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

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

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newborntown

NEWBORN TOWN INC.

赤子城 科技有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 9911)

**DISCLOSEABLE AND CONNECTED TRANSACTION
PROPOSED ESTABLISHMENT OF THE FUND**

PROPOSED GRANT OF SHARE OPTIONS

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser

to the Independent Board Committee and the Independent Shareholders



SOMERLEY CAPITAL LIMITED

A notice convening the EGM of Newborn Town Inc. to be held at 12/F, Tower A, CEC Development Building, Sanyuanqiao, Chaoyang District, Beijing, PRC on 31 March 2022 at 10:00 a.m. is set out on pages 78 to 80 of this circular. A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the website of the Company at <https://www.newborntown.com/>. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e. before 10:00 a.m. on 29 March 2022) or any adjournment thereof. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the EGM or any adjourned meeting thereof if they so wish.

16 March 2022

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DEFINITIONS

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

- “Additional Amount” an additional amount which shall be made by each Additional Limited Partner, and each Limited Partner that increases its Commitment at a Subsequent Closing to the Partnership representing notional interest on the Additional Contribution (for the avoidance of doubt, including any amount attributable to payment of Management Fees) at a rate equal to 8 per cent per annum (compounded annually) from the date or dates upon which the Limited Partner’s Commitment would have been drawn down had it been a Limited Partner from the Initial Closing up to the date of its payment, based upon the actual number of days elapsed in a year of 365 days
- “Additional Contribution” a Contribution which shall be made by each Additional Limited Partner, and each Limited Partner that increases its Commitment at a Subsequent Closing of an amount equal to its proportionate share (based on Commitments), at such Subsequent Closing, or on such date as the General Partner may determine, of the aggregate amount previously contributed by Limited Partners for Partnership Expenses and for the making of any Portfolio Investments which have not been realised in full prior to the Subsequent Closing
- “Additional Limited Partner” any person who has been admitted to the Partnership as a Limited Partner at a Subsequent Closing in accordance with the Partnership Agreement
- “Advisory Committee” an advisory committee of the Partnership established by the General Partner from time to time which shall meet on an ad hoc basis and shall consist of up to a maximum of three (3) members selected by the General Partner from among certain Limited Partners’ representatives and third party independent experts

DEFINITIONS

“Affiliate”	any person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the person specified and, for this purpose, a person shall be treated as being controlled by another person if that other person is able to direct its affairs and/or to control the composition of its board of directors or equivalent body provided that no SPV, Parallel Fund, Alternative Investment Vehicle or Successor Fund shall be deemed to be an Affiliate of the General Partner
“Alternative Investment Vehicle”	a separate vehicle, through which the General Partner may structure the making of all or any portion of a Portfolio Investment, that will invest on a parallel basis with or in lieu of the Partnership if the General Partner determines that for legal, tax, regulatory or other reasons it is in the interests of the Partnership to do so
“BlueCity”	BlueCity Holdings Limited, a NASDAQ – listed company with a stock code of BLCT
“Board”	the board of directors of the Company
“Business Day(s)”	a day (other than a Saturday or a Sunday) on which banks in the PRC and Hong Kong are authorised to open for normal banking business
“Buyer Group”	Spriver Tech Limited and Mr. Baoli Ma, founder, chairman of the board of BlueCity and chief executive officer of the BlueCity
“BVI”	the British Virgin Islands
“Carried Interest”	all amounts distributed, or to be distributed as appropriate, to the General Partner pursuant to the Partnership Agreement
“Chizicheng Strategy Investment”	Chizicheng Strategy Investment Limited, an exempted company with limited liability incorporated in the Cayman Islands on 11 January 2022 and was wholly owned by Spriver as of the Latest Practicable Date

DEFINITIONS

“Closing”	any date determined by the General Partner as at which one or more persons may be admitted to the Partnership or an existing Limited Partner may increase its Commitment
“Codemao”	an online education platform that teaches children about computer coding, operated by Shenzhen Dianmao Technology Limited (深圳點貓科技有限公司)
“Commitment”	in respect of any Partner, the amount agreed to be advanced by such Limited Partner to the Partnership pursuant to the Subscription Agreement (and, where the Subscription Agreement requires, by such General Partner pursuant to the Partnership Agreement) (whether or not repaid to the Partner in whole or in part) but excluding any Additional Amount
“Commitment Expiration Date”	the date which is the end of the Commitment Period
“Commitment Period”	the period commencing the Initial Closing and ending on the eighth anniversary of the Final Closing or such shorter period as the General Partner may determine pursuant to the Partnership Agreement
“Company”	Newborn Town Inc. (赤子城科技有限公司), a company with limited liability incorporated in the Cayman Islands whose shares are listed on the Stock Exchange (Stock Code: 9911)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Contribution”	in respect of any Partner, the aggregate amount contributed to the Partnership by way of capital payment by such Partner pursuant to Partnership Agreement (and, where the Partnership Agreement requires, by such Partner to any Alternative Investment Vehicle)
“core connected persons”	has the meaning ascribed to it under the Listing Rules
“Date of Grant”	30 August 2021
“Director(s)”	the directors of the Company

DEFINITIONS

“Disposition”	the sale, exchange, redemption, repayment, repurchase or other disposition by the Partnership of all or any portion of a Portfolio Investment for cash which is to be distributed to the Partners pursuant to the Partnership Agreement and shall include the receipt by the Partnership of a liquidating dividend or other like distribution for cash on such Portfolio Investment or any portion thereof which are to be distributed to the Partners pursuant to the Partnership Agreement and shall also include the distribution in-kind to the Partners of all or any portion of such Portfolio Investment as permitted by the Partnership Agreement
“Disposition Proceeds”	in respect of any Portfolio Investment, all amounts received by the Partnership upon the Disposition of such Portfolio Investment, net of Partnership Expenses and reserves for Partnership Expenses (including contingent expenses) allocable to such Portfolio Investment
“Drawdown Notice”	a written notice pursuant to which each Limited Partner is required to make a Contribution to the Partnership (or an Alternative Investment Vehicle)
“EGM”	the first extraordinary general meeting of the Company in 2022 to be convened for the purpose of considering and, if thought fit, approving, amongst others, the establishment of the Fund under the Partnership Agreement and the Proposed Grant
“ELP Act”	the Exempted Limited Partnership Act (2021 Revision) of the Cayman Islands
“Final Closing”	the last Closing which shall take place no later than twelve (12) months after the Initial Closing or such later date as the General Partner may determine
“General Partner”	Chizicheng Strategy Investment
“Grantee(s)”	any participant who accepts an offer in accordance with the terms of the Share Option Scheme, or (where the context so permits) any person who is entitled to any option in consequence of the death of the original Grantee
“Group”	the Company and its subsidiaries

DEFINITIONS

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Income”	income received by the Partnership (whether directly or in the form of interest, a dividend or other distribution) net of Partnership Expenses and any reserves made in respect of Partnership Expenses
“Independent Board Committee”	the independent board committee of the Board, comprising Mr. GAO Ming, Mr. CHI Shujin and Mr. HUANG Sichen, all being the independent non-executive Directors
“Independent Shareholders”	the Shareholders who are not required to abstain from voting in favour of the resolution for approving the proposed resolutions under the Listing Rules
“Independent Third Party(ies)”	person(s) who is(are) third party(ies) independent of the Company and its connected persons
“Initial Closing”	the initial Closing which shall take place on the date of the Partnership Agreement
“Interest”	the entire limited partnership interest of a Limited Partner in the Fund at a particular time, including the right of such Limited Partner to any and all benefits to which it may be entitled as provided in the Partnership Agreement, together with the obligations of such Limited Partner to comply with all the terms and provisions of the Partnership Agreement
“Latest Practicable Date”	10 March 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“LGBTQ”	an acronym for lesbian, gay, bisexual, transgender and queer or questioning

DEFINITIONS

“Limited Partner(s)”	any person who has been admitted by the General Partner as a limited partner of the Fund in accordance with the terms of the Partnership Agreement and has not ceased to be a limited partner of the Fund in accordance with such terms
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Metaverse”	a network of 3D virtual worlds focused on social connection
“Mobike”	a fully station-less bicycle-sharing system, founded by Beijing Mobike Technology Co., Ltd. (北京摩拜科技有限公司)
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
“NASDAQ”	National Association of Securities Dealer Automated Quotations
“Net Proceeds”	Disposition Proceeds and Income
“Organisational Expenses”	all legal, accounting, filing and other start-up costs and expenses incurred in connection with organising and establishing the Partnership and the General Partner and all expenses incurred in the marketing and offering of interests in the Partnership (including travel and accommodation expenses) which shall be paid out of the assets of the Partnership, except as otherwise provided in the Partnership Agreement
“Parallel Funds”	one or more additional collective investment schemes, vehicles or other arrangements, each such collective investment scheme, vehicle or arrangement, may be managed, sponsored, advised, or established (at the cost of the investors) by the General Partner or any Affiliates in order to facilitate investment by such investors

