宝宝树 babytree

BABYTREE GROUP
寶寶樹集團

(Incorporated in the Cayman islands with limited liability)
(Stock Code: 1761)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2018

The board (the "**Board**") of directors (the "**Directors**") of BabyTree Group (the "**Company**" or "**BabyTree**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended December 31, 2018 together with the comparative figures for the year ended December 31, 2017.

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

KEY HIGHLIGHT

- Our total online user base increased to an average 144.1 million total MAUs in 2018 from 139.0 million in 2017. Mobile users (including both WAP and mobile apps) constituted 61.5% of our overall user base in 2018. Our average total MAUs on mobile apps increased to 22.7 million in 2018 from 16.8 million in 2017, representing a growth of 35.1%. Notably, in the fourth quarter of 2018, our average MAUs on mobile reached 135.9 million and our average MAUs on mobile apps reached 32.1 million.

- Our total revenue increased to RMB 760.1 million for the year ended December 31, 2018 from RMB 729.6 million for the year ended December 31, 2017. Notably, revenue from advertising business increased to RMB 596.2 million for the year ended December 31, 2018 from RMB 372.4 million for the year ended December 31, 2017, representing a growth of 60.1%.

- Our adjusted net profit for the year was RMB201.2 million in 2018, compared to RMB155.1 million in 2017, representing a growth of 29.7%.

Note: "MAU" is the acronym for "monthly active user," calculated by counting the number of active users during the calendar month in question. The number of MAUs of our mobile apps is tracked and calculated by Umeng (友盟), a third-party data tracking service provided by Beijing Ruixunlingtong Technology Co., Ltd (北京鋭訊靈通科技有限公司). The number of our PC and WAP MAUs is tracked and calculated by us internally, using the number of unique cookies (a commonly used tracking code) recorded by the Internet browsers that access such website at least once during the calendar month.

KEY FINANCIAL DATA

	Year ended December 31		Year on year
	2018	2017	change (%)
	RMB'000	*RMB'000*	
Revenue	760,103	729,624	4.2%
– Advertising	596,215	372,385	60.1%
– E-commerce	135,301	332,583	(59.3%)
– Direct sales	69,820	174,672	(60.0%)
– Marketplace	65,481	157,911	(58.5%)
– Content monetization	28,587	24,656	15.9%
Gross profit	599,450	461,098	30.0%
Gross margin	78.9%	63.2%	24.8%
Profit/(loss) for the year	526,227	(911,138)	N/A
Adjusted net profit (Non-IFRS measure)	201,232	155,116	29.7%

BUSINESS REVIEW AND OUTLOOK

We have taken a great leap forward in 2018. The successful listing of our shares on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") on November 27, 2018 marked a significant milestone in our eleven-year journey of venture and creation. We achieved historic heights in terms of number of users (primarily driven by the growth of users on mobile apps), revenue and net profit, which is particularly encouraging during times of economic uncertainty. As a result of these achievements, we are one step closer to our mission, "to empower young families to enjoy the beautiful journey of life." We sincerely appreciate the robust support from our users, shareholders, partners, employees and their families.

We operate in a promising market. The total market volume of the young family spending market is expected to reach RMB14.3 trillion in 2019 and further grow to RMB21.5 trillion in 2022, according to Frost & Sullivan.

We believe that we would benefit from the continual growth of the M&C-focused product and service market over the next few years in the following aspects:

1. *Increasing online advertising from M&C and other young family related products and services.* As young mothers increasingly shift to mobile Internet to search for information, products and services, revenue from online advertising will increase.

2. *Increasing M&C-focused e-commerce.* The demand for high quality products and services is expected to grow along with the rising disposable income of young families.

3. *Increasing capabilities for M&C content monetization.* Top quality and professionally curated knowledge contents provide solutions for young parents in meeting their urgent and frequent parenting demands. In addition, young parents are increasingly willing to pay for top quality online contents.

We are dedicated to connecting and serving young families. We are one of the largest and most active M&C-focused online community platforms in China by MAU. We are also the most trusted M&C-focused online platform with the most comprehensive and authoritative contents, according to Frost & Sullivan. Our high user traffic and brand trust rest on two primary online platforms, namely Babytree Parenting and WeTime. A great variety of high-quality contents, services and products are provided through Babytree Parenting and WeTime, which have become the entrance platforms for user traffic to serve the four core needs of learning, sharing, recording growth and shopping for M&C users. On top of our high user traffic and trusted brand, we have also established a multi-stream revenue model, which is comprised of (i) advertising business through our multi-platform ecosystem, (ii) e-commerce business operated under direct sales and marketplace models and in cooperation with Alibaba, and (iii) various content-monetization products. AI technology further enhances our capability to engage the right target users at the right time with the most fitting advertisements, products and services. High user traffic and trusted brand, coupled with effective monetization models, form a healthy closed loop that allows us to continually develop, curate and improve contents, products and services to better serve the needs of young families.

As we embarked on the second decade of our journey, with an unyielding focus on our mission, we have charted out a four-prong strategy which is comprised of: (1) product leadership through continual innovation, significant spending on research and development or R&D spending, relentless fast-paced optimization and user life cycle extension; (2) monetization improvements and revenue diversification; (3) industry consolidation to further broaden our user reach and enhance our revenue generation capability; (4) globalization that allows us to penetrate into key international growing markets. We are pleased to report that significant progress has been made on all four fronts in 2018.

1. Product Leadership Through Innovation, Optimization and User Life Cycle Extension

Our user base reached an average 144.1 million total MAUs in 2018. Our average total MAUs on mobile devices (including both WAP and mobile apps) reached 88.6 million in 2018, which was primarily driven by the growth of mobile app MAUs, which grew from 16.8 million in 2017 to 22.7 million in 2018, representing a year-on-year increase of 35.1%. Notably, our average MAUs for Babytree Parenting increased to 18.4 million in 2018 from 14.9 million in 2017, representing a year-on-year increase of 23.5%. Our average MAUs for WeTime increased to 4.3 million in 2018 from 1.9 million in 2017, representing a year-on-year increase of 126.3%. We believe that the impressive growth numbers reflect our efforts in continually innovating, optimizing our products and extending user life cycle.

Product Innovation and Research and Development

Technology enhancement and data analysis are essential to our business, and in particular, our product innovation. Over one-third (34.1%) of our staff are technical professionals by the end of 2018, and we plan to continue recruiting technical staff in the future. We position ourselves as a technology company that constantly seeks to strengthen our data analytical capability, optimize our existing products and launch creative new products, aiming to provide high-quality targeted services in all family scenarios.

In particular, we have established an AI development department consisting of 39 employees, who station in cities considered to have abundant AI resources, including Beijing, Hangzhou and Wuhan. The AI development department is responsible for analyzing massive data in respect of user behavior and business operation to enable data-driven intelligent decision-making for the purpose of enhancing user experience and increasing user value.

Our research and development expenses increased to RMB125.2 million for the year ended December 31, 2018 from RMB78.5 million for the year ended December 31, 2017, representing a year-on year growth of 59.6%. Such increase was primarily driven by an increase in our technical staff headcount, as we put substantial efforts in technical staff recruitment to support our expansion for research and development. Our research and development expenses accounted for 10.8% and 16.5% of our total revenue for the year ended December 31, 2017 and 2018, respectively.

Continual Product Optimization

We continually update the core functions of our primary product platforms on our mobile apps in order to further optimize user experience. On Babytree Parenting, we improved the algorithms of several tools such as prenatal examination timetable and nursing record keeper to provide better user interfaces and interactive experience. On WeTime, we identified quality providers of early childhood education contents and tools, and gave them access to our platforms and join our ecosystem, thereby benefiting our users and at the same time enabling the providers to make a handsome profit. We strive to make continual fast-paced optimizations to deliver significant cumulative improvements for our users.

