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赤子城

newborntown

NEWBORN TOWN INC.

赤子城科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9911)

**DISCLOSEABLE TRANSACTION
CONNECTED TRANSACTION**

ENTERING INTO EQUITY TRANSFER AGREEMENT

Financial adviser to the Company



DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION

The Board is pleased to announce that on 17 August 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 Mr. Ye Chunjian, pursuant to which Mr. Ye Chunjian has conditionally agreed to sell and NewBornTown Network Technology has conditionally agreed to acquire approximately 23.27% equity interest of Mico for the consideration of RMB262,997,528. Upon completion of the Acquisition, NewBornTown Network Technology will hold approximately 48.89% equity interest of Mico, and in aggregate approximately 15.97% equity interest of Mico owned by Tianjin Tonghe Chuangyuan and Ningbo Tonghe Chuangyuan (as the platforms for the employee stock ownership plan of Mico) directed by NewBornTown Network Technology as the executive partner.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mico is a significant subsidiary of the Company, approximately 23.27% equity interest of which is held by Mr. Ye Chunjian, who is also a director of Mico. As such, Mr. Ye Chunjian (being the director and substantial shareholder of Mico) is a connected person at the subsidiary level of the Company under the Listing Rules. Therefore, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) exceeds 1%, pursuant to Rule 14A.101 of the Listing Rules, since (1) Mr. Ye Chunjian is a connected person at the subsidiary level; (2) the Board has approved the Acquisition; and (3) the independent non-executive Directors have confirmed that the terms of the Acquisition are fair and reasonable and the Acquisition is on normal commercial terms or better and in the interests of the Company and its shareholders as a whole, the Acquisition is subject to the reporting and announcement requirements, and is exempt from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios of the Acquisition exceeds 5% but all of which are below 25%, the Acquisition by itself also constitutes a discloseable transaction of the Company.

Shareholders and potential investors of the Company should be aware that the completion of the Acquisition is subject to satisfaction (or, if applicable, waiver) of certain conditions and consequently the Acquisition may or may not proceed. Accordingly, they are advised to exercise caution when dealing in the Shares.

The Board is pleased to announce that on 17 August 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 Mr. Ye Chunjian, pursuant to which Mr. Ye Chunjian has conditionally agreed to sell and NewBornTown Network Technology has conditionally agreed to acquire approximately 23.27% equity interest of Mico for the consideration of RMB262,997,528. Upon completion of the Acquisition, NewBornTown Network Technology will hold approximately 48.89% equity interest of Mico, and in aggregate approximately 15.97% equity interest of Mico owned by Tianjin Tonghe Chuangyuan and Ningbo Tonghe Chuangyuan (as the platforms for the employee stock ownership plan of Mico) directed by NewBornTown Network Technology as the executive partner.

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION

EQUITY TRANSFER AGREEMENT

Details of the Equity Transfer Agreement are set out below:

Date

17 August 2020 (after trading hours)

Parties

- (i) NewBornTown Network Technology; and
- (ii) Mr. Ye Chunjian.

Equity to be acquired

Pursuant to the Equity Transfer Agreement, Mr. Ye Chunjian has conditionally agreed to sell and NewBornTown Network Technology has conditionally agreed to acquire approximately 23.27% equity interest of Mico.

Consideration and terms of payment

The consideration is RMB262,997,528 which shall be settled in cash by NewBornTown Network Technology by four instalments in accordance with the following amount and payment dates:

- (i) the first instalment (the “**First Instalment**”) in the sum of RMB92,049,135 shall be paid within 10 business days after the entering into of the Equity Transfer Agreement;
- (ii) the second instalment in the sum of RMB39,449,629 shall be paid after the Completion Date and before 31 December 2020;
- (iii) the third instalment in the sum of RMB65,749,382 shall be paid after the Completion Date and before 30 June 2021; and
- (iv) the fourth instalment in the sum of RMB65,749,382 shall be paid after the Completion Date and before 31 December 2021.

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 Mr. Ye Chunjian and was determined after taking into account the implicit value of the 23.27% equity interest value of Mico as at 31 March 2020 of approximately RMB279,000,000 (rounded), with reference to the valuation result of the 8.85% equity interest value of Mico as at 31 March 2020 (the “**Valuation**”) adopted in the Previous Transaction. The Valuation 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.

The key assumptions of the Valuation 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. Further, based on the unaudited management account for the six months ended 30 June 2020, Mico recorded a revenue which exceeded RMB385 million, being half of the estimated revenue of Mico for year 2020.

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 the Valuation 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 are fair and reasonable.

Conditions Precedent

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

- (1) there are no any judgments, rulings, awards, 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) other existing shareholders of Mico waive the pre-emptive right or any other possible rights under the Acquisition in accordance with the Chinese laws, the articles of association of Mico or any other matter;
- (3) 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;
- (4) from the execution date of the Equity Transfer Agreement to the Completion Date, 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 Completion Date without any violation of the Equity Transfer Agreement;

- (5) upon confirmation by Mico, from the execution date of the Equity Transition Agreement to the Completion Date, 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;
- (6) the Company has convened the meeting of the Board and the general meeting (if necessary) to approve the Acquisition; and
- (7) Mico and Mr. Ye Chunjian have issued a confirmation letter to NewBornTown Network Technology confirming that all of the above conditions precedents have been fulfilled.

As at the date of this announcement, except for (6), no condition precedent has been fulfilled or waived.

NewBornTown Network Technology and Mr. Ye Chunjian shall use their best endeavours to procure the fulfilment of the conditions precedent. If the conditions precedent are not fulfilled within 120 days after the execution date of the Equity Transfer Agreement due to reasons not accountable to NewBornTown Network Technology, NewBornTown Network Technology shall be entitled to unilaterally terminate the Equity Transfer Agreement without undertaking any liabilities for breach of contract, and require Mr. Ye Chunjian to repay the First Instalment, the interest of which shall be computed from the date when the First Instalment is paid to the date when Mr. Ye Chunjian repays the First Instalment, at a simple interest rate of 5% per annum.