DEFINITIONS

“Parallel World”	Parallel World Limited, a BVI business company incorporated in the BVI with limited liability on 24 August 2018, the issued shares of which is owned as to 100% by Mr. LI Ping
“Partners”	the General Partner and all Limited Partners
“Partnership” or “Fund”	a private fund to be established in the form of an exempted limited partnership under the laws of the Cayman Islands pursuant to the Partnership Agreement
“Partnership Agreement”	the amended and restated exempted limited partnership agreement to be entered into among Spriver, the General Partner and the Company, subject to Independent Shareholders’ approval at the EGM
“Partnership Expenses”	those fees, costs, claims and expenses, including Organisational Expenses
“Percentage Interest”	with respect to any Partner and any Portfolio Investment, the percentage that the Contribution of such Partner to that Portfolio Investment (as adjusted to reflect Additional Contributions at Subsequent Closings) bears to the total Contributions of all Limited Partners to that Portfolio Investment (as adjusted to reflect Additional Contributions at Subsequent Closings)
“Portfolio Investment”	a direct or indirect interest in any securities, assets or rights in the nature of investments, acquired by the Fund but does not include Temporary Liquid Investments
“PRC” or “China”	the People’s Republic of China, and for the purpose of this circular only, excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan Region
“Pro Rata Share”	the percentage, which is as to any limited partner on any date, that such Limited Partner’s Unfunded Commitment as of such date represents of the aggregate Unfunded Commitments as of such date of all Limited Partners from which a Contribution is required on such date

DEFINITIONS

“Proposed Grant”	the grant of 24,000,000 Share Options and 6,000,000 Share Options to Mr. LIU Chunhe and Mr. LI Ping respectively
“Purchase Price”	HK\$3.80 per Share
“Quant Group”	Beijing Liangkebang Information Technology Co., Ltd. (北京量科邦信息技術有限公司)
“RMB”	Renminbi, the lawful currency in the PRC
“Security Interest”	a charge, assignment, encumbrance or any other agreement or arrangement having the effect of conferring security
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the share capital of the Company with a par value of US\$0.0001 each
“Share Option(s)”	the share option(s) granted or to be granted under the Share Option Scheme
“Share Option Scheme”	the share option scheme adopted by the Company at the Annual General Meeting held on 31 May 2021
“Shareholder(s)”	the holder of Share(s)
“Somerville” or “Independent Financial Adviser”	Somerville Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, which has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the establishment of the Fund under the Partnership Agreement
“Special Committee”	a special committee of the board of BlueCity comprised of independent directors of BlueCity

DEFINITIONS

“Spriver”	Spriver Tech Limited, a BVI business company incorporated in the British Virgin Islands with limited liability on 22 August 2018, the issued shares of which is owned as to 100% by Mr. LIU Chunhe
“SPV”	a company or entity owned or partly owned by the Partnership through which the Partnership holds one or more Portfolio Investments
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	an agreement entered into between the General Partner and a subscriber for an Interest, which agreement shall be in the form approved by the General Partner and shall set out such terms as the General Partner may determine, by which such subscriber agrees its Commitment and, upon acceptance by the General Partner, by which such subscriber becomes a party to the Partnership Agreement as a Limited Partner
“Subsequent Closing”	a Closing subsequent to the Initial Closing
“Successor Fund”	a closed end collective investment scheme with an investment objective and strategy which is substantially similar to that of the Partnership established subsequent to the Initial Closing
“Super Majority Consent”	the approval of one or more Limited Partners entitled to vote together holding a two-thirds majority of the total Interests by value, as determined on the basis of Contributions
“Takeovers Code”	the Code on Takeovers and Mergers of Hong Kong
“Temporary Liquid Investments”	cash, cash deposits or debt instruments issued by governments, financial institutions or companies having a maturity as at the date of their acquisition of not more than 1 (one) year or listed securities considered by the General Partner to be liquid
“Transfer”	an assignment, transfer or other disposal (including by way of granting participation rights or by way of a synthetic transaction) of the whole or any part of an Interest

DEFINITIONS

“Unfunded Commitment”	the amount equal to the difference between the aggregate of the Commitment of a Limited Partner and the Contributions of that Limited Partner from time to time
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

In this circular, the terms “associate”, “connected transaction” and “subsidiary” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

LETTER FROM THE BOARD

赤子城

newborntown

NEWBORN TOWN INC.

赤子城科技有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 9911)

Executive Directors:

Mr. LIU Chunhe (*Chairman*)

Mr. LI Ping

Mr. YE Chunjian

Mr. SU Jian

Independent non-executive Directors:

Mr. GAO Ming

Mr. CHI Shujin

Mr. HUANG Sichen

Registered office in the

Cayman Islands:

The offices of Maples Corporate
Services Limited

PO Box 309

Ugland House

Grand Cayman, KY1-1104

Cayman Islands

Principal place of business

in Hong Kong:

Room 1903-04, Floor 19

Hong Kong Trade Centre

161 Des Voeux Road Central

Hong Kong

16 March 2022

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
PROPOSED ESTABLISHMENT OF THE FUND**

AND

PROPOSED GRANT OF SHARE OPTIONS

1. INTRODUCTION

The purpose of this circular is to provide you with, among other things, (i) further information in relation to the above matters; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in respect of the establishment of the Fund under the Partnership Agreement and the Proposed Grant under the Share Option Scheme and the recommendation from Somerley to the Independent Board Committee and the Independent

LETTER FROM THE BOARD

Shareholders in respect of the establishment of the Fund under the Partnership Agreement; (iii) the general information of the Group; and (iv) a notice for convening the EGM (to consider and, if thought fit, to approve the establishment of the Fund under the Partnership Agreement and the Proposed Grant).

2. PROPOSED ESTABLISHMENT OF THE FUND

Reference is made to the announcement of the Company dated 13 January 2022 in relation to the proposed establishment of the Fund.

On 13 January 2022, the Board has approved entering into the Partnership Agreement in relation to the proposed establishment of the Fund. The Partnership Agreement is expected to be entered into among the Company, Spriver and Chizicheng Strategy Investment, subject to Independent Shareholders' approval at the EGM. Pursuant to the Partnership Agreement, the total fund-raising target of the Fund to be established shall be in the amount of US\$100 million, of which, the Chizicheng Strategy Investment (as the General Partner) shall make cash Contribution in the amount of US\$0.1 million, Spriver (as the Limited Partner) shall make cash Contribution in the amount of US\$49.9 million, and the Company (as the Limited Partner) shall make cash Contribution in the amount of US\$50 million.

The principal terms of the Partnership Agreement are set out below:

Parties

- (i) Chizicheng Strategy Investment (as the General Partner);
- (ii) The Company (as the Limited Partner); and
- (iii) Spriver (as the Limited Partner)

Term of the Fund

The Fund shall be terminated upon the first to occur of any of the following events:

- (i) the expiry of the term of the Partnership, being the 10th (tenth) anniversary of the Final Closing, provided that the General Partner may extend the term of the Partnership for up to two consecutive one year periods at its discretion and for further period(s) with the consent of the Advisory Committee;
- (ii) the commencement of liquidation, bankruptcy or dissolution proceedings in respect of, the making of a winding up or dissolution order in relation to, or the withdrawal or removal of the General Partner unless another person is appointed as general partner pursuant to the Partnership Agreement within 90 days;

LETTER FROM THE BOARD

- (iii) following the Commitment Expiration Date, the date as at which all Portfolio Investments have been disposed of; or
- (iv) the determination by the General Partner at any time that such earlier dissolution and termination would be in the best interests of the Limited Partners.

Principal purpose of the Fund

The Fund shall operate from a global perspective, and the purposes of the Fund are (a) to participate in the going-private transaction of BlueCity by making equity investment in the Buyer Group which will be formed for the purpose of acquiring all of the outstanding ordinary shares of BlueCity that are not already beneficially owned by the Buyer Group; (b) to focus on achieving capital growth primarily through privately negotiated equity and equity-related investments including without limitation by way of participating in privatisation transactions similar to (a), whether directly or indirectly, in companies that operate in a variety of sectors, primarily in companies driven by TMT (Telecommunication, Media, Technology), Metaverse, social media and electronic game demand of the global market, in accordance with and subject to the other provisions of the Partnership Agreement; (c) to engage in such other activities as the General Partner in good faith deems necessary, advisable or incidental to the foregoing; and (d) to engage in any other lawful acts or activities consistent with the foregoing for which exempted limited partnerships may be formed under the ELP Act, provided that the Partnership shall not undertake business with the public in the Cayman Islands (other than so far as may be necessary for the carrying on of the business of the Partnership exterior to the Cayman Islands).

As confirmed by the General Partner, as of the Latest Practicable Date, the Fund has no potential investment target other than BlueCity. The General Partner will allocate funds according to the actual needs of the underlying investments of the Fund. As of the Latest Practicable Date, the proposed maximum allocation of fund to invest in the going-private transaction of BlueCity is up to US\$100 million, being the maximum aggregate Commitments of the Partners to the Fund.

