
Lease liabilities	3,238	–	3,238	1,606	–	–	–	–	4,844
Contract liabilities	–	–	–	4,924	–	–	–	–	4,924
Bank overdraft	48	–	48	–	97	–	–	–	145
Tax payable	5,228	–	5,228	384	–	–	–	–	5,612
Total current liabilities	131,027	–	131,027	57,882	97	–	–	5,969	194,975
Non-current liabilities									
Deferred tax liabilities	8,914	–	8,914	5,835	–	–	47,873	–	62,622
Lease liabilities	3,074	–	3,074	564	–	–	–	–	3,638
Total non-current liabilities	11,988	–	11,988	6,399	–	–	47,873	–	66,260
Total liabilities	143,015	–	143,015	64,281	97	–	47,873	5,969	261,235
Net assets	634,545	–	634,545	213,083	–	–	(32,682)	(5,969)	808,977

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. The balances are extracted from the audited consolidated balance sheet of the Group as at 31 December 2019 as set out in the published annual report for the year ended 31 December 2019.

2. Pursuant to the Equity Transfer Agreement, the total consideration for the 8.85% equity interest of the Target Company shall be RMB100 million (subject to closing adjustments at completion date). Before the completion of the Equity Transfer Agreement, the Group held 16.77% equity interest of the Target Company which was recorded at fair value of RMB184 million as at 31 December 2019.

   After the completion of the Acquisition, the Group will have one seat in the board of directors and have 25.62% equity interest in the Target Company. Therefore, the Target Company will be accounted for as an associate using equity method. The cost of investment in the associate will be recorded at the aggregate of the Group's carrying value of the 16.77% equity in the Target Company and the consideration paid.

3. The assets and liabilities of the Target Group are extracted from the consolidated statements of financial position of the Target Group as at 31 December 2019 as set out in the accountants' report prepared by KPMG, the text of which is set out in Appendix II to this circular.

4. Certain reclassifications have been made to conform with the Group's presentation.

5. The Group entered into the Convertible Loan Investment Agreement with Mr. Ye Chunjian and the Target Group, pursuant to which the Group has conditionally agreed to provide the Target Group with a Convertible Loan of RMB50 million.

   The Convertible Loan Investment Agreement will only be executed after the completion of the Acquisition. After the completion of both the Acquisition and the Convertible Loan Investment, the Group will have 3 of 5 board of directors seats and become the single largest shareholder with approximately 25.62% equity interest directly owned by the Group and in aggregate approximately 15.97% equity interest owned by Tianjin Tonghe Chuangyuan and Ningbo Tonghe Chuangyuan (as the platforms for the employee stock ownership plan of the Target Group) and directed by the Group as the executive partner. The Group will have control over the Target Group, and therefore, the Group will consolidate the results and financial position of the Target Company.

   For the purpose of this Unaudited Pro Forma Financial Information of the Enlarged Group, the impact of the payment of the Convertible Loan by the Group and the receipt of cash by the Target Company is eliminated within the Enlarged Group.

   There is no impact to the assets and liabilities of the Group upon conversion of the Convertible Loan to registered capital of the Target Company as this is a transaction with non-controlling interests.

6. For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, the Group has estimated the fair values of the assets and liabilities of the Target Group based on the valuation report as at 31 December 2019 of the Target Group prepared by an independent professional valuer. The acquisition accounting adjustments comprise the recognition of:

(i) fair value adjustments of intangible assets of the Target Group upon acquisition; and

(ii) the related tax adjustments from the fair value adjustments based on the applicable tax rate.

The calculation of goodwill are as follows:

	RMB'000
Consideration (a)	284,000
Less net identifiable assets to be acquired:	
Carrying amounts of net assets of the Target Group (b)	213,083
Less:	
– Goodwill currently carried in the Target Group's books (b)	(139,456)
– Net intangible assets (excluding software) carried in the Target Group's books (b)	(24,714)
– Deferred tax liabilities recognised (c)	(53,708)
Add:	
– Valuation adjustments of intangible assets (b)	241,500
– Derecognition deferred tax liabilities carried in the Target Group's books (b)	5,835
Total net identifiable assets of the Target Group	242,540
Non-controlling interests of 74.38% in the Target Group	(180,401)
Net identifiable assets attributable to the Group	62,139
Goodwill to be recognised from the Acquisition and Convertible Loan Investment	221,861

(a) The consideration for the 25.62% equity interest of the Target Group is RMB284 million, which is the aggregate of the consideration of the Equity Transfer Agreement of RMB100 million and the fair value of the previous 16.77% investment as at 31 December 2019.

(b) For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, the Directors assumed that except for the intangible assets, the fair value of other assets and liabilities of the Target Group are the same as their respective carrying amounts as at 31 December 2019.

Intangible assets represented the Target Group's user base, technology and brand name and are estimated by the directors after considering the valuation report prepared by an independent professional valuer. The valuation used multiple period excess earnings method for user base, cost approach for technology and relief-from-royalty method for brand name, respectively.

(c) The adjustments on deferred income tax liabilities is determined based on the difference between the tax bases and fair values of intangible assets by applying the Target Group's expected tax rate in the period when the liabilities are settled.

Since the fair values and carrying amounts of the identifiable net assets of the Target Group as at the Completion may be materially different from their respective values used in the preparation of this Unaudited Pro Forma Financial Information, the actual amounts of the assets and liabilities to be recorded in the consolidated financial statements of the Group upon Completion may be materially different from the estimated amounts shown in this Appendix.

7. The adjustment represents the estimated professional fees of approximately RMB5,969,000, relating to the Acquisition and the Convertible Loan Investment. The amount is assumed to be paid after the completion of the Acquisition and the Convertible Loan Investment and will be charged to the profit or loss of the Group.

8. No adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions entered into by the Enlarged Group subsequent to 31 December 2019.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report on the unaudited pro forma financial information of the Enlarged Group received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Newborn Town Inc.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Newborn Town Inc. (the "Company") and its subsidiaries (collectively the "Group"), and Beijing Mico World Technology Co., Ltd. (the "Target Company") and its subsidiaries (collectively the "Target Group") (collectively the "Enlarged Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities as at 31 December 2019 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages 123 to 128 of the Company's circular dated 11 June 2020, in connection with the proposed acquisition of 8.85% equity interest of the Target Company and provision of a convertible loan of RMB50 million to the Target Company (the "Transactions") by the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages 123 to 128 of the circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Transactions on the Group's financial position as at 31 December 2019 as if the Transactions had taken place at 31 December 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the year ended 31 December 2019, on which an audit report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 Preparation of *Pro Forma Financial Information for Inclusion in Investment Circulars ("AG 7")* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
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Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transactions at 31 December 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 11 June 2020

Set out below is the management discussion and analysis on the Target Group for the years ended 31 December 2017, 2018 and 2019, which is prepared based on the financial information of the Target Group as set out in Appendix II to this circular.

BUSINESS AND FINANCIAL REVIEW

Mico and its subsidiaries operate a social networking platform with users from more than 150 countries and regions. Its core apps are MICO and Kitty Live, which feature strangers social networking, group video chat, live streaming and short videos. MICO and Kitty Live are leading social networking apps in regions such as Middle East, Southeast Asia and North America.

