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newborntown

NEWBORN TOWN INC.

赤子城 科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9911)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

The board of directors (the “**Board**”) of Newborn Town Inc. (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2023 (the “**Reporting Period**”). The interim results have been reviewed by the Audit Committee. KPMG’s review report will be included in the interim report to be sent to the Shareholders.

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

FINANCIAL HIGHLIGHTS

- Revenue from contracts with customers for the six months ended 30 June 2023 amounted to RMB1,374.6 million, being largely stable as compared to RMB1,374.2 million recorded for the six months ended 30 June 2022.
- Gross profit for the six months ended 30 June 2023 amounted to RMB706.9 million, representing an increase of 46.5% from RMB482.4 million recorded for the six months ended 30 June 2022.
- Profit for the period for the six months ended 30 June 2023 amounted to RMB302.3 million, representing an increase of 95.8% from RMB154.4 million recorded for the six months ended 30 June 2022.
- Profit attributable to the owners of the Company for the six months ended 30 June 2023 amounted to RMB185.3 million, representing an increase of 124.1% from RMB82.7 million recorded for the six months ended 30 June 2022.
- Adjusted EBITDA for the six months ended 30 June 2023 amounted to RMB347.0 million, representing an increase of 64.9% from RMB210.4 million recorded for the six months ended 30 June 2022.

Six months ended 30 June

	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue from contracts with customers	1,374,558	1,374,210
Gross profit	706,884	482,361
Profit before income tax	312,114	154,094
Profit for the period	302,273	154,374
Basic earnings per share (expressed in RMB per share)	0.16	0.07
Diluted earnings per share (expressed in RMB per share)	0.16	0.07
	<hr/> <hr/>	<hr/> <hr/>
Operating profit	277,468	153,750
Add:		
Share-based compensation expenses ^{(1) (2)}	33,785⁽²⁾	30,565 ⁽¹⁾
Depreciation and amortization	35,740	26,059
	<hr/> <hr/>	<hr/> <hr/>
Adjusted EBITDA	346,993	210,374
	<hr/> <hr/>	<hr/> <hr/>

Notes:

(1) In May 2020 and March 2021, the Board approved the grant of an aggregate of 55,227,573 RSUs and 957,333 RSUs respectively to certain employees and management pursuant to the RSU Schemes. Share-based compensation expenses were recognized based on the vesting period of the RSU Schemes, and amounted to RMB7,576,000 for the six months ended 30 June 2022, tantamount to the economic benefits in relation to the benefit of the certain employees and management obtained from the Company. For further details, please refer to the announcements dated 28 May 2020 and 24 March 2021 of the Company. A subsidiary of the Company has recognized share-based compensation expenses amounting to RMB5,465,000 for the six months ended 30 June 2022.

On 30 August 2021, the Board granted in aggregate 80,000,000 share options to 32 eligible persons. The grant includes performance-based share options to grantees, which are generally vested within 10 years. Share options of each grantee will be vested in four tranches subject to the fulfilment of certain performance targets relating to the Company. The performance targets were determined by the Board. For those awards, evaluations were made on 30 June 2022 to assess the likelihood of meeting the performance targets. Share-based compensation expenses amounting to RMB17,524,000 were recognized for the six months ended 30 June 2022.

(2) In May 2020, March 2021 and March 2023, the Board approved the grant of an aggregate of 55,227,573 RSUs, 957,333 RSUs and 2,441,170 RSUs respectively to certain employees and management pursuant to the RSU Schemes. Share-based compensation expenses were recognized based on the vesting period of the RSU Schemes, and amounted to RMB4,259,000 for the six months ended 30 June 2023, tantamount to the economic benefits in relation to the benefit of the certain employees and management obtained from the Company. For further details, please refer to the announcements dated 28 May 2020, 24 March 2021 and 24 March 2023 of the Company. A subsidiary of the Company has recognized share-based compensation expenses amounting to RMB15,525,000 for the six months ended 30 June 2023.

On 30 August 2021, the Board granted in aggregate 80,000,000 share options to 32 eligible persons. The grant includes performance-based share options to grantees, which are generally vested within 10 years. Share options of each grantee will be vested in four tranches subject to the fulfilment of certain performance targets relating to the Company. The performance targets were determined by the Board. For those awards, evaluations were made on 30 June 2023 to assess the likelihood of meeting the performance targets. Share-based compensation expenses amounting to RMB14,001,000 were recognized for the six months ended 30 June 2023.

BUSINESS HIGHLIGHTS

SIGNIFICANT INCREASE IN PROFIT



Net profit amounted to RMB**302** million increased by **96%** period-on-period



Profit attributable to owners of the Company amounted to RMB**185** million increased by **124%** period-on-period



Adjusted EBITDA amounted to RMB**347** million increased by **65%** period-on-period

CONSTANT ENHANCEMENT OF PRODUCT COMMERCIALISATION AMID HIGH-QUALITY DEVELOPMENT OF SOCIAL NETWORKING BUSINESS

Over **50%** period-on-period growth in gross profit of social networking business

Over **20%** period-on-period growth in revenue in social networking business in the Middle East and North Africa Regions



Significant increase in profit margin



a period-on-period increase of **about 30%** in revenue in the Middle East and North Africa



a period-on-period increase of **over 150%** in revenue



a period-on-period increase of **over 500%** in revenue in the first half of the year

RAPID GROWTH IN INNOVATIVE BUSINESS AND SUCCESSFUL SCALABLE GROWTH REALIZED IN NICHE GAMES

Revenue from innovative business amounted to RMB**131** million

A period-on-period increase by **21.1%**

Mergeland-Alice's Adventure

Featured as a recommended new game on Google Play globally with monthly revenue exceeding US\$**2** million in the second quarter

Launch of three new niche games



MICO

Open social networking platform



YoHo

Audio social networking platform



TopTop

Game-oriented social networking



SUGO

Companion-based social networking platform



Blued

Multi-crowd social networking platform



Mergeland-Alice's Adventure

Niche synthetic mobile game

CHAIRMAN'S STATEMENT

Dear Shareholders,

The year 2023 has proven to be a year of importance for us as we have made some crucial progress in our three core business segments, namely the “pan-audience social networking business”, “the diverse-audience social networking business”, and the “niche game-related innovative business”, enabling us to enter the stage of gaining momentum.

Through the optimisation of operation strategies, our pan-audience social networking business has completed a phased adjustment of its content ecosystem, seeing marked improvements in operational efficiency. The acquisition of BlueCity also marked our official entrance into the social networking realm of diversified user groups worldwide, opening up a trillion-level new space. Meanwhile, we have scaled up the niche game business through continuous refinement and verification, and entered into a new stage of accelerated growth.

After ten years of foray into the global market, Newborn Town has grown into a company dedicated to providing creative and interactive lifestyles, consistently creating positive emotional value, thereby enriching the social networking and entertainment life for the enjoyment of everyone around the world.

This line of business is one that is of high value and spatially vast. We believe the higher-order needs in Maslow's theory of needs, i.e. the spiritual needs such as belongingness, esteem, and self-actualisation, will increasingly thrive as society progresses towards economic development and continuous materialistic enrichment. The social networking, gaming products developed by us, as well as the wider range of products that we may launch in the future, are designed to cater to these common and rigid humanly needs.