Commitments and Contributions

The aggregate Commitments of the Partners to the Fund and aggregate capital Commitments to the Parallel Funds (if any) shall not exceed US\$100 million. Each Limited Partner irrevocably agrees to make Contributions to the Fund up to, in aggregate, the amount specified as its Commitment in its Subscription Agreement. The minimum and maximum aggregate Commitments which the General Partner may accept shall be determined by the General Partner. The aggregate Commitments to the Fund and capital Commitments to any of the Parallel Funds (if any) of the General Partner shall as of the Final Closing equal to at least 0.1% of the aggregate Commitments of the Partners to the Fund and the capital Commitments to the Parallel Funds. As confirmed by the General Partner, as of the Latest Practicable Date, there is no plan to establish any Parallel Fund in the foreseeable future.

LETTER FROM THE BOARD

Pursuant to the Partnership Agreement, the respective capital Commitments of the Partners is set out below:

Partners	Type	Capital Commitment amount (US\$ million)	Percentage of the interest in the Fund
Chizicheng Strategy Investment	General Partner	0.1	0.1%
The Company	Limited Partner	50.0	50.0%
Spriver	Limited Partner	49.9	49.9%
Total		<u>100.0</u>	<u>100.0%</u>

The capital Commitment amounts listed above of Chizicheng Strategy Investment, the Company and Spriver were determined by the parties to the Partnership Agreement through arm's length negotiation. Chizicheng Strategy Investment and Spriver will settle their capital Commitments by their respective self-raised funds and the Company will settle its capital Commitment from its own funds.

At any time and from time to time on or prior to the Commitment Expiration Date, each Limited Partner shall contribute to the Fund, on or before the relevant drawdown date, its Pro Rata Share of the aggregate amount to be contributed by all Limited Partners for any Portfolio Investment, for any Partnership Expenses or for any other purpose permitted by the Partnership Agreement. Under the Partnership Agreement, the Company shall perform its Contribution obligations on time after receiving the Drawdown Notice issued by the General Partner. Currently, the going-private transaction of BlueCity has not been approved by the Special Committee of BlueCity, and the Buyer Group has not executed the agreement with BlueCity with respect to the going-private transaction. The timetable of the going-private transaction is uncertain. Having considered the above factors and the progress of going-private transaction, the Company currently estimates that the time of actual Contribution to the Fund is before 31 July 2022.

Commitment Period

The Commitment Period commences on the Initial Closing and ends on the eighth anniversary of the Final Closing. General Partner may terminate the Commitment Period at any time if:

- (i) over 75 per cent of the aggregate Commitments are drawn down; or
- (ii) in the good faith judgment of the General Partner, changes in applicable law or regulations or in business conditions make early termination of the Commitment Period necessary or advisable.

LETTER FROM THE BOARD

Distributions

The General Partner may withhold, on a pro rata basis, from any distributions such amounts as it reasonably considers necessary to create appropriate reserves for Partnership Expenses and liabilities, contingent or otherwise (including liabilities for indemnities, made in connection with any actual or proposed Disposition), of the Partnership as well as for any required tax withholdings, subject to which, income shall be distributed as soon as practicable and in any case within ninety (90) Business Days after the date such Income is received by the Partnership, and disposition Proceeds from a Portfolio Investment, or any portion of a Portfolio Investment shall be distributed as soon as practicable and in any case within ninety (90) Business Days after the date such Disposition Proceeds are received by the Partnership.

Net Proceeds in respect of each Portfolio Investment will be allocated in the first instance to the Limited Partners in proportion to each of their Percentage Interest with respect to such Portfolio Investment. Each Limited Partner's share of Net Proceeds will then be further allocated and distributed to such Limited Partner and the General Partner in the following amounts and order of priority:

- (i) return of Contributions: first, 100 per cent to the Limited Partner until such Limited Partner has received cumulative distributions of:
 - (a) the amount of Contributions used to meet the cost of investment of the Portfolio Investment to which the distribution relates (less any Income in respect of such Portfolio Investment previously distributed to the Limited Partner);
 - (b) the amount of the Limited Partner's share of: (1) any realised losses on the sale of any other Portfolio Investments; and (2) aggregate unrealised losses on any Portfolio Investments to the extent that the General Partner has determined that such Portfolio Investments are clearly and permanently impaired; and
 - (c) the amount of Contributions used other than for investment in Portfolio Investments (including to meet any Partnership Expenses);
- (ii) preferred return: second, 100 per cent to the Limited Partner until the cumulative distributions to such Limited Partner represents an 8 per cent cumulative compounded per annum rate of return on the Contributions referred to in (i) above, calculated from the date on which the relevant Contribution was paid to the date on which it was repaid;
- (iii) General Partner catch-up: third, 100 per cent to the General Partner until the General Partner has received 20 per cent of the sum of the amounts distributed to the Limited Partner pursuant to paragraph (ii) above and to the General Partner pursuant to this paragraph (iii); and

LETTER FROM THE BOARD

- (iv) 80/20 split: thereafter, 80 per cent to such Limited Partner and 20 per cent to the General Partner.

Escrow and Claw-back

The General Partner shall establish an escrow account (“**Escrow Account**”) in its name. The General Partner shall be required upon receipt of any Carried Interest to deposit into such Escrow Account, an amount equal to 100 per cent of such Carried Interest.

No portion or amount of monies standing to the credit of the Escrow Account may be used or paid out by the General Partner or otherwise distributed by the General Partner during the term of the Fund save that the General Partner may pay out of or release monies from the Escrow Account:

- (a) prior to termination of the Partnership, if all Contributions have been reimbursed to Limited Partners;
- (b) at termination of the Partnership, provided that the Escrow Account will first be applied to satisfy any obligations of the General Partner arising under the Partnership Agreement or
- (c) if the Limited Partners agree by Super Majority Consent.

If at termination of the Partnership the aggregate of all distributions of Carried Interest to the General Partner exceeds the amount that would have been distributed to the General Partner as Carried Interest had the Partnership Agreement been applied on an aggregate basis covering all transactions of the Partnership during its term (such excess the “**Claw-back Amount**”) the General Partner will be required to return to the Partnership an amount equal to the Claw-back Amount, such obligation first being satisfied by the funds standing to the credit of the Escrow Account pursuant to the Partnership Agreement. The Claw-back Amount will be allocated to Limited Partners on a pro rata basis.

Management and control

The Fund shall be exclusively managed by the General Partner. The Company, as a Limited Partner, does not control the Fund and therefore does not consolidate the financial statements of the Fund and the companies held by the Fund.

Upon the launch of the Fund, the Company’s investment in the Fund will be accounted for as “investments accounted for using the equity method” in the consolidated balance sheet of the Company. The investment in the Fund will be initially recognised at cost and adjusted thereafter to recognise the Group’s share of the post-acquisition profits or losses of the Fund in profit or loss, and the Group’s share of movements in other comprehensive income of the Fund in other comprehensive income. Dividends received or receivable from the Fund are recognised as a reduction in the carrying amount of the investment in the Fund.

LETTER FROM THE BOARD

Investment Committee

The General Partner shall establish an investment committee of the Fund (“**Investment Committee**”). The Investment Committee shall consist of five members, including three representatives of the General Partner, a representative of the Company and a representative of Spriver. The principal functions of the Investment Committee are making recommendations on, reviewing and approving proposed investments and divestments of the Fund, monitoring the investment process of the Fund, and any other tasks and authorities delegated to the Investment Committee by the General Partner. Decisions of the Investment Committee shall be taken by simple majority among those members present at any quorate meeting thereof, provided that the Company shall have a veto right over all decisions to be taken by the Investment Committee.

Management Fees

The General Partner will receive a management fee (“**Management Fee**”), out of the assets of the Fund, each year, equivalent to 1% (one percent) per annum of the aggregate amount of Contributions to be made by each Limited Partner in respect of Portfolio Investments, less Contributions to be made by each Limited Partner in respect of Portfolio Investments that have been realised, disposed of or written off as at the relevant date.

Broken deal expenses

Broken deal expenses shall be paid out of the assets of the Fund, which shall include all out-of-pocket costs and expenses (including legal, accounting, auditing, tax, consulting, evaluation, travel, catering, accommodation and other costs and expenses) incurred by the Fund, the General Partner or its shareholders, directors, officers, employees, agents and Affiliates in relation to any proposed transaction, investment or disposition opportunity of the Fund that is not ultimately consummated.

Transfer restriction

A Limited Partner may not effect a Transfer of, or grant a Security Interest over, its Interest in whole or in part to any person (“**Transferee**”) without the prior written consent of the General Partner. The General Partner may withhold its consent without giving any reason for doing so and shall withhold its consent if it considers that:

- (i) the Transfer or the granting of the Security Interest would adversely affect the Partnership or subject the Partnership or the General Partner to any adverse regulatory, tax, pecuniary or other consequences;
- (ii) the Transfer or the granting of the Security Interest would or could result in a violation of any provision of the Partnership Agreement or of any applicable law, regulation or court order; or

LETTER FROM THE BOARD

- (iii) in the case of a Transfer, the proposed Transferee would be unable to meet its obligations under the Partnership Agreement.