REVENUE

For the years ended 31 December 2017, 2018 and 2019, the total revenue of the Target Group amounted to RMB57.6 million, RMB211.1 million and RMB382.3 million, respectively, which primarily comprised the revenue derived from live streaming. For the years ended 31 December 2017, 2018 and 2019, the revenue from live streaming amounted to RMB55.3 million, RMB211.0 million and RMB381.9 million, respectively.

The total revenue of the Target Group increased by RMB153.5 million from RMB57.6 million in 2017 to RMB211.1 million in 2018, mainly due to the increased popularity of the Target Group's social networking apps in the Middle East and Southeast Asia. The total revenue of the Target Group increased by RMB171.2 million from RMB211.1 million in 2018 to RMB382.3 million in 2019, mainly due to the Target Group's continued efforts in operating its social networking apps in the Middle East and Southeast Asia and the launch and promotion of its apps in areas such as North America and South Asia.

COST OF SALES

For the years ended 31 December 2017, 2018 and 2019, the cost of sales of the Target Group amounted to RMB126.8 million, RMB204.3 million and RMB315.6 million, respectively, which mainly comprised streamer costs, bandwidth and server custody costs and staff costs. The increases in the cost of sales during the said periods were driven by the increases in the revenue of the Target Group and were generally in line with the expansion of the Target Group's business for the same periods.

GROSS PROFIT/(LOSS) AND GROSS PROFIT MARGIN

For the years ended 31 December 2017, 2018 and 2019, the Target Group recorded a gross profit/(loss) of RMB(69.2) million, RMB6.8 million and RMB66.7 million, respectively. The gross profit margin was (120.0)%, 3.2% and 17.4%, respectively, during the same periods. Although the Target Group recorded a gross loss in 2017 mainly due to the relatively high level of fixed costs which the revenue cannot cover, it turned from gross loss to gross profit since (i) its revenue generated from the core apps of the Target Group increased significantly; and (ii) its business gradually achieved economies of scale as (a) the streamer costs, which were the largest component of its cost of sales, as a percentage in Target Group's revenue recorded decreases from 2017 to 2019 and (b) the fixed costs, which primarily included staff costs, bandwidth and server custody costs, as a percentage in Target Group's revenue also recorded decreases for the same periods, which enabled the Target Group to achieve lower cost per transaction, despite the increases in revenue from 2017 to 2019.

SELLING AND MARKETING EXPENSES

For the years ended 31 December 2017, 2018 and 2019, the selling and marketing expenses incurred by the Target Group amounted to RMB8.0 million, RMB4.4 million and RMB11.0 million, respectively. The selling and marketing expenses decreased by RMB3.6 million from RMB8.0 million in 2017 to RMB4.4 million in 2018, mainly because the Target Group reduced its promotion and advertising expenses. The selling and marketing expenses increased by RMB6.6 million from RMB4.4 million in 2018 to RMB11.0 million in 2019, mainly due to an increase in promotion and advertising expenses resulting from enhanced efforts in marketing the apps of the Target Group in 2019.

RESEARCH AND DEVELOPMENT EXPENSES

For the years ended 31 December 2017, 2018 and 2019, the research and development expenses incurred by the Target Group amounted to RMB8.6 million, RMB10.0 million and RMB15.0 million, respectively. The increases in the research and development expenses increased during the said periods were mainly due to the increases in the remuneration paid to research and development staff.

GENERAL AND ADMINISTRATIVE EXPENSES

For the years ended 31 December 2017, 2018 and 2019, the general and administrative expenses incurred by the Target Group amounted to RMB44.1 million, RMB8.1 million and RMB11.7 million, respectively. The general and administrative expenses decreased by RMB36.0 million from RMB44.1 million in 2017 to RMB8.1 million in 2018, mainly because the equity-settled share-based payment expenses recorded as general and administrative expenses amounted to RMB30.0 million and nil in 2017 and 2018, respectively. The general and administrative expenses increased by RMB3.6 million from RMB8.1 million in 2018 to RMB11.7 million in 2019, mainly because the Target Group increased its general and administrative expenses in view of its business expansion and growth.

NET PROFIT/(LOSS)

For the years ended 31 December 2017, 2018 and 2019, the Target Group recorded a net profit/(loss) of RMB(114.8) million, RMB(16.4) million and RMB27.4 million, respectively. Although the Target Group recorded a net loss of RMB(114.8) million in 2017, mainly attributable to (i) the relatively high operating costs incurred by the Target Group in the early stage of its business and (ii) the equity-settled share-based payment expenses totalled RMB70.3 million in 2017, the net loss of the Target Group reduced to RMB(16.4) and it turned from net loss to net profit in 2019, mainly due to the continued expansion and revenue and profits increases of the Target Group.

LIQUIDITY AND FINANCIAL RESOURCES

The total assets of the Target Group mainly consist of accounts and other receivables, cash and cash equivalents, goodwill, property and equipment, intangible assets and deferred tax assets. As at 31 December 2017, 2018 and 2019, the Target Group recorded total assets of RMB245.2 million, RMB247.8 million and RMB277.4 million, respectively.

As at 31 December 2017, 2018 and 2019, the net current assets/(liabilities) of the Target Group were RMB(97.2) million, RMB(113.7) million and RMB32.2 million. The Target Group's net current liabilities position as at 31 December 2017 and 2018 was mainly because the Target Group's accounts and other payables amounted to RMB130.4 million and RMB158.0 million as at 31 December 2017 and 2018, respectively, as the Target Group recorded payables for promotion and advertising expenses due to its marketing activities in 2016. The Target Group recorded net current assets as at 31 December 2019, mainly because the increases in the accounts and other receivables and cash and cash equivalents of the Target Group and it made settlements for a majority of the said promotion and advertising fees in 2019.

As at 31 December 2017, 2018 and 2019, the cash and cash equivalents of the Target Group, which mainly comprised cash at banks denominated in Indonesian Rupiah and U.S. dollars, were RMB10.1 million, RMB17.1 million and RMB39.4 million, respectively. The increases in cash and cash equivalents from RMB10.1 million in 2017 to RMB17.1 million in 2018 and further to RMB39.4 million in 2019 was mainly due to the business growth and revenue increase of the Target Group and the issuance of new shares for capital injection in 2019.

As at 31 December 2017, 2018 and 2019, the Target Group did not have any outstanding bank borrowings.

GEARING RATIO

As at 31 December 2017, 2018 and 2019, the gearing ratio (calculated as total interest-bearing borrowings divided by total equity) of the Target Group was nil, nil and nil, respectively.

CAPITAL MANAGEMENT

The Target Group's primary objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The capital structure of the Target Group consists of net debt including borrowings, net of cash and cash equivalents and equity attributable to owners of Mico comprising issued equity, retained profits and other reserves.

The directors of Mico review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The Target Group will balance its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt.

FOREIGN EXCHANGE RISK

The Target Group operates its business internationally and the cash and cash equivalents, accounts and other receivables and accounts and other payables are denominated in a foreign currency other than the functional currency of the operations to which the transactions relate. The Target Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar, the Indonesian Rupiah and the Thai Baht. The Target Group manages foreign exchange risk by performing regular reviews of its foreign exchange exposures. The Target Group has not entered into any foreign currency hedging policy in respect of foreign currency.

SEGMENT INFORMATION

The management of the Target Group assesses the performance and allocates the resources of the Target Group as a whole, therefore no segment information is presented.

As at 31 December 2017, 2018 and 2019, substantially all of the non-current assets of the Target Group were located in the PRC.