At this stage, we are working on the providing of interactive scenes and creative platforms for people to seek out friends and companions, to produce and consume content. Going forward, we will continue to expand our scale, improve our efficiency and create value along the set direction, charting growth in the “global social networking and entertainment” track.

Specifically, by leveraging our key edge of “localisation capabilities”, we will pursue the strategic approach of “product replication” plus “national replication”, whilst striving to cultivate leading products and establish regional advantages in each and every regional market and vertical track, so as to continuously perfecting our global social networking and entertainment ecological layout.

Under the guidance of this strategy, in the first half of the year, all businesses of Newborn Town saw improvements in terms of quality and efficiency, and achieved solid growth in revenue and profit. In the first half of 2023, our total revenue reached RMB1.375 billion, being largely stable as compared to that of the corresponding period of the preceding year, and profit for the period reached RMB302 million, representing a period-on-period increase of 95.8%; Profit attributable to owners of the company was RMB185 million, representing a period-on-period increase of 124.1%, and having doubled in growth; and adjusted EBITDA reached RMB347 million, representing a period-on-period increase of 64.9%. In particular, our social networking business achieved high quality development, with revenue reaching RMB1.243 billion, meanwhile the second growth curve of our innovative business further manifested itself in the revenue for the first half of the year reaching RMB131 million, representing a period-on-period increase of 21.1%.

Apart from market exploration, we also adhere to the principle of ‘Longtermism’ and actively fulfilling social responsibilities. When powerful earthquakes struck Turkey and Syria this February, we donated to local charities and provided channels for fundraising, encouraging users around the globe to lend a helping hand to those affected by such disasters. During the holy month of Ramadan in the Middle East, we launched a series of campaigns such as “Help Cancer Children” for donation to groups of cancer-stricken children, encouraging people to spread the power of kindness and gratitude during Ramadan month. By creating wide ranging job opportunities, we have helped improve the living standards of underprivileged groups in many parts of the world. We are committed to social responsibility and the realisation of ESG values in more than 10 countries around the world.

Moving forward, with pan-audience and diverse-audience social networking businesses as our core, we will step up our efforts in developing our niche game business whilst continuing on such extension beyond borders in order to explore diversified development opportunities in the global market, and endeavor to create products that reign supreme such that users around the world can have their lives enriched by such wonders of social networking and entertainment whilst generating long-term value for our Shareholders.

I hereby present the Company’s financial position and operating highlights for the first half of 2023 and summarise the strategies and outlook of the Company for the second half of 2023.

BUSINESS REVIEW

I. PAN-AUDIENCE SOCIAL NETWORKING BUSINESS: COMPLETION OF THE ADJUSTMENT OF CONTENT ECOSYSTEM AND SIGNIFICANT IMPROVEMENTS IN COMMERCIALIZATION EFFICIENCY

Social networking is our core business, to meet needs of the general user base, we have developed a diverse mix of products that cater to different needs of users, forming a product matrix that includes the live-streaming social networking platform MICO, audio social networking platform YoHo, game-oriented social networking platform TopTop as well as the companion-based social networking platform SUGO, making it to the list of top players among emerging markets such as Middle East and North Africa and Southeast Asia, etc., and makes breakthroughs in developed markets including North America, Japan, and South Korea.

In the first half of 2023, our pan-audience social networking business achieved solid, high-quality growth. As the adjustment of the content ecosystem, the content quality, community stickiness and interactive experience of the platform have all been improved, and the commercialisation efficiency has also increased significantly.

Amongst which, catering to the needs of its users from the Middle East, MICO has made comprehensive upgrades and revamps and provided more opportunities for new needs of the general user base, we have developed a diverse mix of products that cater to different needs of users, forming a product matrix that includes the content creators to showcase their talents. Whilst YoHo has strengthened its content operations by training creators through YoHo Academy to produce quality content more aligned with Muslim culture. TopTop has further revitalised its community ecosystem via enriching localised activities, thereby having significantly increased its user base and product awareness. While SUGO, the companion-based social networking platform, has mainly focused on optimising its matching and recommendation efficiency, having secured, among similar products overseas, the top spot in terms of growth rate, with revenue for the first half of the year having increased over five-fold period-on-period.

Three of our products were listed among the top 30 Chinese non-game overseas applications in terms of revenue, making Newborn Town the top social networking and entertainment enterprise by number of products named in the list. Such was achieved through the diversification of our pan-audience social networking business through multi-faceted initiatives.

The continuous and rapid growth of our social networking business is attributable to the Company's strategy of "Multiple Products, Multiple Markets", and the continuous improvement of the global social networking and entertainment ecosystem through "Product Replication" and "National Replication".

The past ten years of globalization efforts in digging into users' needs have enabled Newborn Town to form a set of reusable R&D systems, which helped us quickly develop and iterate products and constantly enrich our product matrix. Meanwhile, we have accumulated mature localised operational methodologies and a wealth of local resources. These reusable knowledge, teams and resources have enabled the launching and growth of our products in each market and continue on the expansion path. As our first social networking app, MICO is an excellent example as it has outstretched its footprints in many countries, with subsequent products being effectively launched following Mico's footsteps as a result of the Company's replication strategy.

Overall, the Company's pan-audience social networking business has achieved solid and quality growth in the first half of the year. Matured products have accomplished the expected goals, having completed the adjustment of the content ecosystem; meanwhile high potential products realised rapid growth and showing potential and room for it. The Company is confident that it will roll out more quality social networking products for the general public, and achieve success in more countries and regions in the future.

II. DIVERSE-AUDIENCE SOCIAL NETWORKING BUSINESS: GIVE FULL PLAY TO OPERATIONAL ADVANTAGES AND UNLEASH OVERSEAS POTENTIAL

Since last year, Newborn Town has started to explore the social networking realm that targets diversified user groups. This August, the Company completed the acquisition of Chizicheng Strategy Investment and its subsidiaries, and BlueCity's flagship products like Blued and Finka were incorporated into our globalized social networking products matrix, further expanding the boundaries of our social networking business landscape, marking our official entrance to the diverse-audience social networking business.

During the year, Blued has achieved dramatic growth in its overseas operation and commercialisation capabilities via a series of optimisation approaches adopted by Newborn Town on customer acquisition model, monetisation scenes, and localised operations. The Company sets its sights on penetrating the Southeast Asia markets, whilst actively expanding its reach into the developed markets like North America, Japan, and South Korea.

We have also attached great importance to Blued's community operation, KOL operation, and brand promotion efforts in overseas market. By strengthening the content and operation management and optimising the community ecosystem, we hope to turn such product into a content-rich social networking platform, thereby setting up a higher barrier for competition among comparable products.

Next up, through continuous product iteration and deepening of localised operations, we will significantly improve the growth rate, user retention, and operational efficiency of our social networking business for multiple demographics, continue to strengthen the competitive advantage of our products on the LGBTQ+ track, and help further expand the scale of our global social business and commercialisation.

III. INNOVATIVE BUSINESS: LARGE-SCALE GROWTH ACHIEVED AND THREE NICHE GAMES LAUNCHED

In addition to the high-quality growth achieved in social networking business, we have been actively developing our innovative business, laying out and cultivating niche games and other business directions, and progress has been smooth so far. In the first half of the year, the growth model of our niche games has been further verified, with three new products of high potential have been developed.