User Life Cycle Extension

We seek to lengthen our users' life cycle through Babytree Parenting and WeTime by addressing the needs of older children and mothers in areas such as photo archiving and sharing, content curation in early childhood education, family travel, beauty care and career needs for growing families. On our platforms, we accompany young families all the way through their parenting journey which begins before pregnancy until their children attending pre-schools.

Apart from improving our own platforms, we also leveraged our capital and invested in two leading platforms in WeChat ecosystem, namely BaMaYing and Momself, with a view to further enriching our content products, strengthening our influence in WeChat ecosystem and enhancing our ability to monetize the user traffic in advertising, e-commerce and contents. With BaMaYing focusing on middle-class parents having children aged 2 to 12 and Momself addressing the emotional needs of mothers of all ages, both of these WeChat based platforms further lengthen our users' life cycle. We plan to launch a new content-monetization product with Momself addressing heated issues such as antenatal anxiety and postpartum depression. We believe that our further cooperation with BaMaYing and Momself will complement our products and services, extend our user base to a broader age range and reach more members of the families, given that around 40% of the users of BaMaYing are male.

2. Monetization Improvements and Revenue Diversification

Our total revenue increased to RMB760.1 million for the year ended December 31, 2018 from RMB729.6 million for the year ended December 31, 2017, representing a year-on-year increase of 4.2%. Such increase was primarily due to an increase in revenue from advertising, partially offset by a decrease in revenue from e-commerce, where we began a strategic shift away from a self-operated business to collaboration with Alibaba since the third quarter of 2018. Notwithstanding a decline in the macro-economic environment in 2018, we are able to achieve a moderate yet healthy increase in our total revenue.

Our adjusted net profit for the year ended December 31, 2018 increased to RMB201.2 million from RMB155.1 million for the year ended December 31, 2017, representing a year-on-year growth of 29.7%. The increase reflects the resilience of the M&C industry in an otherwise declining macro-economic environment, and shows our statue as one of the industry leaders, significant economies of scale and notable cost control efforts.

Advertising

Revenue from advertising business increased by 60.1% in 2018. Advertising revenue from mobile apps continued to be our major source of revenue, and accounted for 63.0% and 86.9% of our total revenue from advertising business for the year ended December 31, 2017 and 2018, respectively. We plan to further increase our revenue from mobile apps as a percentage of our total revenue from advertising. We are also pleased to report that revenue from advertising not directly relating to M&C as a percentage of our total revenue from advertising grew to 27.4% in 2018 from 22.8% in 2017, which demonstrates that family consumption brands are increasingly regarding us as an effective media platform for launching advertising campaigns. We will continue to broaden and extend our client base to areas such as auto-manufacturers, cosmetics and other product and services beyond M&C related products and services. On the other hand, revenue from advertising attributable to Alibaba in 2018 (the first and partial year of our cooperation with Alibaba) was RMB44.9 million, representing 7.5% of the total revenue from advertising. We expect revenue from advertising attributable to Alibaba to increase in the future as the cooperation between Alibaba and us deepens.

E-commerce

We implemented a shift in our e-commerce strategy in 2018. We believe that our core strategic competencies lie in our ability to generate the best contents for our users, and nurture warm feelings and strong sense of community for parents. We will focus exclusively on our core strengths and competencies, and delegate functions such as back-end e-commerce management to the most strategically fitting partner in the area of e-commerce, Alibaba. Sharing the same view and sentiment, Alibaba became our investor and strategic partner in June 2018. Since then, we formed a joint dedicated team and began integrating our two systems. In our strategic relationship, we manage our users and Alibaba provides e-commerce operational services in accordance with our cooperation agreement. The integration process is unprecedented in terms of scale and scope, and is still ongoing. We expect the two systems to be integrated in the second quarter of 2019. Our cooperation with Alibaba will reduce our back-end operational costs, enhance our efficiency and provide our users with a better buying experience with broader product selections and lower prices.

Content monetization

Revenue from content monetization increased by 15.9% in 2018. We believe that content monetization fits naturally with our users who look for high quality knowledge contents generated by leading experts, and we put efforts in further building up our content monetization team in 2018 in light of our overall development strategy for 2019.

We plan to transform from the single content purchase model into the subscription model in which users can enjoy a well-organized content library in a systematic manner. The subscription model will be founded on an expanded and upgraded content library, which is our main task in 2019 and requires extensive collaborations with third party content and service providers. To that end, we recently introduced "Stardoctor" to our platforms to enrich the collection of our content monetization products. Stardoctor is a health and medical service brand newly developed in cooperation with Fosun, our substantial shareholder. Such collaborative efforts are to enhance our ability to consolidate high-quality resources catering to young families, for both children and parents, from the stage of pregnancy all the way to pre-school attendance.

3. Industry Consolidation

We believe that as an increasingly profitable leader in the M&C industry with significant cash on hand generated from our business operations and the proceeds from the public offering, we are able to leverage our industry leadership, reputable brand name, user platforms and capital to consolidate the industry, both in China and beyond.

As mentioned above, we have invested in two leading WeChat based parenting platforms, BaMaYing and Momself. BaMaYing, focusing on young families with children aged from 2 to 12, complements and broaden our user reach. Momself, on the other hand, aims to build up a life-long learning and support platform focusing more on mothers instead of children. By offering systematic and upbeat courses created by a group of professional psychologists, Momself addresses the needs of mothers over a variety of issues including, parenting, marriage and career development. Momself complements our content library and strengthens our content monetization business in WeChat ecosystem.

These two recent investments illustrate the user traffic and age extension-oriented nature of our investment approach, which we will continue aggressively.

4. Globalization

We aspire to be a global company. Our mission shares a worldwide view, and we keep an eye on young families on a global footing. We believe that our products, expertise and approaches can effectively adapt to key global markets, and facilitate other global platforms to achieve a faster and more efficient growth. To this end, we have recently invested in Healofy, one of the fastest growing parenting communities in India which offers massive professionally generated contents, video streaming, and is also a warm mobile community among Indian mothers in both English and other languages. The Indian market constitutes an essential part of our global strategy as it has over 20 million new births every year and thus possesses huge growth potential in terms of mobile users. Our investment in Healofy illustrates our interests in key growing global parenting markets and serves as our first move in creating a global parenting ecosystem through investment in these blooming markets.

Conclusion

We are proud to witness the above achievements and have strong faith that we will be able to implement all the plans we envisioned. The year of 2018 marks a significant milestone in our eleven-year journey of venture, and we embarked on our second decade of the journey. We endeavor to become a global leading platform for young families.

We engage in a growing M&C industry and we have a proven business model. The trust gained from our users over the years and high user traffic allow us to generate revenue through advertising, e-commerce and content monetization.

We have a great set of strategic partners. The current and future collaborations with Fosun, Alibaba and TAL demonstrate our strong connection and stable relationship with our significant shareholders as well as our growth potential from investors' perspectives.

We have significant financial resources. We have RMB3,039.3 million of cash and other liquid financial resources comprising (i) cash and cash equivalents including cash on hand and bank deposits and (ii) short-term wealth management products purchased by us. Our stable financial conditions enable us to make strategic decisions with great flexibility and strong leveraging power.

We have a large pool of talents consisting of current employees and we plan to expend our pool of talents through continual recruitment efforts. We recently recruited two top talents with extensive experiences working at multinational corporations in relevant industries. The appointment of Mr. Siddharth Mathur as our first Global Head of International Development marks our significant step towards globalization. With previous employments based in the UK, the US, India, Singapore and other Southeast Asian countries, Mr. Mathur is experienced in globalizing corporations. On the other hand, Mr. James Chiu, our newly appointed Chief Operating Officer, has been the president in various leading multinational companies in the healthcare, nutrition and fast-moving consumer goods industries including Abbott and Nestlé. Having accumulated valuable experiences from working for larger, more complex companies in their key growth stages, Mr. Chiu is able to better navigate our business operations.

"To empower young families to enjoy the beautiful journey of life" has been our mission since the commencement of our business and remains unchanged throughout the years. Guided by our mission, with relentless pursuits for products innovation, revenue improvements, talent and organization upgrades and global expansion, we aim to create value to our users and our investors.