CONTINGENT LIABILITY

As at 31 December 2017, 2018 and 2019, the Target Group did not have any contingent liability.

CAPITAL COMMITMENTS

As at 31 December 2017, 2018 and 2019, the Target Group did not have any capital commitments.

CHARGES ON ASSETS

As at 31 December 2017, 2018 and 2019, the Target Group did not have any charge over its assets.

MATERIAL INVESTMENT AND MATERIAL ACQUISITIONS AND DISPOSALS

Except for the business combination set out in Note 11 to the Historical Financial Information of the Target Group included in the accountants' report in Appendix II to this circular, for the years ended 31 December 2017, 2018 and 2019, the Target Group did not have any other material investment or material acquisition and disposal.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2017, 2018 and 2019, the Target Group had a total of 115, 160 and 248 employees, respectively. For the years ended 31 December 2017, 2018 and 2019, the staff costs (including the equity-settled share-based payment expenses) of the Target Group amounted to RMB104.0 million, RMB35.6 million and RMB68.2 million, respectively. The Target Group remunerates its employees based on salaries, wages and other benefits.

FUTURE PLANS FOR MATERIAL INVESTMENTS

As at the Latest Practicable Date, the Target Group did not have any future plans for material investments or acquisition of capital assets.

CONSULTING & APPRAISAL
亜太評估
Asia-Pacific Consulting and Appraisal Limited
Flat/RM A 12/F Kiu Fu Commercial Bldg,
300 Lockhart Road,
Wan Chai, Hong Kong

11 June 2020

The Board of Directors
Newborn Town Inc.

Dear Sirs,

In accordance with the instructions received from Newborn Town Inc. (the "Company"), we have undertaken a valuation exercise which requires Asia-Pacific Consulting and Appraisal Limited ("APA") to express an independent opinion on the market value of 8.85% equity interest of Beijing Mike World Technology Co., Ltd. ("Mico") as at 31 March 2020 (the "Valuation Date").

The purpose of this valuation is for circular reference of the Company.

Our valuation was carried out on a market value basis which is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion".

INTRODUCTION

Mico is operating a social networking platform with users from more than 150 countries and regions and was established in February 2015. Its core apps are Mico and Kitty Live, which feature strangers social networking, group video chat, live streaming and short videos, and the revenue of Mico is sourced from sales of virtual items to users.

In April 2020, NewBornTown Network Technology (Beijing) Co., Ltd. ("NewBornTown Network Technology"), an entity controlled by the Company, entered into an equity transfer agreement with Beijing Phoenix Fortune Interconnection Investment Fund (Limited Partnership) ("Phoenix Fortune"), pursuant to the equity transfer agreement, Phoenix Fortune has conditionally agreed to sell and NewBornTown Network Technology has conditionally agreed to acquire 8.85% equity interest of Mico. Upon completion of the transaction, NewBornTown Network Technology will hold 25.62% equity interest of Mico.

VALUATION METHODOLOGY

In arriving at our assessed value, we have considered three generally accepted approaches, namely market approach, cost approach and income approach.

Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used. However, one has to be wary of the hidden assumptions in those inputs as there are inherent assumptions on the value of those comparable assets. It is also difficult to find comparable assets. Furthermore, this approach relies exclusively on the efficient market hypothesis.

Cost Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach generally furnishes the most reliable indication of value for assets without a known secondary market. Despite the simplicity and transparency of this approach, it does not directly incorporate information about the economic benefits contributed by the subject assets.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile. This approach allows for the prospective valuation of future profits and there are numerous empirical and theoretical justifications for the present value of expected future cash flows. However, this approach relies on numerous assumptions over a long time horizon and the result may be very sensitive to certain inputs. It also presents a single scenario only.

Given the unique characteristics of Mico, there are substantial limitations for the income approach and the cost approach for valuing the underlying asset. Firstly, the income approach requires subjective assumptions to which the valuation is highly sensitive. Detailed operational information and long-term financial projections are also needed to arrive at an indication of value but such information is not available as at the Valuation Date. Secondly, the cost approach does not directly incorporate information about the economic benefits contributed by the subject business.

In view of the above, we have adopted the market approach for the valuation. The market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few assumptions. It also introduces objectivity in application as publicly available inputs are used.

In this valuation exercise, the market value of 8.85% equity interest in Mico was developed through the application of the market approach technique known as the guideline public company method. This method requires the research of comparable companies' benchmark multiples and proper selection of a suitable multiple to derive the market value of Mico. In order to reflect the latest financial performance of Mico, it is considered that the suitable multiple in this valuation is the leading Price-to-Sales ratio (the "P/S Ratio"), which is calculated by using comparable companies' equity value or market capitalization and estimated revenue for year 2020 as at the Valuation Date to determine the market value of Mico and then taken into account of market liquidity discount as the appropriate adjustment.

BASIS OF OPINION

We have conducted our valuation with reference to the International Valuation Standards issued by the International Valuation Standards Council. The valuation procedures employed include a review of legal status and economic condition of Mico and an assessment of key assumptions, estimates, and representations made by the proprietor. All matters essential to the proper understanding of the valuation are disclosed in this report.

The following factors form an integral part of our basis of opinion:

➢ The economic outlook in general;

➢ The nature of business and historical financial performance of Mico;

➢ The projected financial performance of Mico;

➢ Financial and business risk of the business including continuity of income and the projected future results;

➢ Consideration and analysis on the micro and macro economy affecting the subject business; and

➢ Other operational and market information in relation to Mico's business.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinion on Mico.

VALUATION ASSUMPTIONS

In determining the market value of the equity interest in Mico, we make the following key assumptions:

➢ It is assumed that the projected revenue for year 2020 could be achieved with the effort of Mico's management;

➢ All relevant legal approvals and business certificates or licenses to operate the business in which Mico operates or intends to operate have been or would be officially obtained and renewable upon expiry;

➢ There will be no major change in the political, legal, economic and social environment in which Mico operates or intends to operate;

➢ Interest rates and exchange rates in the localities for the operation of Mico will not differ materially from those presently prevailing;

➢ It is assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honored;

➢ The financial and operational information provided by the Company is accurate and it is relied to a considerable extent on such information in arriving at the opinion of value; and

➢ There are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value.

CONSOLIDATED FINANCIAL INFORMATION OF MICO

Set out below is extracted from audited consolidated financial statements of Mico for years ended 31 December 2017, 2018 and 2019:

	For the year ended 31 December 2017	**For the year ended 31 December 2018**	**For the year ended 31 December 2019**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	57,599	211,146	382,308

The market value of Mico was developed by using the leading P/S Ratio as at the Valuation Date and the estimated revenue for year 2020 of Mico as of the Valuation Date. The estimated revenue for year 2020 of Mico as of the Valuation Date would be estimated as approximately RMB770,000,000.

The estimated revenue of RMB770 Million for year 2020 of Mico is determined based on the actual revenue for the three months ended 31 March 2020 and the forecast revenue for the remaining nine months in 2020.

Based on Mico's unaudited management account for the three months ended 31 March 2020, Mico recorded the revenue representing an increase of more than 150% when compared to the same period in 2019.

The revenue forecast of Mico for the nine months ending 31 December 2020 was determined by the estimated (i) number of newly registered users; (ii) monthly active users; (iii) number of paying users; (iv) number of orders placed per paying user; and (v) price per order. All these estimated operating data numbers was determined with reference to historical trend of the operating data over certain period of time, and future operating plan.