Currently, the core products of our niche game business are our self-developed casual merge mobile games, the “Mergeland” series, which comes recommended by Google Play globally for its unique gameplay, rich thematic activities and exquisite artistic scenes. Notably, the monthly revenue of “Mergeland-Alice’s Adventure” has exceeded US\$2 million in April.

At the same time, our team is continuing to develop more games and diverse content. It has incubated many niche games in the likes of merge mobile game “Taylor’s Secret”, “Merge Cove” and the logic puzzle game “Sudoku”, development of which is progressing smoothly. And “Sudoku” was ranked among the top 3 in the list of newly released U.S. medium-sized new casual games in June by data.ai.

In addition, the Company is also closely eyeing the AIGC field. From the second half of last year till now, we have been continually exploring the deep integration of AIGC technology with our businesses as AIGC has been making waves in the social networking entertainment scene. In various social networking scenarios such as audio and video socialisation, we are committed to actively seeking more diversified ways of AIGC+X application by creating different AI-driven roles to be applied to various gameplay and scenarios of our products, bringing users more interactive experiences and companionship.

STRATEGY AND OUTLOOK

I. STRIVE FOR THE MIDDLE EAST MARKET AND CREATE A SOCIAL ENTERTAINMENT ECOSYSTEM THROUGH PRODUCT REPLICATION

In the second half of 2023, the Company will continue upholding its strategies for quality growth in each business segment and improving its operational efficiency, aligning with our essential business goals. As for the pan-audience social networking business, we will enhance the investment and further explore the space for growth regarding social networking and entertainment in Middle East and North Africa.

Over the past few years, the Company has accumulated extensive experience in the Middle East market, and established deep connections with local content creators and institutions. With these advantages, we will continue consolidating MICO’s leading position in the Middle East, accelerating the growth of YoHo, TopTop, SUGO and others in the Middle East market, expanding market share, and seeking more diversified commercialisation methods.

Simultaneously, we will further enhance the localised operational capabilities by deepening cooperation with local content creators in the Middle East to jointly create content that finds favour with user groups in the Middle East, while strengthening close collaboration with partners in the Middle East to continuously enhance the brand influence of products in the Middle East market. These efforts will consolidate the leading position of the Company's pan-audience social networking business in the core market, thereby maximizing profits.

In addition, we will further improve our "national replication" capabilities, by increasing our products' penetration rate in multiple markets and continue on our exploration endeavours in various regions worldwide, while intensifying our efforts in the advantageous market. We will continue to improve on our "product replication" capabilities, so as to incubate more social networking products that meet the different needs of users, which will continue to improve the global social networking entertainment ecosystem.

II. STRIVE TO PROMOTE MULTIPLE DEMOGRAPHIC SOCIAL NETWORKING AND EXPANDING MARKET SHARE THROUGH NATIONAL REPLICATION

Frost & Sullivan, a market research institution, estimates that, by 2023, the global diverse audience is expected to grow to 591 million and the market for global diverse audiences is expected to reach US\$5.4 trillion with a CAGR of 7% with the diverse demographic having demonstrated considerable spending power.

Currently, the penetration rate of social networking products for various diverse demographic remains at a low worldwide, and with there being still much room for growth in regional markets like Southeast Asia, Japan, South Korea, Europe, and the United States, indicating that Newborn Town still has a fairly wide berth in exploring such realms of business.

We will continue to explore the value that lies in the diverse-audience social networking track by proactively developing our diverse-audience social networking business. While selecting and intensifying our efforts in target markets suitable for the growth and penetration of Blued and other products, we aim to gradually complete presence and coverage of Blued and other diverse-audience social networking products in multiple markets, expand their market shares, and, simultaneously, improve their efficiency of customer acquisition, operation, and monetization in markets outside China under the "national replication" strategy, thereby realizing rapid and sustained growth in both revenue and profit in our diverse-audience social networking business.

III. WORK ON NICHE GAMES AND CULTIVATE LONG-CYCLE PRODUCTS THROUGH PRODUCT REPLICATION

We will committedly invest in the niche game-related innovative business and increase the scale of its revenue so derived, and strive to transform this business segment into the Company's growth driver and innovation hub for the Company in the next decade.

Based on this goal, we will continue to expand the game R&D team, further enrich the gameplay of existing game products, optimise the gaming experience, and continue to develop and incubate more high-quality games that can be operated for 5 years or reaching even more than 10 years through our "product replication" capabilities. We will further improve the monetisation capabilities of the niche game business to cultivate new long-cycle niche games for the Company.

We will further explore the possibility of such integration of the game business and social networking business by providing more diversified services and meeting users' different social networking and entertainment needs whilst generating more cash flow and profits. Besides, we will also focus on expanding our business boundaries and exploring more innovation fields such as AIGC.

We will also look for more quality cooperation opportunities and extending our reach to more vertical and specific business tracks to meet different social and entertainment needs via multiple dimensions, further scaling up businesses and invigorating the Company's development.

In addition, we will continue to strengthen our branding and pay attention to resources connection in various locations. We will also actively fulfill corporate social responsibility while enhancing the global brand influence to extend new business and social values.

“Globalisation” as envisioned by Newborn Town, means maintaining a foothold in the world and allocating resources globally to enhance efficiency. At present, we are continuing on our efforts in vigorously developing our technologies, products, and services in the hopes of enabling everyone around the world, as far as our capability goes, to enjoy better lives in both the realms of reality and spiritual entertainment.

We are confident in achieving this goal. As a “born global” company, Newborn Town's strategy regarding “global replication” is being verified by both the times and the market. Moving forward, we will continue to focus on the “pan-audience social networking business”, the “diverse-audience social networking business”, and the “niche game-related innovative business” by applying this strategy to accelerate the Company's globalisation process. Meanwhile, we will continually adhere to the principle of “Longtermism”, and having our sights trained on new technology and new opportunities in the hopes of seeking higher quality, more sustainable, and more diversified growth so as to provide higher quality and meaningful products and services to global users and creating long-run return for Shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

Our total revenue from contracts with customers for the six months ended 30 June 2023 amounted to RMB1,374.6 million, being largely stable as compared to RMB1,374.2 million recorded for the six months ended 30 June 2022. The following table sets forth a breakdown of our revenue by segments for the periods indicated:

	Six months ended 30 June				YoY Change
	2023		2022		
	RMB'000 (unaudited)	% of Total revenue (unaudited)	RMB'000 (unaudited)	% of Total revenue (unaudited)	
Social networking business	1,243,450	90.5	1,265,945	92.1	-1.8%
Innovative business	131,108	9.5	108,265	7.9	21.1%
Total	1,374,558	100.0	1,374,210	100.0	0.0%

The revenue from social networking business for the six months ended 30 June 2023 was RMB1,243.5 million, a decrease of 1.8% from RMB1,265.9 million for the six months ended 30 June 2022, mainly due to the impact of the adjustments to the social networking content ecosystem which helped the Company achieve profit margin improvement in the social networking business in the main markets and further release the profitability.

The revenue from innovative business for the six months ended 30 June 2023, was RMB131.1 million, representing an increase of 21.1% from RMB108.3 million for the six months ended 30 June 2022, mainly due to the steady development of the innovative business of the group.