Limited liability of the Limited Partners

Except as provided by applicable law or otherwise agreed by the Limited Partner:

- (i) a Limited Partner shall not have any personal liability whatsoever in its capacity as a Limited Partner, whether to the Partnership, to any of the Partners, or to the creditors of the Partnership, for the debts, liabilities, contracts, or other obligations of the Partnership or for any losses of the Partnership; and
- (ii) a Limited Partner's obligation to make Contributions to the Partnership shall be limited to such Limited Partner's obligation to make Contributions, in aggregate, equal to the full amount of its Commitment in accordance with, and subject to, the Partnership Agreement.

Governing law

The Partnership Agreement shall be governed by and construed in accordance with the laws of the Cayman Islands.

Jurisdiction

Each Partner irrevocably agrees to submit to the non-exclusive jurisdiction of the courts of the Cayman Islands over any claim or matter arising under or in connection with the Partnership Agreement. Each Limited Partner waives as a defence that any action, suit or proceeding brought in the courts of the Cayman Islands has been brought in an inconvenient forum or that the venue thereof may not be appropriate and, furthermore, agrees that venue in the Cayman Islands for any such action, suit or proceeding is appropriate.

REASONS FOR AND BENEFITS OF THE ESTABLISHMENT OF THE FUND UNDER THE PARTNERSHIP AGREEMENT

The Fund will expand its reach in global market, center on the field of TMT with a primary focus on opportunities for investment in Metaverse, social networking and game and other industries, including but not limited to businesses such as social networking and game products targeting different users and communities, avatar creation, copyrights of music content, augmented reality and virtual reality. Leveraging on the Fund pursuant to the Partnership Agreement, the Company could benefit from the followings.

Firstly, participation in the establishment of the Fund and the going-private transaction of BlueCity can enable the Company to effectively reach LGBTQ community users and expand the user base that the Company can serve. The social products currently owned by the Company are not specifically for LGBTQ groups. Participation in the going-private transaction

LETTER FROM THE BOARD

of BlueCity through the Fund can promote the two companies to carry out business cooperation. According to the third quarterly report of 2021 published by BlueCity, its monthly active users reached 7.5 million. The number of users of LGBTQ group of such size can bring the Company more accurate cutting-edge insight into this group, so that the Company can get involved in user communities that have not been reached before. At the same time, it can also enable the Company to obtain potential return on investment. BlueCity made continuous losses and its current market valuation is at an all-time low since its listing. Focuses on the global open social networking sector, the Company has successfully created a range of excellent social products and accumulated a lot of valuable experience in the operation and liquidity of global social products. After the successful privatization of BlueCity, the Company can use the existing operation and realization experience to empower BlueCity, improve its operation efficiency, improve its profitability, recover its value, and then enable the Company to obtain the return on investment through the Fund. The General Partner and Spriver have undertaken to the Company that after the successful privatization of BlueCity, the Company shall have the right to access BlueCity's operational data and a priority right to cooperate and conduct business with BlueCity.

Secondly, considering that the Company lays strategic emphasis and major operational emphasis respectively in continuous progress in social networking as well as game business and multi-media social networking products together with the development and operation of game products, participating in the investment of the Fund can ensure that the Company focuses on its principal business without allocation of a large amount of internal resources to selecting, analyzing and evaluating potential investment projects so that the Company could grow and expand on the basis of its existing principal businesses and enhance its industry influence and solidify its industry foundation. In addition to making full use of the professional investment expertise and experience of the fund manager to diversify the Company's investment portfolio, rationally use its idle funds, and create more income and return on investment for the Company and its shareholders, the Company could grow and expand on the basis of its existing principal businesses and enhance its industry influence and solidify its industry foundation. It is also of benefit to the Company's forward-looking strategic plans as the Partnership is expected to serve as a platform for the Company to pursuit new development opportunities and expand business scope.

Thirdly, participation in the investment of the Fund can bring insights into potential business opportunities for the Company. The Fund will mainly invest in the quality enterprises in the field of TMT. The target users of its investees have more overlapping with those of the Company. By participating in the investment of the Fund, the Company can obtain quarterly and annual operation reports of the Fund, attend the Fund's annual meeting and occasional industry exchange meetings, etc. The above reports and meetings can give the Company more relevant information of the market, allow the Company to learn more about the changing trends of the international users-based social networking and game industry, keep an on-going insight into industry innovation models, actively seize good opportunities in the development of the industry, and facilitate the Company in achieving its strategic goals.

LETTER FROM THE BOARD

Fourthly, participation in the investment of the Fund gives the Company access to opportunities of establishing connection with investment targets and/or investees operating in similar or related industries to facilitate future cooperation.

Mr. LIU Chunhe and Mr. LI Ping, the executive Directors, are considered to be interested in the connected transaction contemplated under the Partnership Agreement and have abstained from voting for the Board resolution to approve the connected transaction. Save for Mr. LIU Chunhe and Mr. LI Ping, none of the other Directors is regarded as having a material interest in establishing the Fund. Accordingly, none of the other Directors is required to abstain from voting on the resolutions with respect to the approval of establishing the Fund at the board meeting under the Listing Rules.

INFORMATION ON BLUECITY

BlueCity is a world-leading online LGBTQ community providing a comprehensive suite of services to foster connections and enhance the wellbeing of the LGBTQ community. BlueCity fulfills both the daily and lifelong needs of its members through a wide range of targeted and tailored services, including social networking, livestreaming and health-related services. With commitment to providing high-quality user experience, ensuring privacy protection, and promoting community health and well-being, BlueCity has captured the hearts and minds of LGBTQ people across the globe. Available in 13 languages, BlueCity's mobile app Blued has connected more than 60 million registered users in about 170 countries and regions.

The table below sets forth the revenue and loss (before and after taxation) of the BlueCity for the two financial years ended 31 December 2020 and the nine months period ended 30 September 2021 based on the consolidated financial statements of BlueCity in accordance with accounting principles generally accepted in the United States of America:

			Unit: RMB
	For the year ended		For the nine
	31 December		months ended
	2019	2020	30 September
	<i>(unaudited)</i>		2021
			<i>(unaudited)</i>
Revenue	758,887,906	1,031,323,444	833,010,203
Loss before taxation	51,998,954	223,294,678	163,097,779
Loss after taxation	52,929,508	221,852,864	160,925,911

As at 30 September 2021, the unaudited consolidated total assets and unaudited consolidated net assets of BlueCity were RMB812,789,132 and RMB590,662,204, respectively.

LETTER FROM THE BOARD

INFORMATION ON PARTIES TO THE PARTNERSHIP AGREEMENT

Spriver is an investment holding company incorporated in the British Virgin Islands with limited liability. Mr. LIU Chunhe holds 100% of the issued shares of Spriver.

The Company focuses on the global open social networking sector, as well as emerging modes in social networking including video and audio formats, creating a range of diversified social networking products including video social networking, audio social networking and live-streaming social networking. Its representative products include Yumy, MICO and YoHo, which are highly popular in areas such as Middle East, North America, Southeast Asia and South Asia.

Chizicheng Strategy Investment, the General Partner, is a wholly-owned subsidiary of Spriver and was incorporated as a limited liability company in the Cayman Islands on 11 January 2022. The General Partner is operated by a market-oriented and professional management team which is composed of three senior executives and three investment professionals. Its senior executives have over 10 years of experience in the industry on average, who worked for top international financial institutions such as GF Securities Co., Ltd., PricewaterhouseCoopers Consultancy (Shanghai) Limited, Zhongzhi Enterprise Group Co., Ltd., Shanshui Congrong Media Investment Limited* (山水從容傳媒投資有限公司), etc., and led investments in extraordinary projects including Quant Group, Mobike and Codemao. The other team members came from Haitou Investment Management, LLC, Deloitte Touche Tohmatsu and Dongxing Securities Co., Ltd.. The management team of the General Partner has rich experience in seeking, negotiating and procuring investment transactions worldwide. Mr. LIU Chunhe is in charge of the management of General Partner. Mr. LIU Chunhe is the founder of the Group and he currently serves as the Chairman of the Board and the executive Director of the Company. Mr. LIU Chunhe, who has over 10 years of experience in the overseas internet industry, is one of the first players in the internalization of China mobile internet. His advantages include exploration of opportunities in extended industry market segments, innovative commercial models and deep research and unique insights particularly into strangers' social interaction, games, mobile app and advertising platform business. Leveraging his extended experience in the industry, Mr. LIU Chunhe had participated in the investment management business of Tibet Zhirui Venture Capital Enterprise (Limited Partnership) (西藏志睿創業投資企業(有限合夥)) and Ningbo Meishan Bonded Port Area Meiling Overseas Investment Partnership (Limited Partnership)* (寧波梅山保稅港區梅嶺出海投資合夥企業(有限合夥)) as a consultant, providing industry consultancy advices for the two funds during selecting target projects and investment decision-making, and participated in 14 successful investment projects, including Hangzhou Hexiang Network Technology Limited(杭州河象網絡科技有限公司), Fuzhou Baijing Network Technology Limited (福州白鯨網絡科技有限公司), Guangzhou Yongwang Technology Limited(廣州勇往科技有限公司), etc., the total investment amount of which exceeded RMB100 million. Founded in 2016, Tibet Zhirui Venture Capital Enterprise (Limited Partnership) (西藏志睿創業投資企業(有限合夥)) has a target size of RMB310,100,000 with duration period of 7 years. Its investments include games, social networking, e-commerce business, online education and supply chain services and others based on traffic monetization. Founded in 2016, Ningbo Meishan Bonded Port Area Meiling Overseas

LETTER FROM THE BOARD

Investment Partnership (Limited Partnership)* (寧波梅山保稅港區梅嶺出海投資合夥企業(有限合夥)) has a target size of RMB35,010,000 with duration period of 7 years. Its investments include advertisement, internet finance, social networking community, games and others. For more details of Mr. LIU Chunhe, please refer to the Company's annual report of 2020.