KEY OPERATIONAL DATA

	For the year ended December 31, (in millions)		Year on
	2018	2017	year change (%)
Average total MAUs	144.1	139.0	3.7%
– mobile apps	22.7	16.8	35.1%
–PC and WAP	121.4	122.3	(0.7%)

MANAGEMENT DISCUSSION AND ANALYSIS

	Year ended December 31,	
	2018	**2017**
	RMB'000	*RMB'000*
Revenue	760,103	729,624
Cost of revenue	(160,653)	(268,526)
Gross Profit	599,450	461,098
Other revenue	20,484	54,331
Other net loss	(4,741)	(10,742)
Selling and marketing expenses	(179,905)	(145,745)
General and administration expenses	(159,066)	(108,013)
Research and development expenses	(125,234)	(78,481)
Profit from operations	150,988	172,448
Net finance income	10,369	6,787
Fair value change of financial liabilities at fair value through profit or loss	365,610	(1,049,907)
Share of loss of associates	(3,412)	(2,426)
Profit/(loss) before income tax	523,555	(873,098)
Income tax credit/(expense)	2,672	(38,040)
Profit/(loss) for the year	526,227	(911,138)
Attributable to:		
Equity shareholders of the Company	526,300	(911,138)
Non-controlling interests	(73)	—
Non-IFRS measure		
Adjusted profit for the year	201,232	155,116

Revenue

Our total revenue increased by 4.2% to RMB760.1 million for the year ended December 31, 2018, compared to RMB729.6 million for the year ended December 31, 2017, primarily due to an increase in revenue from advertising, partially offset by a decrease in revenue from e-commerce. The following table sets forth our revenue by segment for the periods presented:

	Year ended December 31,			
	2018		2017	
	Amount *RMB'000*	**% of total revenues**	**Amount** *RMB'000*	**% of total revenues**
Advertising	596,215	78.4%	372,385	51.0%
E-commerce	135,301	17.8%	332,583	45.6%
– Direct sales	69,820	9.2%	174,672	23.9%
– Marketplace	65,481	8.6%	157,911	21.6%
Content Monetization	28,587	3.8%	24,656	3.4%
Total	**760,103**	**100%**	**729,624**	**100%**

Advertising

Revenue from advertising business increased by 60.1% to RMB596.2 million for the year ended December 31, 2018, compared to RMB372.4 million for the year ended December 31, 2017, primarily due to (i) our continuing efforts to strengthen our sales approach and focus on winning more "spend" from our major clients, resulting in a higher average revenue per account from our major clients, (ii) an increase of revenue from advertising on mobile apps and (iii) an increase of revenue from advertising from family consumption categories beyond M&C.

E-commerce

Revenue from e-commerce business decreased by 59.3% to RMB135.3 million for the year ended December 31, 2018, compared to RMB332.6 million for the year ended December 31, 2017. The decrease was transitional in nature due to our shift of e-commerce strategy from a self-operated model to a third party operated model by Alibaba, our strategic investor and partner. This strategy reflects our belief that we should manifest our own strengths – developing and curating top quality contents and nurturing robust and supportive online communities for mothers, and we should leave the back-end e-commerce operation to the most fitting player in field, which is Alibaba. Part of the decline in e-commerce revenue resulted from our scaling down on both direct sales and marketplace operations, including reducing merchandise procurement for direct sales, clearing inventory and slowing down vendor acquisitions and renewals since our negotiations with Alibaba in June 2018. In addition, the integration process of deeply integrating our two systems is historically unprecedented in scale and scope and it is still ongoing. We expect the two systems to be integrated in the second quarter of 2019.

Content Monetization

Revenue from content monetization business increased by 15.9% to RMB28.6 million for the year ended December 31, 2018, compared to RMB24.7 million for the year ended December 31, 2017, primarily due to the expansion of our user base and offering of new contents.

Cost of Revenue

Our cost of revenue decreased by 40.2% to RMB160.7 million for the year ended December 31, 2018, compared to RMB268.5 million for the year ended December 31, 2017, primarily due to a decrease in cost of inventories as we scaled down our e-commerce direct sales.

The expansion of our advertising business results in greater economies of scale. Our direct cost of advertising mainly consists of staff costs and rental expenses of servers distributed between all our clients, which explains the slight increase of 2.6% in our direct cost of advertising while our revenue from advertising increased significantly by 60.1% during the same period.

The following table sets forth our cost of revenue by amount and as a percentage of total revenue for the periods indicated:

	Year ended December 31,			
	2018		2017	
	Amount	% of total	Amount	% of total
	RMB'000		*RMB'000*	
Advertising	91,150	56.7%	88,797	33.1%
E-commerce	67,069	41.7%	170,907	63.6%
Content Monetization	2,434	1.5%	8,822	3.3%
Total	160,653	100%	268,526	100%

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 30.0% to RMB599.5 million for the year ended December 31, 2018, compared to RMB461.1 million for the year ended December 31, 2017. Our gross margin increased to 78.9% for the year ended December 31, 2018, compared to 63.2% for the year ended December 31, 2017.

	Year ended December 31,			
	2018		2017	
	Gross profit *RMB'000*	**Gross margin %**	**Gross profit** *RMB'000*	**Gross margin %**
Advertising	505,065	84.7%	283,588	76.2%
E-commerce	68,232	50.4%	161,676	48.6%
Content monetization	26,153	91.5%	15,834	64.2%
Total	599,450	78.9%	461,098	63.2%

Other Revenue

Our other revenue decreased by 62.3% to RMB20.5 million for the year ended December 31, 2018, compared to RMB54.3 million for the year ended December 31, 2017, primarily due to (i) a decrease in investment income as we reduced our short-term investments, partially offset by (ii) an increase in government grants.

Other Net Loss

Our other net loss primarily consists of (i) net foreign exchange loss, (ii) impairment loss of available-for-sale equity security in 2017 and (iii) net loss on disposal of property, plant and equipment. The equity securities primarily refer to our non-trading equity investment in companies in which we did not have significant influence. Our other net loss decreased by 55.9% to RMB4.7 million for the year ended December 31, 2018, compared to RMB10.7 million for the year ended December 31, 2017, as we did not record any impairment loss of equity securities in 2018.

Selling and Marketing Expenses

Our selling and marketing expenses increased by 23.4% to RMB179.9 million for the year ended December 31, 2018, compared to RMB145.7 million for the year ended December 31, 2017, primarily due to our efforts to increase our brand awareness by spending more on marketing initiatives, partially offset by a decrease in fulfillment expenses as a result of reduced direct sales. As a percentage of revenue, selling and marketing expenses increased to 23.7% for the year ended December 31, 2018 from 20.0% for the year ended December 31, 2017.

General and Administration Expenses

Our general and administration expenses increased by 47.3% to RMB159.1 million for the year ended December 31, 2018, compared to RMB108.0 million for the year ended December 31, 2017, primarily due to (i) an increase in professional fees in connection with the global offering of our shares; (ii) an increase in impairment losses for trade and other receivables due to higher balances of such receivables and (iii) an increase in tax and levies. As a percentage of revenue, general and administration expenses increased to 20.9% for the year ended December 31, 2018 from 14.8% for the year ended December 31, 2017.

Research and Development Expenses

Our research and development expenses increased by 59.6% to RMB125.2 million for the year ended December 31, 2018, compared to RMB78.5 million for the year ended December 31, 2017, primarily due to an increase in the headcount of our technical staff as we continued recruitment efforts to support our research and expansion. As a percentage of revenue, research and development expenses increased to 16.5% for the year ended December 31, 2018 from 10.8% for the year ended December 31, 2017.

Profit from Operations

As a result of the foregoing, our profit from operations decreased by 12.4% from RMB172.4 million for the year ended December 31, 2017 to RMB151.0 million for the year ended December 31, 2018.