COST OF REVENUE

Our cost of revenue for the six months ended 30 June 2023 was RMB667.7 million, representing a decrease of 25.1% from RMB891.8 million for the six month ended 30 June 2022. The following table sets forth a breakdown of our cost of revenue by nature for the periods indicated:

	Six months ended 30 June 2023		2022		YoY Change
	<i>RMB'000</i> <i>(unaudited)</i>	<i>% of</i> <i>Total</i> <i>revenue</i> <i>(unaudited)</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>% of</i> <i>Total</i> <i>revenue</i> <i>(unaudited)</i>	
Revenue sharing to streamers	398,152	29.0	625,095	45.5	-36.3%
Payment handling costs	114,615	8.3	125,686	9.1	-8.8%
Employee benefit expense	53,897	3.9	54,137	3.9	-0.4%
Depreciation and amortisation	29,653	2.2	23,566	1.7	25.8%
Server capacity expense	27,614	2.0	31,509	2.3	-12.4%
Share-based compensation expenses	17,170	1.2	12,772	0.9	34.4%
Technical and other service fee	12,560	0.9	10,772	0.8	16.6%
Others	14,013	1.0	8,312	0.6	68.6%
Total	667,674	48.5	891,849	64.8	-25.1%

The following table sets forth a breakdown of our cost of revenue by segments for the periods indicated:

	Six months ended 30 June 2023		2022		YoY Change
	<i>RMB'000</i> <i>(unaudited)</i>	<i>%</i> <i>(unaudited)</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>%</i> <i>(unaudited)</i>	
Social networking business	649,454	97.3	875,030	98.1	-25.8%
Innovative business	18,220	2.7	16,819	1.9	8.3%
Total	667,674	100.0	891,849	100.0	-25.1%

The cost of revenue for the six months ended 30 June 2023 was significantly lower than the amount for the same period ended 2022, primarily due to our effective adjustments to the social content ecosystem to drive cost reduction and improve benefit.

The cost of revenue for the social networking business for the six months ended 30 June 2023 was RMB649.5 million, representing a decrease of 25.8% from RMB875.0 million for the six months ended 30 June 2022, mainly due to lower revenue sharing to streamers related to the social networking business.

The cost of revenue for the innovative business for the six months ended 30 June 2023 was RMB18.2 million, representing an increase of 8.3% from RMB16.8 million for the six months ended 30 June 2022, mainly due to the increased cost of the Company's innovation business, coupled with the rise in revenue.

GROSS PROFIT AND GROSS PROFIT MARGIN

The following table sets forth the gross profit and gross profit margin for the periods indicated:

	Six months ended 30 June						YoY Chang in gross profit
	2023		2022		Gross Profit margin (unaudited)		
	<i>Gross Profit (unaudited)</i>	<i>% (unaudited)</i>	<i>Gross Profit margin (unaudited)</i>	<i>Gross profit (unaudited)</i>		<i>% (unaudited)</i>	
	<i>(RMB'000, except percentages)</i>						
Social networking business	593,996	84.0	47.8%	390,915	81.0	30.9%	52.0%
Innovative business	112,888	16.0	86.1%	91,446	19.0	84.5%	23.4%
Total	<u>706,884</u>	<u>100.0</u>	<u>51.4%</u>	<u>482,361</u>	<u>100.0</u>	<u>35.1%</u>	<u>46.5%</u>

Our gross profit for the six months ended 30 June 2023 was RMB706.9 million, representing an increase of 46.5% from RMB482.4 million for the six months ended 30 June 2022. The gross profit of the social networking business increased from RMB390.9 million for the six months ended 30 June 2022 to RMB594.0 million for the six months ended 30 June 2023, mainly due to the effective adjustment of the content ecosystem of the Group's social networking products, which improved the Group's operating efficiency. The gross profit from innovative business increased from RMB91.4 million for the six months ended 30 June 2022 to RMB112.9 million for the six months ended 30 June 2023, mainly due to the steady development of the innovative business.

Our gross profit margin increased from 35.1% for the six months ended 30 June 2022 to 51.4% for the six months ended 30 June 2023. The gross margin of the social networking business increased from 30.9% for the six months ended 30 June 2022 to 47.8% for the six months ended 30 June 2023, mainly due to the impact of the adjustments to the social networking content ecosystem. The gross margin of the innovative business increased from 84.5% for the six months ended 30 June 2022 to 86.1% for the six months ended 30 June 2023.

SELLING AND MARKETING EXPENSES

For the six months ended 30 June 2023, our selling and marketing expenses increased by 24.0% to RMB246.6 million as compared to RMB198.8 million for the six months ended 30 June 2022, primarily due to intensified efforts to promote our innovative business.

RESEARCH AND DEVELOPMENT EXPENSES

For the six months ended 30 June 2023, our research and development expenses increased by 49.8% to RMB136.5 million from RMB91.1 million for the six months ended 30 June 2022, primarily due to the increase in employee benefit expenses.

GENERAL AND ADMINISTRATIVE EXPENSES

For the six months ended 30 June 2023, our general and administrative expenses increased by 63.4% to RMB83.5 million as compared to RMB51.1 million for the six months ended 30 June 2022, primarily due to an increase in employee benefit expenses and in consultancy and professional service fee.

OPERATING PROFIT

For the six months ended 30 June 2023, our operating profit increased by 80.4% to RMB277.5 million as compared to RMB153.8 million for the six months ended 30 June 2022, primarily due to (i) an increase of RMB224.5 million in our gross profit; (ii) an increase of RMB47.8 million in our selling and marketing expenses; (iii) an increase of RMB45.4 million in our research and development expenses; (iv) an increase of RMB25.4 million in other net gains; and (v) an increase of RMB32.4 million in our general and administrative expenses.

FINANCE COST/(INCOME), NET

For the six months ended 30 June 2023, we recorded a net finance cost of RMB0.2 million as compared to a net finance income of RMB0.5 million for the six months ended 30 June 2022.

INCOME TAX EXPENSES/(CREDITS)

For the six months ended 30 June 2023, we recorded income tax expenses of RMB9.8 million as compared to the income tax credits of RMB0.3 million for the six months ended 30 June 2022.

PROFIT FOR THE PERIOD

As a result of the foregoing, our profit for the period increased by 95.8% to RMB302.3 million for the six months ended 30 June 2023 as compared to RMB154.4 million for the six months ended 30 June 2022.

NON-IFRS MEASURES

To supplement our consolidated statement of comprehensive income, which is presented in accordance with IFRS, we also use adjusted EBITDA as additional financial measure, which is not required by, or presented in accordance with IFRS. We believe that this non-IFRS measure helps our investors to identify underlying trends in our business and provides useful information to our investors in understanding and evaluating our results of operation by eliminating potential impacts of items that our management does not consider to be indicative of our operating performance, which is in the same manner as the action of our management when comparing financial results across accounting periods. We also believe that this non-IFRS measure provides useful information about our operating results, enhances the overall understanding of our past performance and future prospects and allows for greater visibility with respect to key metrics used by our management in its financial and operational decision-making.

We define adjusted EBITDA as operating profit adjusted by share-based compensation expenses, depreciation and amortization. When assessing our operating and financial performance, you should not consider adjusted EBITDA in isolation from or as a substitute for our financial performance or financial position as reported in accordance with IFRS. The term adjusted EBITDA is not defined under IFRS, and such term may not be comparable to other similarly titled measures used by other companies.

