

BABYTREE GROUP:
BUYING INTO THIS COMPANY MUST BE
ON THE ASSUMPTION THAT GREAT THINGS ARE IN THE OFFING

The company recorded not a penny of profit, during the past 42 months, and, in respect of the First Half of the 2018 Financial Year, ended June 30, the Net Loss Attributable to Shareholders was, by far, the worst on record since the company was incorporated, about 11 years ago.

The Net Loss Attributable to Shareholders for the six months to June 30, 2018, came in at about 2.18 billion renminbi (about \$HK2.44 billion).

But in spite of all the very material losses, on scanning the Global Offering Prospectus of this company, dated November 15, 2018, it appears to **TARGET** () that this company could well see the shining light of profit for many years to come.

The company, to which this medium is referring, is BabyTree Group () (Code: 1761, Main Board, The Stock Exchange of Hongkong Ltd).

The Initial Public Offering (IPO) Of BabyTree Group

Management of BabyTree Group published and disseminated its 539-page, Global Offering Prospectus on November 15, 2018.

Management Offered a total of 250,323,000, \$US0.0001 Shares at the Indicative Offer Price Per Share, ranging from a low of \$HK6.80 to a high of \$HK8.80.

Investors of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) were Offered 25,032,500 Shares, with the remaining 225,290,500 Shares, being reserved for International Investors – presumably, Institutions, Professionals and/or select, Well-Heeled individuals/corporate entities.

At Pages 331 to 334 of the Global Offering Prospectus, Management stated how it intended to allocate the net proceeds of the IPO.

On the assumption that the Offer Price Per Share was struck at \$HK7.80, being the midpoint of the Indicative Offer Price Range, the Company expected to net about \$HK1,851,400,000 from this cash-raising exercise.

However, last Monday morning (November 26, 2018), the Company announced that the Offer Price Per Share had been struck on the lowest-acceptable price: \$HK6.80.

On the basis of this share price, Management stated that it anticipated netting only \$HK1,608.60 million, about \$HK242.80 million less than had been, originally, anticipated.

This not inconsiderable amount of money is destined to be utilised as follows, Management has stated:

- About, \$HK482.60 million, that is about 30 percent of the net proceeds, are intended to be used for business expansion:
 - *'To expand our user acquisition sources from diversified third-party platforms and extend user outreach via different third-party channels;*
 - *'To improve user engagement by establishing a business intelligence team to analyze user activities to predict user demand, push relevant content and product recommendations to users and increase the accuracy of user rewards plans to improve the efficiency of our marketing efforts.*
 - *'To enter into exclusive cooperations with KOLs (Key Opinion Leaders) influential to generate more high-quality content;*

- *‘To launch new content modules and hire more editorial experts to cover subjects beyond M&C (Maternity and Child), such as fashion, cosmetics, food and cooking, travel and relationships, to improve our penetration rate of young women markets and the engagement of our existing users;*
- *‘To expand our content distribution channels by launching a third-party official WeChat account focusing on the parenting sector;*
- *‘To enhance cooperation with famous institutions to generate exclusive content related to parenting and health;*
- *‘To establish dedicated branches to support our business, including our collaboration with Alibaba, C2M (Consumer to Manufacturer) and WeTime, in Hangzhou and Xiamen, consisting of both operational and technical staff;*
- *‘To offer more attractive compensation packages to incentivize our employees;*
- *‘To support our global expansion strategy by establishing a branch in Southeast Asia, which we believe to be a good starting point of our global expansion where the birth rate is relatively high, user behaviors are similar to the China market and user needs are underserved;*
- *‘To increase outdoor advertising such as billboards and bus body advertising in Beijing and Shanghai;*
- *‘To cooperate with organizations to hold offline marketing activities to extend our user outreach and improve user engagement’; and,*
- *‘To launch marketing and promotion activities on third-party websites to gain additional online user traffic’.*

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