MARKET MULTIPLE

In determining the price multiple, the initial selection criteria include the followings:

➢ The comparable companies are publicly listed;

➢ The comparable companies are mainly engaged in operating interactive entertainment platform which enable hosts or performers and users to interact with each other in live streaming and other interactive products; and whose revenues are mainly generated from sales of virtual items to users;

➢ Leading P/S ratio for 2020 of the comparable companies are available, as at the Valuation Date;

➢ The comparable companies are searchable in Capital IQ.

As sourced from Capital IQ, an exhaustive list of comparable companies satisfying the above criteria was obtained on a best effort basis and the details of these comparable companies are shown below:

Stock Code	Company Name	Company Description
NasdaqGS: MOMO	Momo Inc.	Momo Inc. operates a mobile-based social and entertainment platform in China. It operates Momo platform that includes its Momo mobile application and various related features, functionalities, tools, and services to users, customers, and platform partners. It offers Momo mobile application that enables users to establish and expand their social relationships based on locations; interests; and recreational activities, including live talent shows, short videos, social games, and other video-and audio-based interactive experiences.

Stock Code	Company Name	Company Description
NasdaqGS: YY	YY Inc.	YY Inc., through its subsidiaries, engages in the live streaming business in China. It operates YY Live platform, an online music and entertainment live streaming service.
NYSE: HUYA	HUYA Inc.	HUYA Inc., through its subsidiaries, operates game live streaming platforms in China. Its platforms enable broadcasters and viewers to interact during live streaming.
NasdaqGS: DOYU	DouYu International Holdings Limited	DouYu International Holdings Limited operates a platform on PC and mobile apps that provides interactive games and entertainment live streaming in China.
NYSE: TME	Tencent Music Entertainment Group	Tencent Music Entertainment Group operates online music entertainment platforms in China. It provides music streaming, online karaoke and live streaming services which enable users to discover and listen to music in personalized ways, have fun by singing, interacting and sharing with friends and showcase their talent and engage with those who are interested in their performance
NasdaqGM: LIZI	Lizhi Inc.	Lizhi Inc. operates as an online UGC audio community in China. It operates an interactive audio entertainment and online audio platform, as well as offers Lizhi app that allows users to record and share their voices on mobile devices.

Source: Capital IQ and annual reports of the companies

Based on the abovementioned selection criteria, the list of six comparable companies shown above was identified and we are of the opinion that each of them is considered as a fair and representative sample. Further details of these six comparable companies with available P/S ratios are shown as follows:

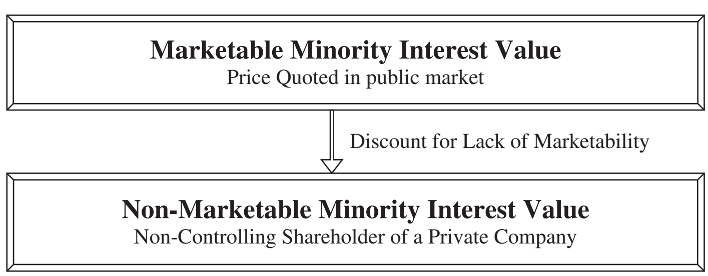
Stock Code	**Company Name**	**P/S Ratio as at the Valuation Date**
NasdaqGS: MOMO	Momo Inc.	1.85
NasdaqGS: YY	YY Inc.	0.93
NYSE: HUYA	HUYA Inc.	2.34
NasdaqGS: DOYU	DouYu International Holdings Limited	1.51
NYSE: TME	Tencent Music Entertainment Group	3.97
NasdaqGM: LIZI	Lizhi Inc.	1.21
Average		1.97

Source: Capital IQ

Note: As sourced from Capital IQ, the P/S Ratio of each comparable company shown in the above table is estimated based on the total equity value as at the Valuation Date divided by the estimated revenue of year 2020 as at the Valuation Date. Adopted multiple is calculated as the average of the multiples of the comparable companies.

DISCOUNT FOR LACK OF MARKETABILITY ("DLOM")

The level of a company value can be described as below:



A factor to be considered in valuing closely held companies is the marketability of an interest in such businesses. Marketability is defined as the ability to convert the business interest into cash quickly, with minimum transaction and administrative costs, and with a high degree of certainty as to the amount of net proceeds. There is usually a cost and a time lag associated with locating interested and capable buyers of interests in privately-held companies, because there is no established market of readily-available buyers and sellers. All other factors being equal, an interest in a publicly traded company is worth more because it is readily marketable. Conversely, an interest in a private-held company is worth less because no established market exists.

Most of the businesses or financial interests that we are valuing do not enjoy immediate liquidity. we thus face the task of making an adjustment from the value we have estimated from the transactions observed in the market approach to account for the lack of marketability of the business or business interest that we are valuing. That adjustment is what we refer to as the discount for lack of marketability.

In this valuation exercise, we have assessed the DLOM using the put option method, which is one of the most commonly used theoretical models. The concept is that when comparing a public share and a private share, holder of a public share has the ability to sell the shares (i.e. a put option) to the stock market right away. The value of put option is determined by "Finnerty Option Pricing Model" with the following parameters.

Parameter	**Value**	**Remarks**
Spot Price	1.00	The spot price is set to be 1.00 in the valuation to calculate DLOM.
Exercise Price	1.00	An at-the-money put option is used to estimate DLOM.
Volatility	58%	With reference to the comparable companies, as sourced from Capital IQ.
Target event expected date	30 June 2023	As there is no specific indication of the time to maturity, it is assumed that a liquidity event will occur at 30 June 2023. A liquidity event is an event, such as IPO, merger or sales, from which the subject asset will have marketability. The assumption of occurrence of a liquidity event is the normal approach to determine the maturity. The type of the liquidity event is not relevant for the purpose of determining the parameter used.

By using the put option method and based on the above assumptions, the estimated DLOM is around 21 percent.

Based on the above analysis, we apply 21 percent DLOM for this case.

CALCULATION OF VALUATION RESULT

Under the guideline public company method, the market value depends on the market multiples of the comparable companies, sourced from Capital IQ, as at the Valuation Date and we have taken into account of DLOM of Mico. NewBorn Town Network Technology will hold approximately 25.62% of the equity interest in Mico upon completion of acquisition, which is a non-controlling interest in Mico. Both the value of Mico and of the comparable companies are based on a non-controlling basis; so no control premium adjustment is needed in this case. The calculation of the market value of the equity interest in Mico as at the Valuation Date is as follows:

	As at 31 March 2020
Applied P/S Ratio	1.97
The estimated revenues for year 2020 of Mico (RMB'000)	770,000
Total Equity Value before the DLOM (RMB'000)	1,517,000
Adjusted for DLOM at 21%	(1-21%)
100% Equity Interest Value (RMB'000)	1,198,000
8.85% Equity Interest Value (RMB'000) *(rounded)*	106,000

VALUATION COMMENT

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of Mico, the Company and Asia-Pacific Consulting and Appraisal Limited.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of Mico over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

This report is issued subject to our Limiting Conditions as attached.