The Company will make further announcement if the Partnership Agreement is not entered into or there is a significant delay in the entering into of the Partnership Agreement.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Spriver holds approximately 26.10% of the equity interest of the Company and holds the entire equity interest of Chizicheng Strategy Investment. Each of Spriver and Chizicheng Strategy Investment is a connected person of the Company under Rule 14A.07 of the Listing Rules. Therefore, the establishment of the Fund under the Partnership Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the establishment of the Fund under the Partnership Agreement exceed 5% but all applicable percentage ratios are less than 25%, therefore, the establishment of the Fund under the Partnership Agreement constitutes (i) a discloseable transaction of the Company which is subject to the announcement requirement under Chapter 14 of the Listing Rules; and (ii) a non-exempt connected transaction of the Company which is subject to the announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the establishment of the Fund under the Partnership Agreement. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out in the letter from the Independent Board Committee on page 30 of this circular. Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same respect. A letter from Somerley containing its advice to the Independent Board Committee and the Independent Shareholders is set out in the letter from Somerley on pages 31 to 71 of this circular.

LETTER FROM THE BOARD

3. PROPOSED GRANT OF SHARE OPTIONS

Reference is made to the announcement of the Company dated 30 August 2021 in relation to, among other things, the Proposed Grant.

Details of the Share Options conditionally granted to Mr. LIU Chunhe and Mr. LI Ping, respectively are as follows:

Name of Grantees	Position	No. of Share Options offered to be granted	Percentage to the issued share capital of the Company as at the Latest Practicable Date
Mr. LIU Chunhe	Chairman and Executive Director	24,000,000	2.01%
Mr. LI Ping	Chief Executive Officer and Executive Director	6,000,000	0.50%

Details of the Share Options proposed to be granted are set out below:

Date of Grant:	30 August 2021 (the “Date of Grant”)
Exercise Price:	HK\$4.81 per Share, which represents the higher of (rounding up to 2 decimal places): (i) the closing price of HK\$4.67 per Share as stated in the daily quotations sheet of the Stock Exchange on the Date of Grant; (ii) the average closing price of HK\$4.81 per Share as stated in the daily quotations sheets of the Stock Exchange for five business days immediately preceding the Date of Grant; and (iii) the nominal value of US\$0.0001 per Share
Number of Share Options granted:	80,000,000 Share Options, of which the grant of 30,000,000 Share Options is subject to the approval of the Shareholders. Each Share Option entitling the Grantees to subscribe for one Share at the relevant exercise price mentioned above.
Closing price of the Shares on the Date of Grant:	HK\$4.67 per Share

LETTER FROM THE BOARD

Validity period: From Date of Grant to 29 August 2031 (both dates inclusive), save and except for the Share Options to be granted to Mr. LIU Chunhe and Mr. LI Ping which will be subject to the approval by the Independent Shareholders at the EGM.

Performance Targets of the Share Options: 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**”). The Performance Targets for Mr. LIU Chunhe and Mr. LI Ping are set out below:

Tranches	Performance Targets	Percentage of Share Options to vest
First tranche	The Group’s audited revenue for the financial year exceeds RMB2.3 billion or the three-month average market capitalization of the Company exceeds HKD12 billion	30% of the total number of Share Options granted
Second tranche	The Group’s audited revenue for the financial year exceeds RMB3.5 billion or the three-month average market capitalization of the Company exceeds HKD20 billion	25% of the total number of Share Options granted
Third tranche	The Group’s audited revenue for the financial year exceeds RMB5.0 billion or the three-month average market capitalization of the Company exceeds HKD30 billion	25% of the total number of Share Options granted
Fourth tranche	The Group’s audited revenue for the financial year exceeds RMB6.5 billion or the three-month average market capitalization of the Company exceeds HKD40 billion	20% of the total number of Share Options granted

LETTER FROM THE BOARD

Ranking of Shares

Share Options granted under the Share Option Scheme do not carry any right to vote in any general meeting of the Company, or any right, dividend, transfer or any other rights, including those arising on the liquidation of the Company. The Shares to be allotted upon the exercise of a Share Option will not carry voting rights until completion of the registration of the Grantee (or any other person) as the holder thereof. Subject to the aforesaid, the Shares to be allotted and issued upon the exercise of a Share Option will be subject to the provisions of the Company's articles of association and will rank *pari passu* with the fully paid Shares in issue as from the date of exercise of the Share Option and in particular will entitle the holders to have same voting rights, rights of transfer and other rights, participate in all dividends or other distributions paid or made on or after the date of exercise of the Share Option.

No share option of the Company has been granted to Mr. LIU Chunhe and Mr. LI Ping within the 12-month period prior to the Proposed Grant.

None of the Directors is a trustee of the Share Option Scheme nor has a direct or indirect interest in the trustee(s) of the Share Option Scheme.

Reasons for and benefits of the Proposed Grant

The purpose of the Proposed Grant is to provide incentive and rewards to recognise the significant efforts and contributions of Mr. LIU Chunhe and Mr. LI Ping in the development of the Group's business. In determining the Proposed Grant, the remuneration committee of the Company (the "**Remuneration Committee**") considered factors such as time commitment and responsibilities of Mr. LIU Chunhe and Mr. LI Ping and desirability of performance-based remuneration in accordance with the remuneration policy of the Company.

The Proposed Grant reflects the level of commitment and value for the respective positions of Mr. LIU Chunhe and Mr. LI Ping. Mr. LIU Chunhe is the founder, the chairman of the Board and the executive Director and he is primarily responsible for the strategies planning and overseeing the development of the Group. Mr. LI Ping is the co-founder, the chief executive officer of the Company and the executive Director and he is primarily responsible for overall operation and management of the Group's businesses. The Board and the Remuneration Committee believe that it is critical to appropriately incentivize Mr. Liu Chunhe and Mr. LI Ping, and to align their interests with that of the Company and the Shareholders for the continued development of the Group's businesses. As the Board and the Remuneration Committee are of the view that the roles and responsibilities of Mr. Liu Chunhe and Mr. LI Ping are directly affecting and will continue to affect the performance of the Group, that performance-based remuneration is desirable to encourage the ongoing valuable performance and contributions by Mr. Liu Chunhe and Mr. LI Ping and the Proposed Grant is appropriate.

Taking into account that (i) the contribution of Mr. LIU Chunhe and Mr. LI Ping to the Company was significant; (ii) the stability of key personnel is vital to the future development of the Group; and (iii) the Proposed Grant would not increase recurring expenditure of the

LETTER FROM THE BOARD

Group when comparing to an increase in cash component of Mr. LIU Chunhe and Mr. LI Ping's remuneration package such that the Company can reserve cash for further development, the Remuneration Committee is of the view that the Proposed Grant serves as an appreciation of the dedication and efforts of Mr. LIU Chunhe and Mr. LI Ping and an incentive for their continuing commitment and leadership. Therefore, the Remuneration Committee has recommended the Board to approve the Proposed Grant.

The Board is of the view that the grant of the Share Options provides the Company with more flexibility to attract, retain and motivate eligible participants to strive towards long term performance targets set by the Group and to provide them with an incentive to work better for the interest of the Group. Therefore, the Board considers that the grant of the Share Options is in the interests of the Group and the Shareholders as a whole.

Listing Rule Implications

In accordance with Rule 17.04(1) of the Listing Rules and the terms of the Share Option Scheme, the grant of Share Options to each of the aforementioned Directors has been approved by the independent non-executive Directors on the Date of Grant.

Pursuant to Rule 17.03(4) of the Listing Rules, where any grant of share options to a participant would result in the shares issued and to be issued upon exercise of all share options granted and to be granted to such person (including exercised, cancelled and outstanding share options) in the 12-month period up to and including the date of such grant representing in aggregate over 1% of the shares in issue, such grant of share options must be separately approved by shareholders of the listed issuer in general meeting with such participant and his close associates (or his associates if the participant is a connected person) abstaining from voting.