Net Finance Income

Our finance income primarily comprised interest income from deposits. We had a net finance income of RMB10.4 million in 2018, compared to a net finance income of RMB6.8 million in 2017, mainly due to an increase in the interest income from bank deposits.

Fair Value Change of Financial Liabilities at Fair Value through Profit or Loss

We recorded a fair value gain of financial liabilities at fair value through profit or loss of RMB365.6 million for the year ended December 31, 2018 compared to a fair value loss of RMB1,049.9 million for the year ended December 31, 2017, primarily due to a decrease in the fair value of our financial instruments with preferred rights. The fair value gain/(loss) of financial instruments with preferred rights is a non-cash and extraordinary item that will not recur in financial years after the listing of our shares on the Hong Kong Stock Exchange, as all the preferred rights attaching to the financial instruments were terminated upon the listing of our shares on the Hong Kong Stock Exchange.

Share of Loss of Associates

Our share of loss of associates increased to RMB3.4 million for the year ended December 31, 2018, compared to RMB2.4 million for the year ended December 31, 2017.

Income Tax Credit/(expense)

We had an income tax credit of RMB2.7 million for the year ended December 31, 2018 compared to an income tax expense of RMB38.0 million for the year ended December 31, 2017, primarily due to an additional deductible investment loss within the Group during the reorganization in preparation for the listing.

Profit Attributable to Equity Holders of the Company

Profit attributable to equity holders of the Company increased to RMB526.3 million for the year ended December 31, 2018, compared to a loss of RMB911.1 million for the year ended December 31, 2017.

Profit for the Year and Non-IFRS Measure: Adjusted profit for the year

As a result of the foregoing, our profit for the year was RMB526.2 million in 2018, compared to our loss for the year of RMB911.1 million in 2017. After removing the effect of fair value change of financial liabilities at fair value through profit or loss, which is non-recurring in nature, our adjusted net profit for the year was RMB160.6 million in 2018, compared to RMB138.8 million in 2017, representing a growth of 15.7%. Also, after removing the effect of both fair value change of financial liabilities at fair value through profit or loss and listing expenses, net of tax, which is non-recurring in nature, a further adjusted profit for the year would be RMB201.2 million and RMB155.1 million for the year ended December 31, 2018 and 2017 respectively, representing a growth of 29.7%.

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also use a non-IFRS measure, adjusted profit for the year, as an additional financial measure, which is not required by, or presented in accordance with IFRS. We believe that such non-IFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of items that our management considers to be not indicative of our operating performance. We believe that such measure provides useful information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as they help our management. However, our presentation of the adjusted profit for the year may not be comparable to similarly titled measures presented by other companies. The use of such non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation, or as substitute for analysis of, our results of operations or financial position as reported under IFRS.

We define adjusted profit for the year as profit for the year adjusted by excluding both fair value change of financial liabilities at fair value through profit or loss and listing expenses, net of tax, which is non-recurring in nature. The following table reconciles our adjusted profit for the years ended December 31, 2018 and 2017 to the most directly comparable financial measure calculated and presented in accordance with IFRS:

	For the year ended December 31,	
	2018	**2017**
	RMB'000	
Profit/(Loss) for the year	526,227	(911,138)
Add:		
Fair value change of financial liabilities at fair value through profit or loss	(365,610)	1,049,907
Listing expenses, net of tax	40,615	16,347
Adjusted profit for the year	201,232	155,116

Capital Structure

Our total assets increased from RMB1,197.4 million as of December 31, 2017 to RMB3,660.9 million as of December 31, 2018, whilst our total liabilities changed from RMB5,593.0 million as of December 31, 2017 to RMB205.3 million as of December 31, 2018. Liabilities-to-assets ratio changed from 467.1% at the end of 2017 to 5.6% at the end of 2018.

The current ratio (being the ratio of total current assets to the total current liabilities) was 1,718.3% as of December 31, 2018, compared to 329.1% as of December 31, 2017.

Liquidity, Financial Resources and Gearing

Our cash and other liquid financial resources (comprising (i) cash and cash equivalents including cash on hand and bank deposits and (ii) short-term wealth management products we bought), grew from RMB722.3 million as of December 31, 2017 to RMB3,039.3 million as of December 31, 2018, primarily due to (i) the issuance of ordinary shares and (ii) cash generated from our business growth.

As at December 31, 2018, we did not have any outstanding borrowings. Accordingly, no gearing ratio is presented.

Capital Expenditure

Our capital expenditures, consisting of payments for the purchase of property, plant and equipment, are incurred mainly for servers, computers and office equipment. Our capital expenditures were RMB20.7 million as of December 31, 2018, compared to RMB13.5 million as of December 31, 2017.

Foreign Exchange Risk

The Group had cash at banks denominated in foreign currencies, which exposed the Group to foreign exchange risk. The Group does not use any derivative contracts to hedge against its exposure to foreign exchange risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and will take prudent measures to minimize the currency translation risk.

Contingent Liabilities

As at December 31, 2017 and 2018, we did not have any material contingent liabilities.

Material Acquisitions and Future Plans for Major Investment

Save as disclosed in the prospectus of the Company dated November 15, 2018, during the year ended December 31, 2018, the Group did not conduct any material acquisitions and disposals of subsidiaries, associates and joint ventures.

Pledge of Assets

As at December 31, 2018, the Company had not pledged any of its assets.

Significant Events after the Reporting Period

Except as disclosed in note 19 to the financial statements, the Group does not have any material subsequent event after December 31, 2018 and up to the date of this announcement.

Final Dividend

The Board did not recommend the payment of a final dividend for the year ended December 31, 2018.

Annual General Meeting

The annual general meeting of the Company (the "**AGM**") will be held on Thursday, June 13, 2019. A notice convening the AGM will be published and dispatched to the shareholders of the Company in the manner required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") in due course.

Closure of Register of Members

For the purpose of ascertaining the members' eligibility to attend and vote at the AGM, the Company's register of members will be closed from Thursday, June 6, 2019 to Thursday, June 13, 2019, both dates inclusive, during which period no transfer of share will be registered. In order to be eligible to attend and vote at the AGM, unregistered holders of shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, June 5, 2019.

Company Information

The Company was incorporated in the Cayman Islands on February 9, 2018 as an exempted company with limited liability, and the shares were listed on the Main Board of the Hong Kong Stock Exchange on November 27, 2018.

Use of Proceeds

Our shares were listed on the Hong Kong Stock Exchange on November 27, 2018 and the net proceeds raised during our initial public offering were approximately HKD1,769.7 million. The intended use of net proceeds is as follows:

- Approximately 30% of the net proceeds will be used business expansion, such as acquiring users and improving user engagement, generating and acquiring more quality content, recruiting and retaining competent personnel to support our expansion and brand marketing activities, and further enhancing our brand awareness through marketing activities;

- Approximately 30% of the net proceeds will be used for research and development, such as recruiting and retaining technical talent, maintaining and strengthening our IT infrastructure and further developing our technology stack;

- Approximately 30% of the net proceeds will be used for further investments, acquisitions and strategic alliances, such as investing in companies with advanced technology and service solutions or with complimentary business lines, or have adequate capabilities to generate synergy with our current business, and establishing partnerships with quality local partners in overseas countries;

- Approximately 10% of the net proceeds will be used as working capital and other general corporate purposes.

To the extent that the net proceeds of the global offering are not immediately required for the above purposes or if we are unable to put into effect any part of our plan as intended, we may hold such funds in short-term deposits or other short-term wealth management products so long as it is deemed to be in the best interests of the Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

The net proceeds had not been utilized since our listing to December 31, 2018 due to the relatively short period.

Employees

As of December 31, 2018, we had 873 full-time employees, substantially all of whom were based in China, primarily in Beijing and Shanghai, with the rest based in Ningbo, Wuhan, Xiamen and Hangzhou.

Our success depends on our ability to attract, retain and motivate qualified personnel. The remuneration package for our employees generally includes salary and bonuses. We determine employee remuneration based on factors such as qualifications and years of experience. Employees also receive welfare benefits, including medical care, retirement benefits, occupational injury insurance and other miscellaneous items. We make contributions to mandatory social security funds for our employees to provide for retirement, medical, work-related injury, maternity and unemployment benefits.