OPINION OF VALUE

Based on the results of our investigations and analyses, we are of the opinion that the market value of 8.85% equity interest in Mico as at the Valuation Date is reasonably stated approximately at the amount of **RMB106,000,000 (RENMINBI ONE HUNDRED AND SIX MILLION ONLY).**

Yours faithfully,
for and on behalf of
Asia-Pacific Consulting and Appraisal Limited

Jack W. J. Li
CFA, MRICS, MBA
Partner

Note: Jack W. J. Li is a Chartered Surveyor who has 14 years' experience in the valuation of assets in the PRC, Hong Kong and the Asia-Pacific region.

LIMITING CONDITIONS

1. To the best of our knowledge, all data, including historical financial data, if any, relied upon in reaching opinions and conclusions or set forth in this report are true and accurate. Although gathered from sources that we believe are reliable, no guarantee is made nor liability assumed for the truth or accuracy of any data, opinions, or estimates furnished by others that have been used in this analysis.

2. The calculation of value arrived at herein is valid only for the stated purpose as of the effective date of the calculations and it is neither intended nor valid for any other use.

3. Possession of this report or any copy thereof does not carry with it the right of publication. Neither all nor any part of the contents of this report (especially the calculation of value, the identity of any valuation specialist(s), or the firms with which they are connected, or any reference to the professional associations or organizations with which they are affiliated or the designations awarded by those organizations) shall be disseminated to third parties through prospectus, advertising, public relations, news, or any other means of communication without the written consent and approval of Asia-Pacific Consulting and Appraisal Limited.

4. Asia-Pacific Consulting and Appraisal Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein.

5. You agree to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

6. Financial statements and other related information provided by the Company or its representatives, in the course of this engagement, have been accepted without any verification as fully and correctly reflecting the enterprise's business conditions and operating results for the respective periods, except as specifically noted herein. Asia-Pacific Consulting and Appraisal Limited has not audited, reviewed, or compiled the financial information provided to us and, accordingly, we express no audit opinion or any other form of assurance on this information.

7. We do not provide assurance on the achievability of the results forecasted for the subject company because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecasted result is dependent on actions, plans and assumptions of management.

8. This report and the calculation of value arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. They may not be used for any other purpose or by any other party for any purpose. Furthermore the report and calculation of value are not intended by the author and should not be construed by the reader to be investment advice in any manner whatsoever. The calculation of value represents the considered opinion of Asia-Pacific Consulting and Appraisal Limited based on limited information furnished to them by the subject company and other sources.

9. No responsibility is assumed for matters legal in nature. No investigation has been made of the title to or any liabilities against the property appraised. We have assumed that the owner's claim is valid, the property rights are good and marketable, and there are no encumbrances that cannot be cleared through normal processes, unless otherwise stated in the report.

10. Areas, dimensions, and descriptions of property, if any, used in this analysis have not been verified, unless stated to the contrary in the report. Any areas, dimensions, and descriptions of property included in the report are provided for identification purposes only, and no one should use this information in a conveyance or other legal document. Plats, if any, presented in the report are intended only as aids in visualizing the property and its environment. Although the material was prepared using the best available data, it should not be considered as a survey or scaled for size.

11. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.

12. The management and the Board of the Company has reviewed and agreed on the report and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.

13. The calculation of value arrived at here in is based on the assumption that the current level of management expertise and effectiveness would continue to be maintained, and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of the owners' participation would not be materially or significantly changed.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS BY DIRECTORS AND CHIEF EXECUTIVE IN THE COMPANY

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Capacity/Nature of interest	Number of Shares(1)	Approximate percentage of shareholding(2)
Mr. Liu Chunhe(3), (6)	Interest in a controlled corporation(3)	233,806,646	23.38%
	Concert party(6)	306,928,420	30.69%
Mr. Li Ping(4), (6)	Interest in a controlled corporation(4)	73,121,774	7.31%
	Concert party(6)	306,928,420	30.69%
Mr. Wang Kui(5)	Interest in a controlled corporation(5)	22,864,176	2.29%

Notes:

(1) All interests stated are long positions.

(2) The calculation is based on the total number of 1,000,000,000 Shares in issue as of the date of this annual report.

(3) The Shares are registered under the name of Spriver Tech Limited, the issued share capital of which is owned as to 100% by Mr. Liu Chunhe. Accordingly, Mr. Liu Chunhe is deemed to be interested in all the Shares held by Spriver Tech Limited for the purpose of Part XV of the SFO.

(4) The Shares are registered under the name of Parallel World Limited, the issued share capital of which is owned as to 100% by Mr. Li Ping. Accordingly, Mr. Li Ping is deemed to be interested in all the Shares held by Parallel World Limited for the purpose of Part XV of the SFO.

(5) The Shares are registered under the name of Gingko Kik Limited, the issued share capital of which is owned as to 100% by Mr. Wang Kui. Accordingly, Mr. Wang Kui is deemed to be interested in all the Shares held by Gingko Kik Limited for the purpose of Part XV of the SFO.

(6) Mr. Liu Chunhe and Mr. Li Ping are parties acting in concert (having the meaning ascribed thereto in the Takeovers Code) and form part of the Controlling Shareholders Group. Accordingly, Mr. Liu Chunhe, Spriver Tech Limited, Mr. Li Ping, Parallel World Limited are each deemed to be interested in the Shares held by other members of the Controlling Shareholders Group under the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company nor their associates had any interest or short positions in the shares, underlying shares or debentures of the Company, its specified undertakings or any of its other associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO and the Companies Ordinance (Cap. 622), to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

3. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at the Latest Practicable Date, to the best knowledge of the Directors, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying shares were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholder	Capacity/Nature of interest	Number of Shares(1)	Approximate percentage of shareholding
Phoenix Auspicious FinTech Investment L.P.(3)	Beneficial owner(3)	89,210,948	8.92%
Phoenix Wealth (Cayman) Asset Management Limited(3)	Interest in a controlled corporation(3)	89,210,948	8.92%
Phoenix Wealth (Hong Kong) Asset Management Limited(3)	Interest in a controlled corporation(3)	89,210,948	8.92%
Phoenix Wealth Investment (Holdings) Limited(3)	Beneficial owner(3)	67,686,042	6.77%

Name of Shareholder	Capacity/Nature of interest	Number of Shares[1]	Approximate percentage of shareholding
Mr. Du Li[3]	Interest in a controlled corporation[3]	156,896,990	15.69%
Haitong Kaiyuan[4]	Beneficial owner[4]	73,543,316	7.35%
Haitong Kaiyuan[4]	Interest in a controlled corporation[4]	66,322,516	6.63%
Haitong Xinxi[4]	Beneficial owner[4]	66,322,516	6.63%
Haitong Securities[4]	Interest in a controlled corporation[4]	139,865,832	13.98%
TMF Trust (HK) Limited[5]	Trustee[5]	60,335,566	6.03%
Ningbo Meihua Shunshi Angel Capital Partnership Enterprise (Limited Partnership)[6]	Beneficial owner[6]	54,133,938	5.41%
Ningbo Plum Angel Investment Management Co., Ltd.[6]	Interest in a controlled corporation[6]	54,133,938	5.41%
Mr. Wu Shichun[6]	Interest in a controlled corporation[6]	54,133,938	5.41%

Notes:

(1) All interests stated are long positions.

(2) The calculation is based on the total number of 1,000,000,000 Shares in issue as of the date of this annual report.