The following tables set forth the reconciliation of our non-IFRS financial measure for the periods indicated, to the nearest measures prepared in accordance with IFRS:

	Six months ended 30 June	
	2023 <i>RMB'000</i> <i>(unaudited)</i>	2022 <i>RMB'000</i> <i>(unaudited)</i>
Operating profit	277,468	153,750
<i>Add:</i>		
Share-based compensation expenses ⁽¹⁾⁽²⁾	33,785⁽²⁾	30,565 ⁽¹⁾
Depreciation and amortization	35,740	26,059
Adjusted EBITDA	<u>346,993</u>	<u>210,374</u>
 Adjusted EBITDA growth	 64.9%	 19.5%

Notes:

(1) In May 2020 and March 2021, the Board approved the grant of an aggregate of 55,227,573 RSUs and 957,333 RSUs respectively to certain employees and management pursuant to the RSU Schemes. Share-based compensation expenses were recognized based on the vesting period of the RSU Schemes, and amounted to RMB7,576,000 for the six months ended 30 June 2022, tantamount to the economic benefits in relation to the benefit of the certain employees and management obtained from the Company. For further details, please refer to the announcements dated 28 May 2020 and 24 March 2021 of the Company. A subsidiary of the Company has recognized share-based compensation expenses amounting to RMB5,465,000 for the six months ended 30 June 2022.

On 30 August 2021, the Board granted in aggregate 80,000,000 share options to 32 eligible persons. The grant includes performance-based share options to grantees, which are generally vested within 10 years. Share options of each grantee will be vested in four tranches subject to the fulfilment of certain performance targets relating to the Company. The performance targets were determined by the Board. For those awards, evaluations were made on 30 June 2022 to assess the likelihood of meeting the performance targets. Share-based compensation expenses amounting to RMB17,524,000 were recognized for the six months ended 30 June 2022.

(2) In May 2020, March 2021 and March 2023, the Board approved the grant of an aggregate of 55,227,573 RSUs, 957,333 RSUs and 2,441,170 RSUs respectively to certain employees and management pursuant to the RSU Schemes. Share-based compensation expenses were recognized based on the vesting period of the RSU Schemes, and amounted to RMB4,259,000 for the six months ended 30 June 2023, tantamount to the economic benefits in relation to the benefit of the certain employees and management obtained from the Company. For further details, please refer to the announcements dated 28 May 2020, 24 March 2021 and 24 March 2023 of the Company. A subsidiary of the Company has recognized share-based compensation expenses amounting to RMB15,525,000 for the six months ended 30 June 2023.

On 30 August 2021, the Board granted in aggregate 80,000,000 share options to 32 eligible persons. The grant includes performance-based share options to grantees, which are generally vested within 10 years. Share options of each grantee will be vested in four tranches subject to the fulfilment of certain performance targets relating to the Company. The performance targets were determined by the Board. For those awards, evaluations were made on 30 June 2023 to assess the likelihood of meeting the performance targets. Share-based compensation expenses amounting to RMB14,001,000 were recognized for the six months ended 30 June 2023.

CAPITAL STRUCTURE

We continued to maintain a healthy and sound financial position. Our total assets increased from RMB1,720.2 million as at 31 December 2022 to RMB1,897.8 million as at 30 June 2023, while our total liabilities decreased from RMB482.2 million as at 31 December 2022 to RMB431.1 million as at 30 June 2023. Liabilities-to-assets ratio decreased from 28.0% as at 31 December 2022 to 22.7% as at 30 June 2023.

FINANCIAL RESOURCES AND OPERATING CASH FLOW

We funded our cash requirement principally from capital contribution from Shareholders and cash generated from our operations.

As at 30 June 2023, our cash and cash equivalents were RMB774.9 million, compared with RMB596.7 million as at 31 December 2022.

Compared with RMB80.9 million for the six months ended 30 June 2022, the cash generated from operations for the six months ended 30 June 2023 increased to RMB181.9 million.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

To preserve funds for future capital expenditure and new business opportunities, we continue to invest surplus cash in commercial bank wealth management products and funds issued by major and reputable financial institutions, which generate relatively low risk income for us. We recognize such investments as financial assets measured at fair value through profit or loss of current portion and manage such investments in accordance with our internal policies as disclosed in the Prospectus. As at 30 June 2023, the fair value of such investments decreased to RMB37.7 million, compared with RMB149.4 million as at 31 December 2022. Such decrease was primarily due to the maturity of our investments.

CAPITAL EXPENDITURE

For the six months ended 30 June 2023, our capital expenditure primarily consisted of expenditures on property and equipment, including purchases of computers and other office equipment. The capital expenditures for the six months ended 30 June 2023 were RMB3.5 million, representing an increase of RMB0.4 million from RMB3.1 million for the six months ended 30 June 2022.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

We did not have any investment, acquisition or disposal of subsidiaries, associates and joint ventures during the six months ended 30 June 2023.

PLEDGE OF ASSETS

As at 30 June 2023, we did not pledge any of our assets.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

We intend to pursue strategic investment or acquire businesses with an expectation to creating synergies with our own business. We aim to target companies that have competitive strengths in technology, data and other areas or participants in the upstream and downstream industries. We intend to use the cash generated from our operating activities to fund such investment or acquisition.

CONTINGENT LIABILITIES

As at 30 June 2023, we did not have any material contingent liabilities.

FOREIGN EXCHANGE RISK MANAGEMENT

We operate our business internationally and our major receipts and payments are denominated in the U.S. dollar. We are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar and the Hong Kong dollar. Therefore, foreign exchange risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the respective functional currency of our Group's entities. We managed foreign exchange risk by performing regular reviews of our foreign exchange exposures. We did not hedge against any fluctuations in foreign currency during the six months ended 30 June 2023.

OTHER PRINCIPAL RISKS AND UNCERTAINTIES

Our operations and future financial results could be materially and adversely affected by various risks. The following highlights the principal risks the Group is susceptible to and is not meant to be exhaustive:

- We face competition in the rapidly evolving industry and we may not be able to keep continuous research and development and innovation, and may not be able to compete successfully against our existing and future competitors.
- If the mobile internet industry fails to continue to develop, our profitability and prospects may be materially and adversely affected.
- Any failure to retain existing advertisers and media publishers or attract new advertisers and media publishers may negatively impact our revenue and business.
- We may be held liable for information or content displayed on, distributed by or linked to our mobile apps and may suffer a loss of users and damage to our reputation.
- Misappropriation or misuse of privacy information and failure to comply with laws and regulations on data protection, including the General Data Protection Regulation, could result in claims, changes to our business practices, monetary penalties, increased cost of operations, or declines in users and customers, or otherwise harm our business.

- If we fail to prevent security breaches, cyber-attacks or other unauthorized access to our systems or our users' data, we may be exposed to significant consequences, including legal and financial exposure and loss of users, and our reputation.