ROUNDING

Certain amounts and percentage figures included in this announcement have been subject to rounding adjustments. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

Consolidated statement of profit or loss for the year ended 31 December 2018

(Expressed in Renminbi ("RMB"))

	Note	*2018* RMB'000	*2017* RMB'000
Revenue	4	760,103	729,624
Cost of revenue		(160,653)	(268,526)
Gross profit		599,450	461,098
Other revenue	5(a)	20,484	54,331
Other net loss	5(b)	(4,741)	(10,742)
Selling and marketing expenses		(179,905)	(145,745)
General and administration expenses		(159,066)	(108,013)
Research and development expenses		(125,234)	(78,481)
Profit from operations		150,988	172,448
Net finance income	6(a)	10,369	6,787
Fair value change of financial liabilities at fair value through profit or loss		365,610	(1,049,907)
Share of loss of associates	9	(3,412)	(2,426)
Profit/(loss) before income tax	6	523,555	(873,098)
Income tax credit/(expense)	7	2,672	(38,040)
Profit/(loss) for the year		526,227	(911,138)
Attributable to:			
Equity shareholders of the Company		526,300	(911,138)
Non-controlling interests		(73)	—
Profit/(loss) for the year		526,227	(911,138)
Earnings/(loss) per share			
Basic and diluted (RMB)	8	0.29	(0.66)

Notes: The Group has initially applied IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018
(Expressed in RMB)

	2018 RMB'000	*2017* RMB'000
Profit/(loss) for the year	526,227	(911,138)
Other comprehensive income for the year (after tax and reclassification adjustments)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of the Company and overseas subsidiaries	(652,612)	583
Available-for-sale financial assets: net movement in the fair value reserve (recycling) (Note (ii))	—	(8,644)
Other comprehensive income for the year	(652,612)	(8,061)
Total comprehensive income for the year	(126,385)	(919,199)
Attributable to:		
Equity shareholders of the company	(126,312)	(919,199)
Non-controlling interests	(73)	—
Total comprehensive income for the year	(126,385)	(919,199)

Notes:

(i) The Group has initially applied IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

(ii) This amount arose under the accounting policies applicable prior to January 1, 2018. As part of the opening balance adjustments as at January 1, 2018 the balance of this reserve has been reclassified to retained earnings. See note 3.

Consolidated statement of financial position as at 31 December 2018

(Expressed in RMB)

	Note	*2018* RMB'000	*2017* RMB'000
Non-current assets			
Property, plant and equipment		29,627	27,160
Intangible assets		4,494	5,638
Prepayments for non-current assets		11,685	—
Interests in associates	9	14,617	13,625
Equity securities	10	25,432	7,323
Deferred tax assets		48,761	24,881
		134,616	78,627
Current assets			
Other current assets	11	5,956	8,691
Inventories		14,657	36,297
Trade receivables	12	369,720	149,001
Prepayments and other receivables		96,650	202,404
Short-term investment	13	809,430	517,556
Cash and cash equivalents	14	2,229,907	204,783
		3,526,320	1,118,732
Current liabilities			
Trade payables	15	14,475	21,549
Accruals and other payables	16	171,529	301,713
Contract liabilities		5,012	8,817
Current taxation		14,211	7,828
		205,227	339,907
Net current assets		3,321,093	778,825
Total assets less current liabilities		3,455,709	857,452

Consolidated statement of financial position as at 31 December 2018 (continued)

(Expressed in RMB)

	Note	*2018* RMB'000	*2017* RMB'000
Non-current liabilities			
Financial instruments with preferred rights	17	—	5,252,332
Deferred tax liabilities		61	740
		61	5,253,072
Net assets/(liabilities)		3,455,648	(4,395,620)
Equity			
Share capital	18	1,172	—
Reserves		3,450,349	(4,395,620)
Total equity attributable to equity shareholders of the Company		3,451,521	(4,395,620)
Non-controlling interests		4,127	—
TOTAL EQUITY		3,455,648	(4,395,620)

Notes: The Group has initially applied IFRS 9 at January 1, 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

1 Principal activities and organisation

BabyTree Group (the "Company") was incorporated in Cayman Islands on February 9, 2018 as an exempted company with limited liability under the Companies Law of the Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, the "Group") are principally engaged in the advertising, e-commerce and content monetization in the People's Republic of China (the "PRC").

The Group's businesses were operated through BabyTree (Beijing) Information and Technology Co., Ltd. ("BabyTree Information"), Meitun Meiwu (Shanghai) Information Technology Co., Ltd. ("Meitun Meiwu"), Haitun (Shanghai) International Trading Co., Ltd. ("Haitun International"), Beijing Zhongming Century Science and Technology Co., Ltd. ("Zhongming"), Meitun Mama (Shanghai) E-Commerce Co., Ltd. ("Meitun Mama") and their subsidiaries (collectively, the "Operating Entities"). The Group underwent a reorganization between these Operating Entities before 2017 and Zhongming became the holding company at then.

To rationalize the corporate structure in preparation for the initial listing of the Company's shares on the Main Board of the Hong Kong Stock Exchange, the Group underwent a Pre-IPO reorganization (the "Reorganization") as below.

On February 9, 2018, BabyTree Holding Limited ("BabyTree BVI") was incorporated in the British Virgin Islands as a wholly-owned subsidiary of the Company. On March 5, 2018, BabyTree Group Hong Kong Limited ("BabyTree Hong Kong") was incorporated in Hong Kong as a wholly-owned subsidiary of BabyTree BVI. On May 4, 2018, the respective offshore affiliates of all the then existing shareholders of Zhongming entered into a share subscription agreement with the Company. On May 10, 2018, BabyTree Hong Kong purchased 100% equity interest in BabyTree Information.

Due to applicable PRC laws and regulatory restrictions on foreign investors to own interests in entities holding the Internet content provider ("ICP") License in the PRC, certain businesses operated by Zhongming is restricted invested by foreign investors. In order to narrowly tailor the Group's VIE structure, BabyTree Information entered into an equity transfer agreement with Zhongming, pursuant to which BabyTree Information purchased all equity interests in these Operating Entities except for Zhongming and entered into a series of contractual arrangements (the "Contractual Arrangements") with Zhongming and its registered owners to control the related businesses operated by Zhongming.

Upon the completion of the Reorganization on May 23, 2018, the Company became the holding company of the Group.

The Company's shares have been listed on the Main Board of the Hong Kong Stock Exchange since November 27, 2018 by way of its initial public offering ("IPO").

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

Upon the completion of the Reorganization on May 23, 2018, the Company became the holding company of the Group. The Reorganization principally involved inserting certain investment holding companies with no substantive operations as the new holding companies. There were no changes in the economic substance of the ownership and the business of the Group before and after the Reorganization. Accordingly, the financial statements has been prepared and presented as a continuation of the financial information with the assets and liabilities recognised and measured at their historical carrying amounts prior to the Reorganization. Intra-group balances, transactions and unrealised gain/loss on intra-group transactions are eliminated in full in preparing the financial statements.

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 cash flow statements of the Group for the reporting period include the financial performance and cash flows of the companies now comprising the Group as if the current group structure had been in existence and remained unchanged throughout the reporting period, or where the companies were incorporated/established at a date later than January 1, 2017, for the period from the respective dates of incorporation/establishment to December 31, 2018. The consolidated statements of financial position of the Group as of December 31, 2017 and 2018 as set out in this report have been prepared to present the financial position of the companies now comprising the Group as of those dates as if the current group structure had been in existence as of the respective dates taking into account the respective dates of incorporation/establishment, where applicable.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– Financial instruments measured at fair value through profit or loss (FVPL);

– Financial instruments with preferred rights.

2 Basis of preparation (continued)

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements 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 recognized 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.