(3) Phoenix Wealth Investment (Holdings) Limited is an investment holding company incorporated in BVI with limited liability, which is wholly owned by Mr. Du Li, a shareholders of NewBornTown Mobile Technology. Phoenix Auspicious FinTech Investment L.P. is an exempted limited partnership established under the laws of Cayman Islands, the general partner of which is Phoenix Wealth (Cayman) Asset Management Limited, an exempted company incorporated under the laws of Cayman Islands. Phoenix Wealth (Cayman) Asset Management Limited is wholly owned by Phoenix Wealth (Hong Kong) Asset Management Limited, a limited company incorporated under the laws of Hong Kong, which is in turn wholly owned by Mr. Du Li. Mr. Du Li is therefore deemed to be interested in all the Shares held by Phoenix Auspicious FinTech Investment L.P. and Phoenix Wealth Investment (Holdings) Limited under the SFO.

(4) Haitong Kaiyuan is the general partner of Haitong Xinxi. Haitong Kaiyuan is therefore deemed to be interested in all the Shares held by Haitong Xinxi under the SFO. Haitong Kaiyuan is wholly owned by Haitong Securities. Haitong Securities is therefore deemed to be interested in all the Shares held by Haitong Kaiyuan and Haitong Xinxi under the SFO.

(5) TMF Trust (HK) Limited is an independent and professional trustee appointed by the Company to act as the trustee of the Employee RSU Scheme and the trustee of the Management RSU Scheme.

(6) Ningbo Meihua Shunshi Angel Capital Partnership Enterprise (Limited Partnership) (the "**Plum Venture**") is a limited partnership established under the laws of the PRC. The general partner of Plum Venture is Ningbo Plum Angel Investment Management Co., Ltd., 80% equity interest of which is held by Mr. Wu Shichun.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any other persons (other than Directors, supervisors and chief executive of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

4. OTHER INTERESTS OF DIRECTORS

Save as disclosed in this circular and as at the Latest Practicable Date,

(a) Interests in service contracts

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(b) Interests in assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2019, being the date to which the latest published audited consolidated accountants of the Company were made up, been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to, any member of the Group.

(c) Interests in contracts or arrangements

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group.

(d) Competing interest

As at the Latest Practicable Date, save as disclosed above, none of the Directors or their associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors and their associates were appointed to represent the interests of the Company and/or the Group.

5. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, there was no litigation or claim of material importance pending or threatened against any member of the Enlarged Group.

6. EXPERTS AND CONSENTS

The following is the qualification of the expert who has been named in this circular or has provided its opinion, letter or advice, which are contained in this circular:

Name	Qualification
Asia-Pacific Consulting and Appraisal Limited	certified assets valuer
KPMG	Certified Public Accountants
PricewaterhouseCoopers	Certified Public Accountants
Somerley Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Each of the experts mentioned above has given and has not withdrawn its written consent to the issue of this circular, with the inclusion therein of its letter and/or report or the references to its name in the form and context in which they appear respectively.

As at the Latest Practicable Date, each of the experts mentioned above did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, each of the experts mentioned above did not have, nor had, any direct or indirect interest in any assets which had been since 31 December 2019, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group within two years immediately preceding the date of this circular and up to the Latest Practicable Date and are or may be material:

(a) the equity transfer agreement dated 12 December 2018 entered into between NewBornTown Network Technology and Hua Qiong (華瓊), pursuant to which NewBornTown Network Technology transferred its 80% equity interest in Beijing Qianji Mobile Technology Co., Ltd. (北京千極移動科技有限責任公司) to Hua Qiong (華瓊) at nil consideration;

(b) the equity transfer agreement dated 15 December 2018 entered into between NewBornTown Mobile Technology and Shandong NewBornTown, pursuant to which NewBornTown Mobile Technology transferred its 51% equity interest in Fujian Youdian Neirong Culture Media Co., Ltd. (福建有點內容文化傳媒有限公司) to Shandong NewBornTown at the consideration of RMB7,285,714;

(c) the equity transfer agreement dated 20 December 2018 entered into between NewBornTown Network Technology and Hua Qiong (華瓊), pursuant to which NewBornTown Network Technology transferred its 10% equity interest in Chongqing Small World Network Technology Co., Ltd. (重慶小世界網絡科技有限公司) to Hua Qiong (華瓊) at nil consideration;

(d) the investment agreement dated 22 March 2019 entered into among NewBornTown Network Technology, Ningbo Meishan Bonded Port Beichen Xinshineng Equity Investment Partnership Enterprise (Limited Partnership) (寧波梅山保稅港區北辰新勢能股權投資合夥企業(有限合夥)), Cao Wen (曹雯), Beijing Mico World Technology Co., Ltd. (北京米可世界科技有限公司), Ye Chunjian (葉椿建), Tianjin Tonghe Chuangyuan Enterprise Management Consulting Centre (Limited Partnership) (天津通和創源企業管理諮詢中心(有限合夥)), Ningbo Meishan Bonded Port Tonghe Chuangyuan Enterprise Management Centre (Limited Partnership) (寧波梅山保稅港區通和創源企業管理中心(有限合夥)), Wang Xinming (王新明), Wang Xiaobin (王曉斌), Wu Shichun (吳世春), Ningbo Meihua Mingshi Investment Partnership Enterprise (Limited Partnership) (寧波梅花明世投資合夥企業(有限合夥)), Zhang Qinglai (張慶來), Ye Kai (葉凱), Zhang Wenlong (張文龍), Zhang Zhihe (張治和), Jiaxing Zizhi No. 1 Equity Investment Partnership Enterprise (Limited Partnership) (嘉興自知一號股權投資合夥企業(有限合夥)) and Beijing Phoenix Fortune Interconnection Investment Fund (Limited Partnership) (北京鳳凰祥瑞互聯投資基金(有限合夥)), pursuant to which NewBornTown Network Technology and Ningbo Meishan Bonded Port Beichen Xinshineng Equity Investment Partnership Enterprise (Limited Partnership) (寧波梅山保稅港區北辰新勢能股權投資合夥企業(有限合夥)) subscribed for 8.85% and 2.65% equity interest in the enlarged registered share capital of Beijing Mico World Technology Co., Ltd. (北京米可世界科技有限公司) at a consideration of RMB100 million and RMB30 million, respectively;

(e) the capital increase agreement relating to Shandong NewBornTown dated 22 March 2019 entered into between Shandong NewBornTown, NewBornTown Network Technology and Universe Intelligence Technology Limited, pursuant to which Universe Intelligence Technology Limited subscribed for RMB500,000 additional registered capital of Shandong NewBornTown at a consideration of the US$ equivalent of RMB500,000;

(f) the equity transfer agreement dated 28 March 2019 entered into between Beijing Zhonghe Tongrun Management and Consulting Co., Ltd. (北京中和通潤管理諮詢有限公司) and Shandong NewBornTown, pursuant to which Shandong NewBornTown transferred its 51% equity interest in Fujian Youdian Neirong Culture Media Co., Ltd. (福建有點內容文化傳媒有限公司) to Beijing Zhonghe Tongrun Management and Consulting Co., Ltd. (北京中和通潤管理諮詢有限公司) at the consideration of RMB1;