EVENT OCCURRING AFTER THE REPORTING PERIOD

On 2 August 2023, the major and connected transactions between the Company and Spriver, namely the acquisition of Chizicheng Strategy Investment by the Company (the “**Acquisition**”), was completed. Upon completion of the Acquisition, the results of Chizicheng Strategy Investment, Metaclass Management ELP (“**Metaclass**”) and the companies held by Metaclass, including Multelements Limited (“**Multelements**”), which is held as to 78.9% directly by Metaclass, Land of Glory Ltd., which is held as to 78.9% directly by the Metaclass, and BlueCity, which is held as to 100% directly by Multelements, will be consolidated into the consolidated financial statements of the Group. For further details, please refer to the announcements of the Company dated 23 March 2023, 26 June 2023 and 2 August 2023, the circular of the Company dated 30 June 2023 and the poll results announcement of the Company dated 19 July 2023.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the six months ended 30 June 2023, neither the Company nor any member of the Group has purchased, sold or redeemed any of the Company's listed securities as of the date of the announcement.

SHARE PURCHASE PURSUANT TO RSU AWARD SCHEME

The details of Shares purchased by Three D Partners Limited pursuant to RSU Award Scheme during the Reporting Period are as follows:

Total number of Shares purchased: 15,794,000

Percentage of the Shares purchased to the existing total number of Shares in issue: Approximately 1.33%

Average consideration per Share: Approximately HK\$1.60

Total consideration of Shares purchased: Approximately HK\$25,276,260.00

For further details, please refer to the announcements dated 28 April 2023, 5 May 2023, 12 May 2023, 19 May 2023, 25 May 2023, 2 June 2023, 9 June 2023, 16 June 2023, 23 June 2023 and 30 June 2023 of the Company.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2023, we had a total of 826 full-time employees, mainly based in Beijing, Shenzhen, Jinan, Chengdu and Hainan. Among all employees, 459 of them are in R&D department, representing 55.6% of the total fulltime employees. The number of employees employed by the Group varies from time to time depending on needs, and employees are remunerated with reference to market conditions and individual employees' performance, qualification and experience.

With a view to nurturing and retaining talents, the Group has formulated systematic recruitment procedures and offered competitive benefits and training opportunities. The remuneration policy and overall package of the employees are periodically reviewed by the Group. Employees will be rated according to their appraisals, which in turn affect the performance bonus and share awards.

AUDIT COMMITTEE

The Company has established an Audit Committee in accordance with the Corporate Governance Code and set out its terms of reference in writing. As at the date of this announcement, the Audit Committee consists of three independent non-executive Directors, namely Mr. Chi Shujin, Mr. Gao Ming and Mr. Huang Sichen. Mr. Chi Shujin is the Chairman of the Audit Committee. The Audit Committee of the Company has reviewed the Group's interim results for the half year ended 30 June 2023.

CORPORATE GOVERNANCE PRACTICES

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 adopted the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "**Corporate Governance Code**"). The Corporate Governance Code has been applicable to the Company with effect from the Listing Date.

The Board currently comprises four executive Directors and three independent non-executive Directors and therefore has a fairly strong independence element in its composition. The Board will review the current structure from time to time and shall make necessary changes when appropriate and inform the Shareholders accordingly.

The Company has complied with the principles and code provisions as set out in the Corporate Governance Code during the Reporting Period.

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

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 its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he has complied with the required standards as set out in the Model Code during the Reporting Period.

INTERIM DIVIDEND

The Board has resolved that the interim dividend for the six months ended 30 June 2023 would not be declared.

PUBLICATION OF 2023 INTERIM RESULTS AND INTERIM REPORT

This interim results announcement will be published on the Stock Exchange's website www.hkexnews.hk and the Company's website www.newborntown.com. The interim report of the Company for the six months ended 30 June 2023 will be dispatched to shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in September 2023.

FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2023-unaudited
(Expressed in Renminbi (“RMB”))

		Six months ended 30 June	
	<i>Note</i>	2023	2022
		RMB'000	RMB'000
Revenue from contracts with customers	4	1,374,558	1,374,210
Cost of revenue	5	(667,674)	(891,849)
Gross profit		706,884	482,361
Selling and marketing expenses	5	(246,612)	(198,820)
Research and development expenses	5	(136,481)	(91,059)
General and administrative expenses	5	(83,467)	(51,117)
Net impairment losses on financial assets		(982)	(235)
Other income		1,139	1,009
Other gain, net		36,987	11,611
Operating profit		277,468	153,750
Finance income		2,363	630
Finance cost		(2,538)	(124)
Finance (cost)/income, net		(175)	506
Share of net gain/(loss) of associates accounted for using the equity method		34,821	(162)
Profit before income tax		312,114	154,094
Income tax (expenses)/credits	6	(9,841)	280
Profit for the period		302,273	154,374
Profit attributable to:			
Owners of the Company		185,302	82,705
Non-controlling interests		116,971	71,669
Other comprehensive (loss)/income, net of tax			
Items that will not be reclassified to profit or loss			
Currency translation differences		(5,507)	4,299
Items that maybe subsequently reclassified to profit or loss			
Currency translation differences		(5,466)	12,768
Share of other comprehensive income of investments accounted for using the equity method		26,284	–
Total comprehensive income for the period		317,584	171,441
Total comprehensive income attributable to:			
Owners of the Company		212,300	102,531
Non-controlling interests		105,284	68,910
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
Basic earnings per share	7.1	0.16	0.07
Diluted earnings per share	7.2	0.16	0.07

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

as at 30 June 2023-unaudited

(Expressed in RMB)

	<i>Note</i>	30 June 2023 RMB'000	31 December 2022 RMB'000
ASSETS			
Non-current assets			
Property and equipment		113,012	122,155
Intangible assets		165,245	185,635
Goodwill		197,287	197,287
Financial assets measured at fair value through profit or loss		38,226	38,226
Investments accounted for using the equity method		253,121	176,051
Other receivable		23,049	22,812
Deferred tax assets		715	224
Other non-current assets		–	1,210
Total non-current assets		790,655	743,600
Current assets			
Other current assets		7,295	7,445
Accounts receivable	9	175,120	164,877
Other receivable		110,832	56,893
Financial assets measured at fair value through profit or loss		37,723	149,401
Cash and cash equivalents		774,894	596,729
Restricted bank deposits		1,320	1,272
Total current assets		1,107,184	976,617
Total assets		1,897,839	1,720,217
LIABILITIES			
Non-current liabilities			
Lease liabilities		74,771	86,244
Deferred tax liabilities		44,118	46,889
Total non-current liabilities		118,889	133,133

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

as at 30 June 2023-unaudited

(Expressed in RMB)

		30 June 2023 RMB'000	31 December 2022 RMB'000
Current liabilities			
Accounts payable	<i>10</i>	132,305	189,739
Contract liabilities		24,415	18,089
Tax payable		13,103	4,934
Bank overdraft		60	67
Lease liabilities		24,016	25,879
Other payable		118,315	110,366
		<hr/>	<hr/>
Total current liabilities		312,214	349,074
		<hr/>	<hr/>
Total liabilities		431,103	482,207
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to the owners of the Company			
Share capital		818	818
Share premium		669,523	669,523
Treasury shares		(35,363)	(12,719)
Other reserves		133,154	80,636
Retained earnings/(Accumulated losses)		154,866	(30,436)
		<hr/>	<hr/>
		922,998	707,822
		<hr/>	<hr/>
Non-controlling interests		543,738	530,188
		<hr/>	<hr/>
Total equity		1,466,736	1,238,010
		<hr/>	<hr/>
Total liabilities and equity		1,897,839	1,720,217
		<hr/> <hr/>	<hr/> <hr/>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2023-unaudited
(Expressed in RMB)