3 Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs. The Group has adopted all applicable new and revised IFRSs that are effective for the accounting period beginning on January 1, 2018, including IFRS 15 *Revenue from contracts with customers*, throughout the reporting period except for IFRS 9 *Financial Instruments*, which has been adopted since January 1, 2018. The Group has applied IFRS 9 retrospectively to items that existed at January 1, 2018 in accordance with the transition requirements. The Group has recognized the cumulative effect of initial application as an adjustment to the opening equity at January 1, 2018. The Group has not adopted any new standards or interpretations that is not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as IFRS 9.

(i) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation*

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at January 1, 2018 in accordance with the transition requirements. The Group has recognized the cumulative effect of initial application as an adjustment to the opening equity at January 1, 2018. Therefore, comparative information continues to be reported under IAS 39.

The following table summarizes the impact of transition to IFRS 9 on retained earnings and reserves and the related tax impact at January 1, 2018.

3 Changes in accounting policies (continued)

	RMB'000
Retained earnings	
Transferred from fair value reserve (recycling) relating to financial assets now measured at FVPL	3,826
Related tax	(679)
Net increase in retained earnings at January 1, 2018	3,147
Fair value reserve (recycling)	
Transferred to retained earnings relating to financial assets now measured at FVPL	(3,826)
Related tax	679
Net decrease in fair value reserve at January 1, 2018	(3,147)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

IFRS 9 categories financial assets into three principal classification categories: measured at amortized cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede IAS 39's categories of held-to maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under IAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with IAS 39 to those determined in accordance with IFRS 9.

3 Changes in accounting policies (continued)

	Note	*IAS 39 carrying amount at December 31, 2017*	*Reclassification*	*IFRS 9 Carrying amount at January 1, 2018*
		RMB'000	RMB'000	RMB'000
Financial assets carried at FVPL				
Equity securities	(i)	—	7,323	7,323
Short-term investment	(ii)	—	517,556	517,556
Financial assets classified as available-for-sale under IAS 39 (notes (i), (ii))				
Available-for-sale equity securities	(i)	7,323	(7,323)	—
Available-for-sale financial assets	(ii)	517,556	(517,556)	—

Notes:

(i) Under IAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under IFRS 9, unless they are eligible for and designated at FVOCI by the Group. No equity security was designated at FVOCI by the Group.

(ii) Under IAS 39, wealth management products were classified as available-for-sale financial assets. They are classified as at FVPL under IFRS 9.

For an explanation of how the Group classifies and measures financial assets and recognizes related gains and loss under IFRS 9, see respective accounting policy.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at January 1, 2018 have not been impacted by the initial application of IFRS 9.

b. Credit loss

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognizes ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to financial assets measured at amortized cost (including cash and cash equivalents, other current assets and trade receivables).

The Group assessed and concluded there is no material difference between the closing loss allowance determined in accordance with IAS 39 as at December 31, 2017 and the opening loss allowance determined in accordance with IFRS 9 as at January 1, 2018.

3 Changes in accounting policies (continued)

c. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

— Information relating to the comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as at January 1, 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

— The assessments on the determination of the business model within which a financial asset is held have been made on the basis of the facts and circumstances that existed at January 1, 2018 (the date of initial application of IFRS 9 by the Group).

— If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognized for that financial instrument.

4 Revenue and segment reporting

(a) Revenue

The principal activities of the Group are providing advertising, E-commerce and other content monetization services to customers.

(i) Disaggregation of revenue

Revenue of the Group are all from contracts with customers within the scope of IFRS 15. The amount of each significant category of revenue is as follows:

	2018	*2017*
	RMB'000	RMB'000
Advertising	596,215	372,385
E-commerce		
—Direct sales	69,820	174,672
—Marketplace	65,481	157,911
Content monetization	28,587	24,656
	760,103	729,624

The Group's customer base is diversified and includes only one customer with whom transactions has exceeded 10% of the Group's revenues during the reporting period. In 2018, revenues from advertising to this customer amounted to approximately RMB117.0 million.

4 Revenue and segment reporting (continued)

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

Contracts with advertising customers always have an original expected duration of less than one year. And contracts with individual customers for E-Commerce and content monetization are always satisfied within one month.

The 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.

(b) Segment reporting

The Group manages its businesses by divisions, which are organized by business lines (products and services). In a manner consistent with the way in the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

— Advertising

— E-commerce, which includes direct sales and marketplace

— Content monetization

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the revenue and gross profit attributable to each reportable segment. Other items in profit or loss are not allocated to reportable segments.

Revenue and cost are allocated to the reportable segments with reference to sales generated by those segments and the cost incurred by those segments or which otherwise arise from the depreciation or amortization of assets attributable to those segments.

Other information, together with the segment information, provided to the Group's senior executive management, is measured in a manner consistent with that applied in these financial statements. There were no separate segment assets and segment liabilities information provided to the Group's senior executive management, as they do not use this information to allocate resources to or evaluate the performance of the operating segments.

4 Revenue and segment reporting (continued)

The amount of each significant category of revenue recognized during the reporting period is as follows:

	For the year ended December 31, 2018			
	Advertising RMB'000	*E-commerce* RMB'000	*Content monetization* RMB'000	*Total* RMB'000
Segment revenue	596,215	135,301	28,587	760,103
Segment costs	(91,150)	(67,069)	(2,434)	(160,653)
Gross profit	505,065	68,232	26,153	599,450

	For the year ended December 31, 2017			
	Advertising RMB'000	*E-commerce* RMB'000	*Content monetization* RMB'000	*Total* RMB'000
Segment revenue	372,385	332,583	24,656	729,624
Segment costs	(88,797)	(170,907)	(8,822)	(268,526)
Gross profit	283,588	161,676	15,834	461,098

The Company is domiciled in the Cayman Islands while the Group mainly operates its businesses in the PRC and earns substantially all of the revenues from external customers attributed to the PRC.

As at December 31, 2018, substantially all of the non-current assets of the Group other than certain long-term investments were located in PRC.

The reconciliation of segment gross profit to profit before income tax for the years ended December 31, 2018 is presented in the consolidated statements of profit or loss of the Group.

5 Other revenue and other net loss

(a) Other revenue

	2018 RMB'000	*2017* RMB'000
Investment income of short-term investment	14,886	49,646
Interest income from structured deposits in other current assets measured at amortized cost	1,252	2,177
Government grants	4,346	2,508
	20,484	54,331

5 Other revenue and other net loss (continued)

(b) Other net loss

	2018 RMB'000	*2017* RMB'000
Net loss on disposal of property, plant and equipment	(22)	—
Impairment loss of available-for-sale equity security	—	(4,000)
Net foreign exchange loss	(4,155)	(6,751)
Others	(564)	9
	(4,741)	(10,742)

6 Profit/(loss) before taxation

Profit/(loss) before taxation is arrived at after (crediting)/charging:

(a) Net finance income

	2018 RMB'000	*2017* RMB'000
Interest income from deposits with maturity less than three months	10,387	6,787
Interest expense on interest-bearing loans	(18)	—
Net finance income	10,369	6,787

BabyTree Information received RMB49.0 million from Taobao (China) Software Co., Ltd. (淘寶 (中國) 軟件有限公司), on May 25, 2018 as investment deposit and repaid on May 29, 2018. The prescribed annual interest rate of this deposit is 4.35%.

6 Profit/(loss) before taxation (continued)

(b) Staff costs

	Note	*2018*	*2017*
		RMB'000	RMB'000
Salaries, wages and other benefits		247,234	195,664
Contributions to defined contribution retirement plan	(i)	27,085	20,546
Termination benefits		3,482	6,572
		277,801	222,782

(i) Employees of the Group's subsidiaries in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's subsidiaries in the PRC contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

(c) Other items

The following expenses are included in cost of revenue, selling and marketing expenses, general and administration expenses and research and development expenses.