(g) the partnership interest transfer agreement dated 28 March 2019 entered into between Beijing Zhonghe Tongrun Management and Consulting Co., Ltd. (北京中和通潤管理諮詢有限公司) and NewBornTown Network Technology, pursuant to which NewBornTown Network Technology transferred its 9.67% partnership interest in Tibet Zhirui Venture Capital Enterprise (Limited Partnership) (西藏志睿創業投資企業(有限合夥)) to Beijing Zhonghe Tongrun Management and Consulting Co., Ltd. (北京中和通潤管理諮詢有限公司) at the consideration of RMB1;

(h) the equity transfer agreement dated 9 April 2019 entered into between NewBornTown Network Technology and Solo X Technology, pursuant to which NewBornTown Network Technology transferred its 95.2381% equity interest in Shandong NewBornTown to Solo X Technology at the consideration of RMB10 million;

(i) the equity transfer agreement dated 9 April 2019 entered into between Universe Intelligence Technology Limited and Solo X Technology, pursuant to which Universe Intelligence Technology Limited transferred its 4.7619% equity interest in Shandong NewBornTown to Solo X Technology at the consideration of RMB500,000;

(j) the shareholders agreement relating to NewBornTown Mobile Technology dated 15 April 2019 entered into among Beijing Phoenix Fortune Interconnection Investment Fund (Limited Partnership) (北京鳳凰祥瑞互聯投資基金(有限合夥)), NewBornTown Mobile Technology, Liu Chunhe (劉春河), Li Ping (李平), Ye Chunjian (葉椿建), Ningbo Meihua Shunshi Angel Capital Partnership Enterprise (Limited Partnership) (寧波梅花順世天使投資合夥企業(有限合夥)), Huang Mingming (黃明明), Du Li (杜力), Beijing Amphora Guotai Venture Capital Investment Co., Ltd. (北京安芙蘭國泰創業投資有限公司), Haitong Kaiyuan Investment Co., Ltd. (海通開元投資有限公司), Shanghai Haitong Xinxi Investment Center (Limited Partnership) (上海海桐信兮投資中心(有限合夥)), Beijing Hande Houcheng Enterprise Management Centre (Limited Partnership) (北京含德厚城企業管理中心(有限合夥)), Shanghai Longwin Xinhu Investment Partnership Enterprise (Limited Partnership) (上海朗聞信琥投資合夥企業(有限合夥)), NewBornTown Network Technology, Jiaxing Fuqiang Ruiyi Equity Investment Enterprise (Limited Partnership) (嘉興富強瑞益股權投資合夥企業(有限合夥)) and Qingdao Amphora Shixin Venture Capital Co. Ltd. (青島安芙蘭世欣創業投資有限公司);

(k) the agreement on share sale and purchase of Newborn Town International Enterprise Limited dated 20 June 2019 entered into between NewBornTown Network Technology and the Company, pursuant to which NewBornTown Network Technology transferred its 100% equity interest in Newborn Town International Enterprise Limited to the Company at the consideration of HK$1;

(l) the share repurchase agreement dated 22 June 2019 entered into between Phoenix Auspicious FinTech Investment L.P. and the Company, pursuant to which the Company repurchased 6,880,990 Series B Preferred Shares from Phoenix Auspicious FinTech Investment L.P. at the consideration of the US$ equivalent of RMB100 million;

(m) the share repurchase agreement dated 26 June 2019 entered into between Haitong Kaiyuan Investment Co., Ltd. (海通開元投資有限公司) and the Company, pursuant to which the Company repurchased 5,622,349 Series B Preferred Shares from Haitong Kaiyuan Investment Co., Ltd. (海通開元投資有限公司) at the consideration of the US$ equivalent of RMB30 million;

(n) the share repurchase agreement dated 26 June 2019 entered into between Shanghai Haitong Xinxi Investment Center (Limited Partnership) (上海海桐信兮投資中心(有限合夥)) and the Company, pursuant to which the Company repurchased 5,622,349 Series B Preferred Shares from Shanghai Haitong Xinxi Investment Center (Limited Partnership) (上海海桐信兮投資中心(有限合夥)) at the consideration of the US$ equivalent of RMB30 million;

(o) the exclusive equity call option agreement (the "**Exclusive Equity Call Option Agreement**") dated 26 June 2019 entered into among (i) Shandong NewBornTown; (ii) Liu Chunhe (劉春河), Li Ping (李平), Ye Chunjian (葉椿建), Beijing Phoenix Fortune Interconnection Investment Fund (Limited Partnership) (北京鳳凰祥瑞互聯投資基金(有限合夥)), Ningbo Meihua Shunshi Angel Capital Partnership Enterprise (Limited Partnership) (寧波梅花順世天使投資合夥企業(有限合夥)), Huang Mingming (黃明明), Du Li (杜力), Beijing Amphora Guotai Venture Capital Investment Co., Ltd. (北京安芙蘭國泰創業投資有限公司), Haitong Kaiyuan Investment Co., Ltd. (海通開元投資有限公司), Shanghai Haitong Xinxi Investment Center (Limited Partnership) (上海海桐信兮投資中心(有限合夥)), Beijing Hande Houcheng Enterprise Management Centre (Limited Partnership) (北京含德厚城企業管理中心(有限合夥)), Shanghai Longwin Xinhu Investment Partnership Enterprise (Limited Partnership) (上海朗聞信琥投資合夥企業(有限合夥)) and Jiaxing Fuqiang Ruiyi Equity Investment Partnership Enterprise (Limited Partnership) (嘉興富強瑞益股權投資合夥企業(有限合夥)) (collectively as "**Party B**"); and (iii) NewBornTown Mobile Technology, pursuant to which each of Party B shall irrevocably grant Shandong NewBornTown or its designated purchaser(s) the exclusive right to purchase the equity interests in NewBornTown Mobile Technology, in whole or in part at any time and at one or more than one time, at RMB1;

(p) the exclusive business cooperation agreement dated 26 June 2019 entered into between Shandong NewBornTown and NewBornTown Mobile Technology, pursuant to which Shandong NewBornTown shall provide exclusive technical support, consultancy and other services to NewBornTown Mobile Technology for a service fee equivalent to 100% of the consolidated profit in any financial year of NewBornTown Mobile Technology, after offsetting the accumulative loss (if any) in the previous financial year(s) of NewBornTown Mobile Technology and its subsidiaries and deducting the operating capital, expenditure and tax items required for any financial year;

(q) the exclusive assets call option agreement dated 26 June 2019 entered into between NewBornTown Mobile Technology and Shandong NewBornTown, pursuant to which the NewBornTown Mobile Technology shall irrevocably grant Shandong NewBornTown or its designated purchaser(s) the exclusive right to purchase all intellectual properties and all other assets in NewBornTown Mobile Technology at any time and at one or more than one time, at RMB1;