In addition, pursuant to Rule 17.04(1) of the Listing Rules and the terms of the Share Option Scheme, any grant of Share Options to a substantial Shareholder of the Company or an independent non-executive Director, or any of their respective associates would result in the Shares issued and to be issued upon exercise of all Share Options already granted and to be granted (including Share Options exercised, cancelled and outstanding) under the Share Option Scheme or any other schemes of the Company to such person in the 12-month period up to and including the date of such grant (i) representing in aggregate over 0.1% of the Shares in issue; and (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million, such grant of Share Options must be approved by the Shareholders in general meeting. The grantee, his associates and all core connected persons of the Company must abstain from voting in favour at such general meeting.

As at the Latest Practicable Date, Spriver, a wholly-owned company of Mr. LIU Chunhe, holds 237,806,646 Shares in the Company, representing approximately 19.96% of the issued share capital of the Company. As at the Latest Practicable Date, Parallel World, a wholly-owned company of Mr. LI Ping, holds 73,121,774 Shares in the Company, representing approximately 6.14% of the issued share capital of the Company. As Mr. LIU Chunhe and Mr.

LETTER FROM THE BOARD

LI Ping are parties acting in concert (having the meaning ascribed thereto in the Takeovers Code), Mr. LIU Chunhe, Spriver Tech, Mr. LI Ping, Parallel World are each deemed to be interested in the Shares held by themselves under the SFO. Accordingly, both Mr. LIU Chunhe and Mr. LI Ping are considered substantial Shareholders under the Listing Rules.

As (i) the total number of Shares issued and to be issued upon exercise of the Share Options proposed to be granted to Mr. LIU Chunhe would in a 12-month period exceed 1% of the Shares in issue, and (ii) such grant would in a 12-month period represent over 0.1% of the Shares in issue, and has an aggregate value, based on the closing price of HK\$4.67 per Share on the Date of Grant, in excess of HK\$5 million, the grant of the Share Options to Mr. LIU Chunhe is conditional upon the approval by the Independent Shareholders at the EGM. Mr. LIU Chunhe, his respective associates and all core connected persons of the Company shall abstain from voting at the EGM for the purpose of approving the grant of Share Options to Mr. LIU Chunhe.

As the total number of Shares issued and to be issued upon exercise of the Share Options proposed to be granted to Mr. LI Ping would in a 12-month period represent over 0.1% of the Shares in issue and has an aggregate value, based on the closing price of the Shares of HK\$4.67 per Share on the Date of Grant, in excess of HK\$5 million, the grant of the Share Options to Mr. LI Ping is conditional upon the approval by the Independent Shareholders at the EGM. Mr. LI Ping, his respective associates and all core connected persons of the Company shall abstain from voting at the EGM for the purpose of approving the grant of Share Options to Mr. LI Ping.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, Mr. LIU Chunhe, Mr. LI Ping and their respective associate(s) and all core connected persons of the Company held and were entitled to exercise control over a total of 310,928,420 Shares (representing approximately 26.10% of the Shares in issue as at the Latest Practicable Date), must abstain from voting in favour of the resolution approving the Proposed Grant at the EGM.

As at the Latest Practicable Date, none of the Shareholders who were required to abstain from voting in favour of the resolution approving the Proposed Grant have given to the Company notice of their intention to vote against the resolution at the EGM.

THE EGM

A notice convening the EGM to be held on 31 March 2022 at 12/F, Tower A, CEC Development Building, Sanyuanqiao, Chaoyang District, Beijing, PRC is set out in this circular.

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

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, as at the Latest Practicable Date, Mr. LIU Chunhe, Mr. LI Ping and his associate(s) and all core connected persons of the Company held and were entitled to exercise control over a total of 310,928,420 Shares (representing approximately 26.10% of the Shares in issue as at the Latest Practicable Date). Save for Mr. LIU Chunhe, Mr. LI Ping and their respective associates, no Shareholder and its respective associates has material interest in the proposed establishment of the Fund. And save for Mr. LIU Chunhe, Mr. LI Ping and their respective associate(s) and all core connected persons of the Company, no Shareholder and its respective associates has material interest in the Proposed Grant. As such, save for Mr. LIU Chunhe, Mr. LI Ping and their respective associates, none of the Shareholders are required to abstain from voting in favour of the resolution approving the proposed establishment of the Fund. And save for Mr. LIU Chunhe, Mr. LI Ping and their respective associate(s) and all core connected persons of the Company, no Shareholder and its respective associates are required to abstain from voting in favour of the resolution approving the Proposed Grant.

A form of proxy for use at the EGM is also enclosed. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the website of the Company at <https://www.newborntown.com/>. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM (i.e. before 10:00 a.m. on 29 March 2022) or any adjournment thereof. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM or any adjourned meeting thereof if they so wish.

RECOMMENDATION

The Board has resolved and approved the relevant resolutions in respect of (i) the proposed establishment of the Fund and (ii) the Proposed Grant. Save for Mr. LIU Chunhe and Mr. LI Ping, none of the other Directors is regarded as having a material interest in (i) the proposed establishment the Fund and (ii) the Proposed Grant. Accordingly, none of the other Directors is required to abstain from voting on the resolutions with respect to the approval of establishing the Fund at the Board meeting under the Listing Rules.

The Board (other than Mr. LIU Chunhe and Mr. LI Ping who abstained from voting) consider that all of the resolutions to be proposed at the EGM are in the interests of the Company and the Shareholders as a whole. The Directors therefore recommend the Independent Shareholders to vote in favour of all the resolutions to be proposed at the EGM.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

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

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

* *English name is for identification only*

赤子城

newborntown

NEWBORN TOWN INC.

赤子城科技有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 9911)

To the Independent Shareholders

16 March 2022

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
PROPOSED ESTABLISHMENT OF THE FUND
AND
PROPOSED GRANT OF SHARE OPTIONS**

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to voting in relation to the resolutions to be proposed at the EGM for the approval of (i) the establishment of the Fund, (ii) the grant of 24,000,000 Share Options to Mr. LIU Chunhe, the Chairman and an executive director (iii) the grant of 6,000,000 Share Options to Mr. LI Ping, the chief executive officer and an executive director.

Having considered the above and the advice of Somerley in relation to the proposed establishment of the Fund as set out on pages 31 to 71 of this circular, we consider that the proposed establishment of the Fund under the Partnership Agreement, though not in the ordinary and usual course of business of the Group, is in the interests of the Company and the Shareholders as a whole, and that the terms of the Partnership Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. Furthermore, having considered the past contributions by Mr. LIU Chunhe and Mr. LI Ping to the growth of the Group and as an incentive for his continuing commitment and contribution to the Group in the future, we are of the view that the terms of the Proposed Grant are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of and approve all resolutions to be proposed at the EGM in relation to the establishment of the Fund under the Partnership Agreement and the Proposed Grant under the Share Option Scheme adopted on 31 May 2021.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. GAO Ming
Independent
Non-executive Director

Mr. CHI Shujin
Independent
Non-executive Director

Mr. HUANG Sichen
Independent
Non-executive Director

LETTER FROM SOMERLEY

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



SOMERLEY CAPITAL LIMITED

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

16 March 2022

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

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION PROPOSED ESTABLISHMENT OF THE FUND

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the establishment of the Fund under the Partnership Agreement. Details of the Partnership Agreement are set out in the circular of the Company to the Shareholders dated 16 March 2022 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 13 January 2022, the Board has approved entering into the Partnership Agreement in relation to the Fund to be established. Such agreement is expected to be entered into among the Company, Spriver and Chizicheng Strategy Investment, subject to Independent Shareholders' approval at the EGM. Pursuant to the Partnership Agreement, the total fund-raising target of the Fund to be established shall be in the amount of US\$100 million, of which, Chizicheng Strategy Investment (as the General Partner) shall make cash Contribution in the amount of US\$0.1 million (equivalent to approximately RMB0.64 million), Spriver (as the Limited Partner) shall make cash Contribution in the amount of US\$49.9 million (equivalent to approximately RMB316.9 million), and the Company (as the Limited Partner) shall make cash Contribution in the amount of US\$50 million (equivalent to approximately RMB317.5 million).