	2018	*2017*
	RMB'000	RMB'000
Cost of inventories	62,845	165,320
Fulfillment expenses	17,003	32,312
Marketing expenses	46,542	30,019
Operating lease	31,382	28,418
Tax and levies	23,199	16,175
Depreciation and amortization	13,060	12,687
Loss allowance for trade and other receivables	15,185	1,844
Listing expense	43,968	21,796
Auditors' remuneration *	4,974	630

* The amounts includes annual audit fee and other statutory audit fee for subsidiaries.

7 Income tax in the consolidated statements of profit or loss

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

	2018	*2017*
	RMB'000	RMB'000
Current tax - PRC		
Enterprise Income Tax		
Provision for the year	21,887	8,612
Deferred tax expense		
Origination and reversal of temporary differences	(24,559)	29,428
	(2,672)	38,040

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

	Note	*2018*	*2017*
		RMB'000	RMB'000
Profit/(loss) before taxation		523,555	(873,098)
Tax calculated at statutory tax rates applicable to profits in the respective jurisdictions	(i)	137,254	(218,274)
Tax effect of:			
Non-deductible expenses and loss	(ii)	7,371	1,831
Fair value change of financial liabilities at fair value through profit or loss		(91,403)	262,477
Preferential tax rate applicable to subsidiary	(i)	(12,663)	(5,328)
Additional deductible allowance for research and development expenses		(16,714)	(3,561)
Tax loss and temporary differences not recognized as deferred tax assets		7,691	3,026
Utilization and recognition of previously tax loss and temporary differences unrecognized		(612)	(2,131)
Others	(iii)	(33,596)	—
Actual tax (credit)/expense		(2,672)	38,040

7 Income tax in the consolidated statements of profit or loss (continued)

(i) Income tax rate applies to the Company and subsidiaries

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and British Virgin Islands.

The Group has no assessable profit in Hong Kong during the reporting period and is not subject to any Hong Kong profits tax. The Hong Kong profits tax rate during the reporting period is 16.5%.

In accordance with the Enterprise Income Tax Law ("Income Tax Law") of the PRC, enterprise income tax rate for the Group's PRC subsidiaries during the reporting period is 25%.

According to the relevant PRC income tax law, the Company's subsidiary, BabyTree Information was certified as a New and High Technology Enterprise in Beijing since 2016, and is entitled to a preferential income tax rate of 15%. The current certification of New and High Technology Enterprise held by BabyTree Information will expire on December 21, 2019.

(ii) Non-deductible expenses and loss mainly represent non-deductible other expenses or losses that exceed the deductible limitation such as entertainment, donation and others.

(iii) It represents an additional deductible investment loss within the Group during the Reorganization in preparation for the Listing.

8 Earnings/(loss) per share

(a) Basic earnings/(loss) per share

The calculation of basic earnings per share is based on the profit/(loss) attributable to ordinary equity shareholders of the Company of RMB144.7 million (2017: loss of RMB243.2 million) and the weighted average of 494,053,000 ordinary shares (2017: 369,249,000 shares in issue upon the completion of the Reorganization were deemed to have been issued since January 1, 2017 and adjusted for the effect of capitalization issue in 2018), calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company

	2018	*2017*
	RMB'000	RMB'000
Profit/(loss) attributable to ordinary equity shareholders of the Company	526,300	(911,138)
Less: (Profit)/loss attributable to ordinary shares with preferred rights	(381,634)	667,947
Profit/(loss) attributable to ordinary shares without preferred rights	144,666	(243,191)

8 Earnings/(loss) per share (continued)

(ii) Weighted average number of ordinary shares without preferred rights

	2018	*2017*
	'000	*'000*
Issued ordinary shares without preferred rights at 1 January	369,249	17,770
Effect of shares issued	24,273	861
Effect of Capitalization Issue (Note 18)	—	350,618
Effect of termination of preferred rights	100,531	—
Weighted average number of ordinary shares without preferred rights at 31 December	494,053	369,249

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: ordinary shares with preferred rights and potential ordinary shares over-allotment option from global offering. The dilutive potential ordinary shares were not included in the calculation of diluted earnings/(loss) per share as their inclusion would be anti-dilution. Accordingly, diluted earnings/(loss) per share for the years ended December 31, 2017 and 2018 were the same as basic loss per share of the respective years.

9 Interests in associates

	2018	2017
	RMB'000	*RMB'000*
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	14,617	13,625
Aggregate amounts of the Group's share of those associates'		
Loss from operations	(3,412)	(2,426)
Total comprehensive income	(3,412)	(2,426)

There is no individually material interests in associates during the reporting period.

10 Equity securities

	2018	*2017*
	RMB'000	*RMB'000*
Equity securities		
—Unlisted	25,432	—
Available-for-sale equity securities:		
—Unlisted	—	11,323
Less: Impairment	—	(4,000)
	25,432	7,323

Available-for-sale equity securities were reclassified to equity securities measured at fair value through profit or loss (FVPL) upon the initial application of IFRS 9 at January 1, 2018 (see note 3).

As at December 31, 2018, equity securities held by the Group are equity instruments invested in third parties with less than 20% of shareholding and the Group has no significant influence.

11 Other current assets

	2018	2017
	RMB'000	*RMB'000*
Deductible input VAT	5,707	8,631
Recoverable tax	—	60
Others	249	—
	5,956	8,691

12 Trade receivables

	Note	*2018*	*2017*
		RMB'000	*RMB'000*
Amounts due from third parties		386,139	159,989
Less: loss allowance	(i)	(16,419)	(10,988)
		369,720	149,001

(i) The Group assessed no material difference between the closing loss allowance determined in accordance with IAS 39 as at December 31, 2017 and the opening loss allowance determined in accordance with IFRS 9 as at January 1, 2018.

Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivable, based on the invoice date and net of loss allowance, is as follows:

	2018	*2017*
	RMB'000	*RMB'000*
Within 6 months	318,248	127,617
6 months to 1 year	39,832	9,056
1 to 2 years	6,310	11,431
2 to 3 years	5,330	897
Over 3 years	—	—
	369,720	149,001

The credit terms agreed with customers are normally 30-90 days from the date of billing or 60-120 days from the date the advertisement posts. No interests are charged on the trade receivables.

13 Short-term investment

	2018	*2017*
	RMB'000	*RMB'000*
Short-term investment		
—Wealth management products	809,430	—
Available-for-sale financial assets		
—Wealth management products	—	517,556

Available-for-sale financial assets were reclassified to short-term investment measured at FVPL upon the initial application of IFRS 9 at January 1, 2018 (see note 3).

Wealth management products is issued by banks in the PRC and other financial institution with variable interest rate due within one year.

14 Cash and cash equivalents

	2018 *RMB'000*	*2017* *RMB'000*
Cash on hand	1	2
Cash at bank	617,342	204,781
Deposits with banks	1,612,564	—
Cash and cash equivalents	2,229,907	204,783

15 Trade payables

	2018 *RMB'000*	*2017* *RMB'000*
Amounts due to third parties	13,682	20,922
Amounts due to related parties	793	627
	14,475	21,549

As of the end of each of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	2018 *RMB'000*	*2017* *RMB'000*
Within 6 months	9,055	16,444
6 months to 1 year	4,672	4,610
1 to 2 years	730	495
2 to 3 years	18	—
	14,475	21,549

16 Accruals and other payables

	2018	*2017*
	RMB'000	*RMB'000*
Amounts due to merchants	40,178	160,463
Amounts due to related parties	21,842	47,764
Payroll payables	25,746	30,099
Taxes and levies payables	12,991	12,223
Other payables	70,772	51,164
	171,529	301,713

All of the accruals and other payables are expected to be settled or recognized as profit or loss within one year or are repayable on demand.

17 Financial instruments with preferred rights

Upon the completion of the IPO, all preferred rights entitled to the holders of ordinary shares with preferred rights have been terminated and such holders thereafter hold rights pari passu to all other ordinary shareholders.