(r) the equity pledge agreement dated 26 June 2019 entered into among (i) Shandong NewBornTown; (ii) Liu Chunhe (劉春河), Li Ping (李平), Ye Chunjian (葉椿建), Beijing Phoenix Fortune Interconnection Investment Fund (Limited Partnership) (北京鳳凰祥瑞互聯投資基金(有限合夥)), Ningbo Meihua Shunshi Angel Capital Partnership Enterprise (Limited Partnership) (寧波梅花順世天使投資合夥企業(有限合夥)), Huang Mingming (黃明明), Du Li (杜力), Beijing Amphora Guotai Venture Capital Investment Co., Ltd. (北京安芙蘭國泰創業投資有限公司), Haitong Kaiyuan Investment Co., Ltd. (海通開元投資有限公司), Shanghai Haitong Xinxi Investment Center (Limited Partnership) (上海海桐信兮投資中心(有限合夥)), Beijing Hande Houcheng Enterprise Management Centre (Limited Partnership) (北京含德厚城企業管理中心(有限合夥)), Shanghai Longwin Xinhu Investment Partnership Enterprise (Limited Partnership) (上海朗聞信琥投資合夥企業(有限合夥)) and Jiaxing Fuqiang Ruiyi Equity Investment Partnership Enterprise (Limited Partnership) (嘉興富強瑞益股權投資合夥企業(有限合夥)) (collectively as "**Party B**"); and (iii) NewBornTown Mobile Technology, pursuant to which each of Party B agreed to pledge all of their respective equity interests they owned in NewBornTown Mobile Technology (including any interest or dividend paid for the shares thereof) to Shandong NewBornTown to secure each of their obligations under, among other things, the Exclusive Equity Call Option Agreement;

(s) the shareholders agreement relating to the Company dated 26 June 2019 entered into among (i) Liu Chunhe (劉春河), Li Ping (李平), Ye Chunjian (葉椿建) as founders; (ii) Spriver Tech Limited, Parallel World Limited, Pixel Perfect Tech Limited as founder companies; (iii) Ningbo Meihua Shunshi Angel Capital Partnership Enterprise (Limited Partnership) (寧波梅花順世天使投資合夥企業(有限合夥)), Future Capital Discovery Fund I, L.P., Phoenix Wealth Investment (Holdings) Limited, ICO STORE INC as Series A Preferred Shareholders; (iv) Phoenix Auspicious FinTech Investment L.P., Hash Global Management Company Ltd., Haitong Kaiyuan Investment Co., Ltd. (海通開元投資有限公司), Shanghai Haitong Xinxi Investment Center (Limited Partnership) (上海海桐信兮投資中心(有限合夥)) as Series B Preferred Shareholders; (v) CHUANGQI INTERNATIONAL LIMITED as Series C Preferred Shareholder; (vi) Gingko Kik Limited, Universe Intelligence Technology Limited as other Shareholders; and (vii) and the Company;

(t) the deed of indemnity dated 11 December 2019 entered into between Liu Chunhe, Li Ping and the Company in relation to the provision of certain indemnities by Liu Chunhe and Li Ping in favour of the Company and its subsidiaries;

(u) the deed of non-competition dated 11 December 2019 entered into between Liu Chunhe, Li Ping and the Company in respect of the non-competition undertaking given by Liu Chunhe and Li Ping in favour of the Company;

(v) the deed of settlement constituting Three D Partners Trust dated 7 November 2019 and entered into between the Company and TMF Trust (HK) Limited, pursuant to which the Company made the settlement for its employee incentive scheme;

(w) the deed of settlement constituting Bridge Partners Trust dated 7 November 2019 and entered into between the Company and TMF Trust (HK) Limited, pursuant to which the Company made the settlement for its employee incentive scheme;

(x) the Hong Kong Public Offer Underwriting Agreement;

(y) the cornerstone investment agreement dated 13 December 2019 entered into among the Company, Huobi Capital Inc., SBI China Capital Financial Services Limited, CMBC International Capital Limited, CMBC Securities Company Limited and Haitong International Securities Company Limited, pursuant to which Huobi Capital Inc. agreed to subscribe for the Shares at the Offer Price, with an aggregate consideration of US$1,000,000;

(z) the cornerstone investment agreement dated 13 December 2019 entered into among the Company, LC ELEC TRADE CO., LIMITED, SBI China Capital Financial Services Limited, CMBC International Capital Limited, CMBC Securities Company Limited and Haitong International Securities Company Limited, pursuant to which LC ELEC TRADE CO., LIMITED agreed to subscribe for the Shares at the Offer Price, with an aggregate consideration of US$2,000,000;

(aa) the Equity Transfer Agreement; and

(bb) the Convertible Loan Investment Agreement.

8. MISCELLANEOUS

(i) The joint company secretaries are Mr. SONG Pengliang and Mr. Mr. AU-YEUNG Wai Ki, Joseph (Mr. AU-YEUNG). Mr. AU-YEUNG is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

(ii) The registered office of the Company is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

(iii) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(iv) The English language text of this circular shall prevail over the Chinese language in case of inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Room 1903-4, Floor 19, Hong Kong Trade Centre, 161 Des Voeux Road Central, Hong Kong during normal business hours (Saturdays and public holidays excepted) from 10:00 to 1:00 p.m. and from 2:00 p.m. to 5:00 p.m. from the date of this circular up to and including the date of the EGM:

(i) the memorandum and articles of association of the Company;

(ii) the prospectus of the Company;

(iii) the annual report of the Company for the financial years ended 31 December 2019;

(iv) the accountants' report received from KPMG on the Target Company as set out in Appendix II to this circular;

(v) the report on the unaudited pro forma financial statements on the Enlarged Group as set out in Appendix III to this circular;

(vi) the Valuation Report as set out in Appendix V to this circular;

(vii) the letter from the Independent Board Committee as set out in this circular;

(viii) the letter from Somerley, the text of which is set out in this circular;

(ix) the written consents from the experts as referred to in the paragraph headed "6. Experts and consents" of this appendix;

(x) the material contract referred to in the paragraph headed "7. Material contracts" of this appendix; and

(xi) the service contracts entered into between the Company and Directors.

NEWBORN TOWN INC.
赤子城科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9911)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the first extraordinary general meeting of 2020 (the "**Meeting**") of Newborn Town Inc. (the "**Company**") will be held at 12/F, Tower A, CEC Development Building, Sanyuanqiao, Chaoyang District, Beijing, PRC on Monday, 29 June 2020 at 2:00 p.m. for considering and, if thought fit, passing, with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. To consider and, if thought fit, to approve the Company entering into the Equity Transfer Agreement with Phoenix Fortune and the transactions contemplated thereunder.

2. To consider and, if thought fit, to approve the Company entering into the Convertible Loan Investment with Mr. Ye Chunjian and Mico and the transactions contemplated thereunder, including the Conversion.

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

Hong Kong, 11 June 2020

Registered office:
The offices of Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Principal place of business in Hong Kong:
Room 1903-4, Floor 19
Hong Kong Trade Centre
161 Des Voeux Road Central
Hong Kong

Notes:

(i) A shareholder entitled to attend and vote at the Meeting is entitled to appoint another person as his/her proxy to attend and vote instead of him/her; a proxy need not be a shareholder of the Company. A shareholder who is the holder of two or more shares may appoint more than one proxy to represent him/her and vote on his/her behalf at the Meeting. On a poll, votes may be given either personally or by proxy.

(ii) In the case of joint holders, any one of such joint holders may vote at the Meeting, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the Meeting, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined as that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

(iii) In order to be valid, a form of proxy must be deposited at the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) not less than 48 hours before the time appointed for the holding of the above meeting (i.e. before 2:00 p.m. on 27 June 2020) or any adjournment thereof. The completion and return of the form of proxy shall not preclude shareholders of the Company from attending and voting in person at the above meeting (or any adjourned meeting thereof) if they so wish.

(iv) The transfer books and register of members of the Company will be closed from Wednesday, 24 June 2020 to Monday, 29 June 2020, both days inclusive, during which period no share transfers can be registered. In order to qualify for attending the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 23 June 2020.

As at the date of this notice, 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.