	Attributable to owners of the Company					Sub-total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Treasury Shares RMB'000	Other reserves RMB'000	Retained earnings/ losses RMB'000			
Balance at 1 January 2022	759	387,156	–	248,046	(159,158)	476,803	363,291	840,094
Profit for the period	–	–	–	–	82,705	82,705	71,669	154,374
Other comprehensive income/(loss)	–	–	–	19,826	–	19,826	(2,759)	17,067
Total comprehensive income	–	–	–	19,826	82,705	102,531	68,910	171,441
Transaction with owners:								
Issuance of shares upon placement	59	282,367	–	–	–	282,426	–	282,426
Share-based compensation expenses	–	–	–	26,691	–	26,691	4,558	31,249
Purchase of own shares	–	–	(12,719)	–	–	(12,719)	–	(12,719)
Balance at 30 June 2022	<u>818</u>	<u>669,523</u>	<u>(12,719)</u>	<u>294,563</u>	<u>(76,453)</u>	<u>875,732</u>	<u>436,759</u>	<u>1,312,491</u>
Balance at 1 January 2023	818	669,523	(12,719)	80,636	(30,436)	707,822	530,188	1,238,010
Profit for the period	–	–	–	–	185,302	185,302	116,971	302,273
Other comprehensive income/(loss)	–	–	–	26,998	–	26,998	(11,687)	15,311
Total comprehensive income	–	–	–	26,998	185,302	212,300	105,284	317,584
Transaction with owners:								
Share-based compensation expenses	–	–	–	25,520	–	25,520	8,265	33,785
Purchase of own shares	–	–	(22,644)	–	–	(22,644)	–	(22,644)
Transaction with non-controlling interests	–	–	–	–	–	–	(99,999)	(99,999)
Balance at 30 June 2023	<u>818</u>	<u>669,523</u>	<u>(35,363)</u>	<u>133,154</u>	<u>154,866</u>	<u>922,998</u>	<u>543,738</u>	<u>1,466,736</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2023-unaudited

(Expressed in RMB)

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	181,862	80,858
Payment of income tax	(4,981)	(2)
	<u>176,881</u>	<u>80,856</u>
Net cash inflow from operating activities		
Cash flows from investing activities		
Purchase of Wealth Management Products (“WMP”) measured at fair value through profit or loss	(1,380,128)	(119,931)
Maturity of WMPs measured at fair value through profit or loss	1,494,626	153,373
Prepayment for investment in equity interest of a private company measured at fair value through profit or loss	–	(6,500)
Investments accounted for using the equity method	(4,085)	–
Purchase of property and equipment	(3,478)	(3,112)
Loans to other parties	(5,450)	(1,160)
Proceeds of loans repayments from third parties	–	6,000
	<u>101,485</u>	<u>28,670</u>
Net cash inflow from investing activities		
Cash flows from financing activities		
Issuance of shares upon placement	–	285,567
Transaction costs relating to issuance of shares upon placement	–	(3,141)
Repayment of lease liabilities (including interest paid)	(15,885)	(4,545)
Purchase of own shares	(22,644)	(12,719)
Transactions with non-controlling interests	(99,999)	(395,217)
	<u>(138,528)</u>	<u>(130,055)</u>
Net cash outflow from financing activities		
Net increase/(decrease) in cash and cash equivalents	139,838	(20,529)
Cash and cash equivalents at beginning of period	596,662	724,556
Effects of exchange rate changes on cash and cash equivalents	38,334	33,883
	<u>774,834</u>	<u>737,910</u>
Cash and cash equivalents at end of period		
Including:		
Cash and cash equivalents	774,894	737,951
Bank overdraft	(60)	(41)

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

Newborn Town Inc. (the “Company”) was incorporated in the Cayman Islands on 12 September 2018 as an exempted company with limited liability under the Companies Act, Cap. 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company’s registered office is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together referred as the “Group”) are principally engaged in providing social networking business (mainly through social networking apps such as MICO, Yummy and YoHo), and innovative business (mainly through niche games and casual games).

Mr. Liu Chunhe, Mr. Li Ping and Mr. Ye Chunjian are the founders of the Group.

The interim condensed consolidated financial information comprises the interim condensed consolidated balance sheet as at 30 June 2023, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six months ended 30 June 2023, and a summary of significant accounting policies and other explanatory notes (the “Interim Financial Information”). The Interim Financial Information is presented in RMB, unless otherwise stated.

2 BASIS OF PREPARATION

The Interim Financial Information has been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim financial reporting”, issued by the International Accounting Standards Board (“IASB”).

The Interim Financial Information does not include all the notes of the type normally included in annual financial statements. Accordingly, it should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2022, which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), as set out in the 2022 annual report of the Group (the “2022 Financial Statements”).

The Interim Financial Information has been prepared under the historical cost convention, as modified by the revaluation of financial instruments measured at fair value through profit and loss (“FVPL”).

Except as described below, the accounting policies applied in the preparation of the Interim Financial Information are consistent with those used in the preparation of the 2022 Financial Statements.

The following amended and revised standards are mandatory for the first time for the Group’s financial year beginning on 1 January 2023 and are applicable for the Group:

- IFRS 17 – Insurance contracts
- Amendments to IAS 8, Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates
- Amendments to IAS 12, Income taxes: International tax reform – Pillar Two model rules.

The adoption of the above amended and revised standards did not have any significant impact on the Group’s Interim Financial Information.

In addition, the IASB also published a number of new standards and amendments to standards which are effective for the financial year beginning on or after 1 January 2024 and have not been early adopted by the Group. Management is assessing the impact of such standards and will adopt the relevant standards in the subsequent periods as required.

3 SEGMENT INFORMATION

The Group's business activities are regularly reviewed and evaluated by the chief operating decision maker ("CODM") and the Group is organised into segments according to the revenue streams of the Group. The reportable segments comprise (i) Social networking business, which is aggregated many social apps such as MICO, YoHo and Yumy; (ii) Innovative business which is included niche games and casual games.

The CODM assesses the performance of the operating segments based on the gross profit/loss. The reconciliation of gross profit to profit before income tax is shown in the interim condensed consolidated statements of comprehensive income. There were no separate segment assets and segment liabilities information provide to the CODM, as the CODM does not use this information to allocate resources or to evaluate the performance of the operating segments.