18 Capital and dividends

(a) Share capital and premium

	Number of ordinary shares				
	Without preferred rights	With preferred rights	Total	Share capital in equity *RMB'000*	Share premium in equity *RMB'000*
As at February 9, 2018 (date of the Company incorporation)	—	—	—	—	—
Issue of ordinary shares	19,478,750	—	19,478,750	12	—
Issue of ordinary shares with preferred rights	—	55,178,861	55,178,861	—	—
Issue of ordinary shares by Capitalization Issue	350,617,500	993,219,498	1,343,836,998	244	(244)
Termination of preferred rights upon completion of IPO	1,048,398,359	(1,048,398,359)	—	729	6,395,664
Issuance of ordinary shares relating to initial public offering, net of underwriting commissions and other issuance costs	269,993,500	—	269,993,500	187	1,570,368
As at December 31, 2018	1,688,488,109	—	1,688,488,109	1,172	7,965,788

As at December 31, 2017, the Company has not been incorporated and no paid-in capital were recorded.

The Company was incorporated in the Cayman Islands on February 9, 2018 as part of the Reorganization with an initial authorized share capital of US$50,000 divided into 500,000,000 shares with a par value of US$0.0001 each. Immediately after its incorporation, one share was allotted and issued.

In May 2018, Mr. Wang, through Wang Family Limited Partnership, subscribed 19,478,750 ordinary shares of the Company at a consideration of RMB12,424 (US$1,948). Other shareholders subscribed 55,178,861 ordinary shares of the Company with aggregated consideration of RMB3,535,584,443. The ordinary shares issued to other shareholders are attached with preferred rights pursuant to the Shareholders' Agreement dated May 28, 2018 and are designated as financial instruments with preferred rights.

On November 1, 2018, the authorized share capital of the Company was increased to US$960,000, divided into 9,600,000,000 shares with par value of US$0.0001 each.

Pursuant to written resolutions of the Company's shareholders passed on November 1, 2018, capitalize an amount of US$134,383.6998 standing to the crediting of the share premium account of the Company by applying such sum in paying up in full at par a total of 1,343,836,998 share for allotment and issue to the persons whose names appear on the register of shareholders of the Company on the date of the written resolutions in accordance with their respective shareholding in the Company (the "Capitalization Issue"). The Capitalisation Issue was completed on November 27, 2018.

18 Capital and dividends (continued)

On November 27, 2018, the Company issued 250,323,000 ordinary shares with a par value of US$0.0001, at a price of HK$6.8 per share by way of public offering to Hong Kong and overseas investors. On December 20, 2018, the over-allotment option granted to underwriters was exercised and the Company issued 19,670,500 shares with a par value of US$0.0001, at a price of HK$6.8 per share. Net proceeds from these issues amounted to RMB1,570.6 million (after offsetting expenses directly attributable to the issue of shares of RMB58.9 million), out of which RMB0.19 million and RMB1,570.4 million were recorded in share capital and share premium accounts, respectively.

(b) Dividends

During the year of 2018, no dividends were declared by the entities comprising the Group to its owners.

19 Non-adjusting events after the reporting period

In March 2019, the Group invested 10.81% of registered capital of Vivoiz Healthtech Private Limited ("Healofy") for a total consideration of USD3.0 million. Healofy is a company incorporated in India.

OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

Except for the global offering of the Company's shares in connection with the listing of the shares on the Hong Kong Stock Exchange, during the year ended December 31, 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

Compliance with the Corporate Governance Code

The Company is committed to maintaining and promoting stringent corporate governance. The principle of the Company's corporate governance is to promote effective internal control measures, uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business, to ensure that its affairs are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to all shareholders. The Company has applied the principles as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Listing Rules.

The Board is of the view that since the Listing Date and up to December 31, 2018, the Company has complied with most of the code provisions as set out in the CG Code, except for the deviation from code provision A.2.1 as explained below.

The Chairman and Chief Executive Officer of the Company are held by Mr. WANG Huainan. In view of Mr. Wang's experience, personal profile and his roles in our Company and the fact that Mr. Wang has assumed the role of Chief Executive Officer of our Company since our commencement of business, the Board considers it beneficial to the business prospect and operational efficiency of our Company that Mr. Wang acts as the chairman of the Board and continues to act as the Chief Executive Officer of our Company after the Listing of the Company. While this will constitute a deviation from code provision A.2.1 of the Code as set out in Appendix 14 to the Listing Rules, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) decision to be made by our Board requires approval by at least a majority of our Directors; (ii) Mr. Wang and the other Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of our Company and will make decisions for our Company accordingly; and (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of the Company. Moreover, the overall strategic and other key business, financial, and operational policies of our Company are made collectively after thorough discussion at both Board and senior management levels.

The Board will continue to review the effectiveness of the corporate governance structure of the Company in order to assess whether separation of the roles of Chairman of the Board and Chief Executive Officer is necessary.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the Group's code of conduct regarding the Directors' securities transactions. Having made specific enquiry of all the Directors of the Company, all the Directors confirmed that they have strictly complied with the Model Code since listing of our shares on the Hong Kong Stock Exchange to December 31, 2018 and to the date of this announcement.

The Board has also adopted the Model Code to regulate all dealings by relevant employees who are likely to be in possession of unpublished inside information of the Company in respect of securities in the Company as referred to in code provision A.6.4 of the CG Code. No incident of non-compliance with the Model Code by the Company's relevant employees has been noted since listing of our shares on the Hong Kong Stock Exchange to December 31, 2018 and to the date of this announcement after making reasonable enquiry.

Audit Committee and Review of Financial Statements

The Company established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the CG Code. As at the date of this announcement, the Audit Committee consists of three independent non-executive Directors, namely Mr. CHEN Guanglei (chairman), Mr. De-chao Michael YU and Mr. ZHANG Hongjiang (with Mr. CHEN Guanglei possessing the appropriate professional qualifications and accounting and related financial management expertise). The main duties of the Audit Committee are to assist the Board in providing an independent review of the completeness, accuracy and fairness of the financial information of the Group, as well as the efficiency and effectiveness of the Group's operations and internal controls.

The Audit Committee has reviewed the audited financial statements of the Group for the year ended December 31, 2018. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members and the Company's auditor, KPMG, Certified Public Accountants (the "**Auditor**"). Based on this review and discussions with the management and the Auditor, the Audit Committee was satisfied that the Group's audited consolidated financial statements were prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended December 31, 2018.

Scope of Work of the Auditor

The figures contained in respect of our Group's consolidated statement of financial position as at December 31, 2018, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended December 31, 2018 as set out in the preliminary announcement have been agreed by the Auditor, to the amounts set out in the Group's audited consolidated financial statements of our Group for the year ended December 31, 2018. The Auditor performed this work in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" and with reference to Practice Note 730 (Revised) "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The work performed by the Auditor in this respect does not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by the Auditor on this announcement.

Publication of Annual Results Announcement and Annual Report

This annual results announcement is published on the website of the Hong Kong Stock Exchange (*www.hkexnews.hk*) and the website of the Company (*ir.babytree.com*). The annual report of the Company for the year ended December 31, 2018 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and made available on the same websites in due course.

APPRECIATION

On behalf of everyone at BabyTree Group, I would like to express our sincere gratitude to all of our users. I would also like to thank all our employees and management team for demonstrating BabyTree's core values in every day's work, and executing the Group's strategy with professionalism, integrity and dedication. I am also thankful for the continued support and trust from our shareholders and stakeholders. We will strive to provide consolidated high-quality services and products to better serve various needs of young families.

By Order of the Board
BabyTree Group
寶寶樹集團
WANG Huainan
Chairman

Hong Kong, March 27, 2019

As at the date of this announcement, the Board comprises Mr. WANG Huainan and Mr. XU Chong as executive Directors; Mr. CHEN Qiyu, Mr. WANG Changying, Mr. MA Jiangwei, Mr. Christian Franz REITERMANN and Mr. JING Jie as non-executive Directors; and Mr. CHEN Guanglei, Ms. CHEN Danxia, Mr. De-chao Michael YU and Mr. ZHANG Hongjiang as independent non-executive Directors.