Spriver holds approximately 26.10% of the equity interest of the Company and holds the entire equity interest of Chizicheng Strategy Investment. Each of Spriver and Chizicheng Strategy Investment is a connected person of the Company under Chapter 14A of the Listing

LETTER FROM SOMERLEY

Rules. Therefore, the establishment of the Fund under the Partnership Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the establishment of the Fund under the Partnership Agreement exceed 5% but all applicable percentage ratios are less than 25%, the establishment of the Fund under the Partnership Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. Therefore, the establishment of the Fund under the Partnership Agreement is subject to reporting, announcement, circular and independent shareholders' approval requirements under the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. GAO Ming, Mr. CHI Shujin and Mr. HUANG Sichen, has been established to advise the Independent Shareholders on the establishment of the Fund under the Partnership Agreement and to make recommendation as to voting. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

During the past two years, we have acted as the independent financial adviser to the Company in relation to (i) the entering into equity transfer agreement and convertible loan investment agreement (as disclosed in the Company's circular dated 11 June 2020); and (ii) the entering into equity transfer agreement involving issue of consideration shares under specific mandate (as disclosed in the Company's circular dated 26 November 2021). The past engagements were limited to providing independent advisory services to the Company pursuant to the Listing Rules, for which we received normal professional fees relevant to such type of engagements. Accordingly, we do not consider the past engagements would affect our independence to act as the independent financial adviser to the Company under the current engagement.

We are not associated with the Company, Spriver, Chizicheng Strategy Investment or any of their close associates, associates or core connected persons (all as defined in the Listing Rules) and accordingly we are considered eligible to give independent advice on the above matters. Apart from normal professional fee payable to us in connection with this or similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company, Spriver, Chizicheng Strategy Investment or any of their close associates, associates or core connected persons.

In formulating our opinion and recommendation, we have reviewed, among other things, the Partnership Agreement, the Subscription Agreement, the annual reports of the Company for the year ended 31 December 2020 and 2019, the interim report of the Company for the six months ended 30 June 2021 and the information as set out in the Circular. We have also discussed with the management of the Group (the "**Management**") about the Partnership and its future prospects.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Business and financial information of the Group

(a) Business of the Group

The Company focuses on the global open social networking sector, as well as emerging modes in social networking including video and audio formats, creating a range of diversified social networking products including video social networking, audio social networking and live-streaming social networking. Its representative products include Yumy, MICO and YoHo, which are highly popular in areas such as Middle East, North America, Southeast Asia and South Asia. In recent years, the Group has expanded its business in the social networking sector through, among other things, a series of acquisitions of equity interest in Beijing Mico World Technology Co., Ltd. (北京米可世界科技有限公司) (“**Beijing Mico**”) (or its successor, namely NBT Social Networking Inc.), which together with its subsidiaries, operate the social networking platform with core applications including MICO. Further details of the acquisitions of equity interest in Beijing Mico are set out in the circular of the Company dated 11 June 2020, the announcement of the Company dated 17 August 2020 and circular of the Company dated 26 November 2021.

The Company operates through two reporting segments, namely value-added service business and traffic monetisation business. Value-added service business segment mainly includes live broadcast services, such as live broadcast rewards, chat duration purchase, membership subscriptions, advanced function purchase and other diversified methods. Traffic monetisation business segment mainly includes in-app traffic monetisation business, mobile advertising platform and related businesses.

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(b) Financial performance of the Group

Set out below is a summary of the Group's financial performance for the year ended 31 December 2019 and 2020 and for six months ended 30 June 2020 and 2021.

	For the six months ended		For the year ended	
	30 June		31 December	
	2021	2020	2020	2019
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Revenue from contracts				
with customers	1,038,484	150,336	1,181,593	389,685
Cost of revenue	(515,468)	(33,675)	(429,104)	(128,173)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Gross profit	523,016	116,661	752,489	261,512
Selling and marketing expenses	(291,715)	(94,709)	(483,513)	(120,538)
Research and development expenses	(53,693)	(11,220)	(58,534)	(20,271)
General and administrative expenses	(35,587)	(17,852)	(55,335)	(96,755)
Others	(7,659)	10,274	(23,015)	25,932
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Operating profit	134,362	3,154	132,092	49,880
Finance (cost)/income, net and others	(3,064)	1,274	(1,912)	21,072
Fair value changes of convertible redeemable preferred shares	–	–	–	7,434
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Profit before income tax	131,298	4,428	130,180	78,386
Income tax credits/(expenses)	7,057	(1,012)	(15,837)	(9,971)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Profit for the period/year	<u>138,355</u>	<u>3,416</u>	<u>114,343</u>	<u>68,415</u>
Profit for the period/year attributable to:				
the Shareholders	37,377	3,416	39,688	68,415
non-controlling interests	100,978	–	74,655	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>138,355</u>	<u>3,416</u>	<u>114,343</u>	<u>68,415</u>

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Revenue of value-added service business amounted to approximately RMB657.5 million for the year ended 31 December 2020, representing a surge of over 55 times as compared to that of approximately RMB11.6 million for the year ended 31 December 2019. The increase was primarily attributable to (i) the Group's monetisation mode has been upgraded to multiple ways, such as live broadcast rewards, chat duration purchase, member subscription, advanced function purchase, etc; and (ii) the Group explored the global social networking business market by introducing a number of high quality audio and video social networking products and recorded a rapid growth during 2020. The revenue of traffic monetisation business amounted to approximately RMB524.1 million for the year ended 31 December 2020, representing a growth of approximately 38.6% as compared to that of approximately RMB378.0 million for the year ended 31 December 2019. The growth was primarily attributable to (i) the Group's increased research and development investment in the game field, continuous efforts in developing and launching new games apps, and the upgrade of existing apps, which further updated the product portfolio and extended the life cycle; and (ii) Solo Aware, an artificial intelligence engine, has assisted the Group's products fine operation and has been of benefit to the growth of in-app traffic monetisation business. Overall, the Group recorded a revenue of approximately RMB1,181.6 million for the year ended 31 December 2020, representing a rise of approximately 203.2% over that for the year ended 31 December 2019.

The gross profit for the year ended 31 December 2020 amounted to approximately RMB752.5 million, representing an increase of approximately 187.8% from that of approximately RMB261.5 million for the year ended 31 December 2019. The gross profit margins were approximately 63.7% and 67.1% for the years ended 31 December 2020 and 2019, respectively. The decrease in gross profit margin for the year ended 31 December 2020 was mainly due to the revenue sharing to streamer of the Group's social networking business and increase in the payment handling cost. Meanwhile, the selling and marketing expenses increased by over 3 times to approximately RMB483.5 million for the year ended 31 December 2020 as compared to that for the year ended 31 December 2019. The significant increase was mainly due to the escalation of the cost for advertising placement for the Group's proprietary app monetisation business as the Group continued its promotional efforts in marketing its apps in the global market. Overall, the profit for the year enhanced from approximately RMB68.4 million for the year ended 31 December 2019 to approximately RMB114.3 million for the year ended 31 December 2020, representing a growth of approximately 67.1%. However, it is noteworthy that the profit for the year attributable to the Shareholders for the year ended 31 December 2020 amounted to only approximately RMB39.7 million, which represents a drop of approximately 41.9% from that for the year ended 31 December 2019. This is mainly due to the segmental loss incurred from traffic monetisation business which negatively impacted the Group's profitability in 2020.

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For the six months ended 30 June 2021, the revenue of value-added service business amounted to approximately RMB821.1 million, representing a jump of over 50 times as compared to that of approximately RMB15.8 million for the corresponding period in 2020. The increase was primarily because (i) through continuous research and development, the Group has created a social networking product matrix, creating a variety of video and audio social networking scenarios to meet the diversified social networking needs of users, which has been of benefit to the rapid growth of the Group's product users base and revenue; (ii) with the sophisticated and localised operations, the Group provided users with an immersive experience that enhancing user stickiness and improving the realisation potential of products; and (iii) through intensive investment in market expansion, the Group's social networking products made breakthroughs in high value markets such as North America and Europe, the user value and realisation efficiency significantly improved. The revenue of traffic monetisation business amounted to approximately RMB217.3 million for the six months ended 30 June 2021, representing an increase of approximately 61.6% as compared to that of approximately RMB134.5 million for the corresponding period in 2020. The increase was primarily attributable to Solo Aware has continued to improve in various aspects and upgraded a more mature user scenario engine, which have facilitated product research, operation and promotion, and improved realisation efficiency of the products. Overall, the Group recorded a revenue of approximately RMB1,038.5 million for the six months ended 30 June 2021, representing a rise of almost 6 times over that for the corresponding period in 2020.

The gross profit for the six months ended 30 June 2021 amounted to approximately RMB523.0 million, representing an increase of over 3 times from that of approximately RMB116.7 million for the corresponding period in 2020. The Group's gross profit margins were approximately 50.4% and 77.6% for the six months ended 30 June 2021 and 2020, respectively. The decline in gross profit margin was mainly due to the increase in revenue sharing to streamer of the Group's social networking business and payment handling cost. Meanwhile, the selling and marketing expenses increased by approximately 208.0% to approximately RMB291.7 million for the six months ended 30 June 2021 from that for the corresponding period in 2020. The significant increase was mainly due to the Group continued its promotional efforts in marketing its apps in the global market. Overall, the profit for the period enhanced from approximately RMB3.4 million for the six months ended 30 June 2020 to approximately RMB138.4 million for the six months ended 30 June 2021, representing a surge of over 39 times. Moreover, the profit for the period attributable to the Shareholders amounted to approximately RMB37.4 million which represents an increase of almost 10 times from that for the corresponding period in 2020.