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

Undertakings of Mr. Ye Chunjian

Mr. Ye Chunjian undertakes to NewBornTown Network Technology that, unless prior written consent is obtained from NewBornTown Network Technology, Mr. Ye Chunjian will serve in the Target Group full-time within not less than five years after completion of the payment obligation under the Equity Transfer Agreement, except for alternative arrangements otherwise agreed by NewBornTown Network Technology.

Mr. Ye Chunjian also undertakes to NewBornTown Network Technology that, unless prior written consent is obtained from NewBornTown Network Technology, within two years after Mr. Ye Chunjian ceases to serve in the Target Group and no longer, directly or indirectly, has any shareholding in the Target Group, Mr. Ye Chunjian will not, directly or indirectly, engage in any business that competes with the Target Group.

INFORMATION ON THE PARTIES TO THE EQUITY TRANSFER 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.

Target Group

The Target Group 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.

Mr. Ye Chunjian

As at the date of this announcement, Mr. Ye Chunjian holds an equity interest of approximately 23.27% in Mico. Mr. Ye Chunjian was also a director of NewBornTown Network Technology until 13 May 2019. Mr. Ye Chunjian has contributed RMB1,000,000 to Mico since its establishment, which can be regarded as the acquisition cost of approximately 23.27% equity interest of Mico.

Before the completion of the Acquisition and as at the date of this announcement, NewBornTown Network Technology holds approximately 25.62% equity interest of Mico. The shareholding of all shareholders are set out below:

Shareholder	Percentage
NewBornTown Network Technology	25.62%
Mr. 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 are 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.

After the completion of the Acquisition, NewBornTown Network Technology will hold approximately 48.89% equity interest of Mico. The shareholding of all shareholders are set out below:

Shareholder	Percentage
NewBornTown Network Technology	48.89%
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}	<u>100.00%</u>

Note 1: Employee stock ownership plan platforms, both of which are 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.

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, which has been prepared in accordance with International Financial Reporting Standards:

	For the year ended or as at 31 December 2017 RMB'000	For the year ended or as at 31 December 2018 RMB'000	For the year ended or as at 31 December 2019 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

The Board is of the view that the current valuation of Mico and the consideration of the Acquisition are reasonable and it is the appropriate timing to further increase the Group's equity interest in Mico in consideration of the rapid growth of Mico recently. In addition, Mico has become a subsidiary of the Company after the Previous Transaction. It is the intention of the Group to further increase its equity interest in Mico in order to capture more economic benefits of Mico and further increase the contribution of Mico to profit attributable to the owner of the Company. Further, the Acquisition, together with the Previous Transaction and assuming after the full conversion of the Convertible Loan, will lead to the Group acquiring more than 50% of equity interest in Mico.

The Board (including the independent non-executive Directors) considers that the terms of the Acquisition are fair and reasonable and the Acquisition is on normal commercial terms or better and in the interest of the Company and the Shareholders as a whole. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no member of the Board has any material interest in the Acquisition.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mico is a significant subsidiary of the Company, approximately 23.27% equity interest of which is held by Mr. Ye Chunjian, who is also a director of Mico. As such, Mr. Ye Chunjian (being the director and substantial shareholder of Mico) is a connected person at the subsidiary level of the Company under the Listing Rules. Therefore, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) exceeds 1%, pursuant to Rule 14A.101 of the Listing Rules, since (1) Mr. Ye Chunjian is a connected person at the subsidiary level; (2) the Board has approved the Acquisition; and (3) the independent non-executive Directors have confirmed that the terms of the Acquisition are fair and reasonable and the Acquisition is on normal commercial terms or better and in the interests of the Company and its shareholders as a whole, the Acquisition is subject to the reporting and announcement requirements, and is exempt from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios of the Acquisition exceeds 5% but all of which are below 25%, the Acquisition by itself also constitutes a discloseable transaction of the Company.

Shareholders and potential investors of the Company should be aware that the completion of the Acquisition is subject to satisfaction (or, if applicable, waiver) of certain conditions and consequently the Acquisition may or may not proceed. Accordingly, they are advised to exercise caution when dealing in the Shares.

DEFINITIONS

“Acquisition”	the proposed acquisition of approximately 23.27% equity interest of Mico by NewBornTown Network Technology from Mr. Ye Chunjian pursuant to the Equity Transfer Agreement
“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
“Completion Date”	date of completion of the Equity Transfer Agreement
“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
“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 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
“Equity Transfer Agreement”	the equity transfer agreement entered into between NewBornTown Network Technology and Mr. Ye Chunjian on 17 August 2020
“Group”	the Company and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mico”	Beijing Mico World Technology Co., Ltd. (北京米可世界科技有限公司) (formerly known as Beijing Zhongluo Technology Co., Ltd. (北京眾絡科技有限公司)), a company incorporated under the laws of the PRC with limited liability

“NewBornTown 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
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan Region
“Previous Transaction”	the acquisition of approximately 8.85% equity interest of Mico by NewBornTown Network Technology from 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 the equity transfer agreement in relation to Mico entered into between NewBornTown Network Technology and Phoenix Fortune on 17 April 2020 and the provision of the Convertible Loan to Mico pursuant to the Convertible Loan Investment Agreement
“RMB”	Renminbi, the lawful currency in the PRC
“Shares”	ordinary share(s) in the share capital of our Company with a par value of US\$0.0001 each
“Shareholder(s)”	the holder of Share(s)
“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.

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

Beijing, 17 August 2020

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