The segment results for six months ended 30 June 2023 and 2022 are as follows:

	Social networking business	Innovative business	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Six months ended 30 June 2023			
Revenue	1,243,450	131,108	1,374,558
Cost of revenue	(649,454)	(18,220)	(667,674)
Gross profit	593,996	112,888	706,884
Six months ended 30 June 2022			
Revenue	1,265,945	108,265	1,374,210
Cost of revenue	(875,030)	(16,819)	(891,849)
Gross profit	390,915	91,446	482,361

4 REVENUE FROM CONTRACTS WITH CUSTOMERS

An analysis of the Group's revenue by category for six months ended 30 June 2023 and 2022 was as follows:

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
<i>Recognized at a point in time</i>		
Social networking business	1,231,554	1,255,894
Innovative business	131,108	108,265
<i>Recognized over time</i>		
Social networking business	11,896	10,051
Total	1,374,558	1,374,210

5 EXPENSES BY NATURE

The details of cost of revenue, selling and marketing expenses, general and administrative expenses and research and development expenses are as follows:

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue sharing to streamers	398,152	625,095
Promotion expenses	240,205	194,097
Employee benefit expenses	237,212	168,461
Payment handling costs	114,615	125,686
Server capacity expenses	27,614	31,509
Share-based compensation expenses	33,785	30,565
Depreciation and amortisation	35,740	26,059
Technical and other service fee	18,936	14,874
Travel expense	4,683	2,432
Rent expense	1,404	1,940
Consultancy and professional service fee	8,172	2,690
Others	13,716	9,437
Total	1,134,234	1,232,845

6 INCOME TAX EXPENSES/(CREDITS)

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax		
Current tax on profits for the period	13,103	2,321
Deferred income tax		
Changes in deferred tax assets/liabilities	(3,262)	(2,601)
Income tax expenses/(credits)	9,841	(280)

7 EARNINGS PER SHARE

7.1 Basic

Basic earnings per share for the six months ended 30 June 2023 were calculated by dividing the profit attributable to owners of the Company of RMB185,302,000 (for the six months ended 30 June 2022: RMB82,705,000) by the weighted average number of ordinary shares of 1,152,040,000 (for the six months ended 30 June 2022: 1,140,310,000) in issue during the period.

Repurchase of ordinary shares in April, May and June were accounted at time portion basis.

7.2 Diluted

For the six months ended 30 June 2023, the Group has considered the impact from the restricted share unit (“RSU”) and share options issued by the Group. The RSUs issued by the Group had a dilutive effect during the period, while as the exercise price of the share options exceeded the average price of ordinary shares during the period for which the share options were in issue, such share options did not have any dilutive effect on earnings per share.

For the six months ended 30 June 2023, dilutive earnings per share were calculated by dividing the profit attributable to owners of the Company of RMB185,302,000 (for the six months ended 30 June 2022: RMB82,636,000) by the weighted average number of ordinary shares of 1,163,443,000 (for the six months ended 30 June 2022: 1,164,114,000) to assume conversion of all dilutive potential ordinary shares in issue during the period. As the dilutive effect on earnings per share resulting from the assumed exercise of RSUs was negligible, diluted earnings per share were the same as basic earnings per share.

8 DIVIDENDS

No dividend has been paid or declared by the Company for the six months ended 30 June 2023 (for the six months ended 30 June 2022: nil).

9 ACCOUNTS RECEIVABLE

An aging analysis of the gross accounts receivable as at 30 June 2023 and 31 December 2022, based on date of recognition, is as follows:

	As at 30 June 2023 <i>RMB'000</i>	As at 31 December 2022 <i>RMB'000</i>
Up to 6 months	175,604	161,854
6 months to 1 year	2,150	7,246
1 year to 2 years	3,440	532
2 years to 3 years	4,782	12,022
Over 3 years	29,599	22,163
	<hr/>	<hr/>
Gross carrying amount	215,575	203,817
	<hr/>	<hr/>
Less: impairment provision	(40,455)	(38,940)
	<hr/>	<hr/>
Total accounts receivable	<u>175,120</u>	<u>164,877</u>

10 ACCOUNTS PAYABLE

Aging analysis of the accounts payable as at 30 June 2023 and 31 December 2022 based on the date of recognition is as follows:

	As at 30 June 2023 <i>RMB'000</i>	As at 31 December 2022 <i>RMB'000</i>
Up to 1 year	123,668	179,093
1 year to 2 years	565	3,206
More than 2 years	8,072	7,440
	<hr/>	<hr/>
	<u>132,305</u>	<u>189,739</u>

Accounts payable are usually paid within 1 year of recognition.

11 EVENT OCCURRING AFTER THE REPORTING PERIOD

On 2 August 2023, the major and connected transactions between the Company and Spriver, namely the acquisition of Chizicheng Strategy Investment by the Company (the “**Acquisition**”) was completed. Upon completion of the Acquisition, the results of Chizicheng Strategy Investment, Metaclass Management ELP (“**Metaclass**”) and the companies held by Metaclass, including Multelements Limited (“**Multelements**”), which is held as to 78.9% directly by Metaclass, Land of Glory Ltd., which is held as to 78.9% directly by the Metaclass, and BlueCity, which is held as to 100% directly by Multelements will be consolidated into the consolidated financial statements of the Group.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“AIGC”	Artificial Intelligence Generated Content
“Audit Committee”	the audit committee of the Company
“BlueCity”	BlueCity Holdings Limited, an exempted company with limited liability incorporated in the Cayman Islands and a wholly-owned subsidiary of Mutelements Limited
“Board”	the board of directors
“CAGR”	compound annual growth rate
“China” or “PRC”	the People’s Republic of China, and for the purpose of this announcement only, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Chizicheng Strategy Investment”	Chizicheng Strategy Investment Limited, an exempted company with limited liability incorporated in the Cayman Islands on 11 January 2022 and is wholly owned by the Company as of the date of this announcement
“Company”, “our Company”, “the Company” or “Newborn Town”	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
“Director(s)”	the director(s) of the Company
“ESG”	environmental, social and governance
“Group”, “our Group” or “the Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFRS”	the International Financial Reporting Standards, amendments and interpretation issued from time to time by the International Accounting Standards Board
“KOL”	key opinion leader
“LGBTQ+”	lesbian, gay, bisexual, transgender, queer or questioning, intersex, asexual, and more

“Listing Date”	31 December 2019, the date on which the Company was listed on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time)
“Prospectus”	the prospectus of the Company dated 17 December 2019
“R&D”	research and development
“RMB”	Renminbi, the lawful currency of China
“RSU”	a restricted share unit award granted to a participant under the RSU Schemes
“RSU Schemes”	the employee RSU scheme and the management RSU scheme adopted by the Board on 11 December 2019
“Shares”	ordinary share(s) in the share capital of the Company with a par value of US\$0.0001 each
“Shareholder(s)”	the holder(s) of the Share(s)
“Spriver”	Spriver Tech Limited, an investment holding company incorporated in the British Virgin Islands with limited liability
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“U.S.” or “the United States”	The United States of America
“US\$”	United States dollars, the lawful currency of the United States
“We”, “us” or “our”	our Company or our Group, as the context may require
“%”	per cent

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my gratitude to the management and staff of the Group for their commitment and contribution during the period. I would also like to express my appreciation to the guidance from the regulators and continued support from our Shareholders and customers.

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

Beijing, 24 August 2023

As at the date of this announcement, the executive Directors of the Company are Mr. LIU Chunhe, Mr. LI Ping, Mr. YE Chunjian and Mr. SU Jian; and the independent non-executive Directors of the Company are Mr. GAO Ming, Mr. CHI Shujin and Mr. HUANG Sichen.

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and growth strategies of the Group. These forward-looking statements are based on information currently available to the Group and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These forward-looking statements may prove to be incorrect and may not be realised in future. Underlying these forward-looking statements are a large number of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved. Shareholders and potential investors should therefore not place undue reliance on such statements.