Furthermore, as mentioned in the profit alert announcement of the Company dated 8 March 2022, it is noted that, among other things, (i) total revenue of the Group for the year ended 31 December 2021 was expected to be approximately RMB2,300 million to RMB2,400 million, representing an increase of approximately 100% as compared to that for the year ended 31 December 2020, and such expected increase was primarily a result of the rapid growth of social networking business (including the increase in user base, the

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improvement in users' value and successful entrance into the developed market); and (ii) the adjusted net profit, being profit for the year adjusted by share-based compensation expenses and deducting their tax effects, of the Group for the year ended 31 December 2021 was expected to be approximately RMB300 million to RMB320 million, representing an increase of nearly 100% as compared to that for the year ended 31 December of 2020 and such expected increase was mainly due to the continuous rapid increase of the net profit in social networking business.

(c) Financial position of the Group

Set out below is a summary of the financial position of the Group as at 31 December 2019 and 2020 and 30 June 2021.

	As at 30 June	As at 31 December	
	2021	2020	2019
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
ASSETS			
Non-current assets			
Intangible assets	246,800	267,189	3,933
Goodwill	197,287	197,287	5,066
Financial assets measured at fair value through profit or loss	8,911	6,495	187,356
Others	34,449	34,498	6,960
	487,447	505,469	203,315
Current assets			
Accounts receivable	135,363	144,386	163,383
Financial assets measured at fair value through profit or loss	152,218	178,009	132,651
Cash and cash equivalents	607,619	431,015	182,863
Others	13,726	9,285	95,348
	908,926	762,695	574,245
LIABILITIES			
Current liabilities			
Accounts payable	156,799	155,937	89,938
Other payable	224,164	234,593	32,575
Others	22,008	18,957	8,514
	402,971	409,487	131,027
Net current assets	505,955	353,208	443,218

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	As at 30 June 2021 (RMB'000)	As at 31 December 2020 (RMB'000)	2019 (RMB'000)
Non-current liabilities			
Deferred tax liabilities	51,516	71,567	8,914
Lease liabilities	4,410	102	3,074
	<u>55,926</u>	<u>71,669</u>	<u>11,988</u>
EQUITY			
Equity attributable to the			
Shareholders	587,518	536,472	634,545
Non-controlling interests	349,958	250,536	–
	<u>937,476</u>	<u>787,008</u>	<u>634,545</u>

In August 2020, the Group acquired additional stakes of approximately 23.3% in Beijing Mico and increased its equity interest in Beijing Mico to an aggregate of approximately 48.9% as a result. After taking into account certain arrangements with some other shareholders of Beijing Mico, the Group was able to take control over Beijing Mico and consolidate the accounts of Beijing Mico into that of the Group (the “**Consolidation**”). Accordingly, the Group’s total assets grew from approximately RMB777.6 million as at 31 December 2019 to approximately RMB1,268.2 million as at 31 December 2020, representing an increase of approximately 63.1%. In particular, the Consolidation led to increases in intangible assets, goodwill, cash and cash equivalents of the Group. Furthermore, the total liabilities of the Group, largely comprising accounts payable and other payable, also increased as a result of the Consolidation from approximately RMB143.0 million as at 31 December 2019 to approximately RMB481.2 million as at 31 December 2020, representing an increase of approximately 236.5%. Overall, the equity attributable to the Shareholders decreased from approximately RMB634.5 million as at 31 December 2019 to approximately RMB536.5 million as at 31 December 2020. The decrease was mainly due to the excess of the consideration paid for the acquisition of 23.27% stakes in Beijing Mico as mentioned above over the carrying amount of the non-controlling interests acquired.

As at 30 June 2021, the Group’s total assets grew to approximately RMB1,396.4 million from approximately RMB1,268.2 million at the end of 2020, representing an increase of approximately 10.1%. The increase was primarily attributable to the rise in cash and cash equivalents from approximately RMB431.0 million as at 31 December 2020 to approximately RMB607.6 million as at 30 June 2021. On the other hand, the total liabilities of the Group decreased from approximately RMB481.2 million as at 31 December 2020 to approximately RMB458.9 million as at 30 June 2021. The decrease was primarily attributable to the drop in deferred tax liabilities from approximately

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RMB71.6 million at the end of 2020 to approximately RMB51.5 million as at 30 June 2021. Overall, the equity attributable to the Shareholders increased from approximately RMB536.5 million as at 31 December 2020 to approximately RMB587.5 million as at 30 June 2021, chiefly attributable to the profit generated in the first half of 2021.

As at 30 June 2021, the Group maintained a healthy working capital position (i.e. net current assets) of approximately RMB506.0 million, representing an increase of approximately 43.2% from that as at 31 December 2020 mainly as a result of the improved cash position. The Group's gearing ratio, calculated as total liabilities divided by total assets, was approximately 32.9% as at 30 June 2021, down from approximately 37.9% as at the 31 December 2020.

In 2020 and 2021, the Company acquired additional stakes in Beijing Mico and the total outstanding cash consideration remain to be settled as at 31 December 2021 amounted to approximately RMB395.8 million (the “**Mico Cash Consideration**”). Furthermore, the Company completed a placing of 92,366,000 new Shares at HK\$3.80 per Share in January 2022 (the “**Top-up Placing**”). The net proceeds (after deducting all the applicable costs and expenses) from the Top-up Placing was approximately HK\$347.0 million (equivalent to approximately RMB284.4 million). Based on our review of the Group's unaudited balance sheet as at 31 December 2021, we note that the Group's cash and cash equivalents and net current assets were approximately RMB750.3 million and approximately RMB407.0 million as at 31 December 2021, representing an increase of approximately 23.5% and a decrease of approximately 19.6% respectively from those as at 30 June 2021. Assuming the Top-up Placing was completed and the Mico Cash Consideration was settled in December 2021, the Group's cash and cash equivalents and net current assets as at 31 December 2021 would have decreased to approximately RMB638.9 million and increased to approximately RMB691.4 million respectively.

2. Information on Spriver and Chizicheng Strategy Investment

Spriver is an investment holding company incorporated in the British Virgin Islands with limited liability. Mr. Liu Chunhe holds 100% of the issued shares of Spriver.

Chizicheng Strategy Investment, the General Partner, is a wholly-owned subsidiary of Spriver and was incorporated as a limited liability company in the Cayman Islands on 11 January 2022. The General Partner is operated by a market-oriented and professional management team which is composed of three senior executives and three investment professionals. Its senior executives have over 10 years of experience in the industry on average, who worked for top international financial institutions such as GF Securities Co., Ltd., PricewaterhouseCoopers Consultancy (Shanghai) Limited, Zhongzhi Enterprise Group Co., Ltd., Shanshui Congrong Media Investment Limited* (山水從容傳媒投資有限公司), etc., and led investments in extraordinary projects including Quant Group, Mobike and Codemao. The other team members came from Haitou Investment Management, LLC, Deloitte Touche Tohmatsu and Dongxing Securities Co., Ltd.. The management team of the General Partner has rich experience in seeking, negotiating and procuring investment transactions worldwide.

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Mr. LIU Chunhe is in charge of the management of General Partner. Mr. LIU Chunhe is the founder of the Group and he currently serves as the Chairman of the Board and the executive Director of the Company. Mr. LIU Chunhe, who has over 10 years of experience in the overseas internet industry, is one of the first players in the internalisation of China mobile internet. His advantages include exploration of opportunities in extended industry market segments, innovative commercial models and deep research and unique insights particularly into strangers' social interaction, games, mobile app and advertising platform business. Leveraging his extended experience in the industry, Mr. LIU Chunhe had participated in the investment management business of Tibet Zhirui Venture Capital Enterprise (Limited Partnership) (西藏志睿創業投資企業(有限合夥)) and Ningbo Meishan Bonded Port Area Meiling Overseas Investment Partnership (Limited Partnership)* (寧波梅山保稅港區梅嶺出海投資合夥企業(有限合夥)) as a consultant, providing industry consultancy advices for the two funds during selecting target projects and investment decision-making, and participated in 14 successful investment projects, including Hangzhou Hexiang Network Technology Limited (杭州河象網絡科技有限公司), Fuzhou Baijing Network Technology Limited (福州白鯨網絡科技有限公司), Guangzhou Yongwang Technology Limited (廣州勇往科技有限公司), etc., the total investment amount of which exceeded RMB100 million. Founded in 2016, Tibet Zhirui Venture Capital Enterprise (Limited Partnership) (西藏志睿創業投資企業(有限合夥)) has a target size of RMB310,100,000 with duration period of 7 years. Its investments include games, social networking, ecommerce business, online education and supply chain services and others based on traffic monetisation. Founded in 2016, Ningbo Meishan Bonded Port Area Meiling Overseas Investment Partnership (Limited Partnership)* (寧波梅山保稅港區梅嶺出海投資合夥企業(有限合夥)) has a target size of RMB35,010,000 with duration period of 7 years. Its investments include advertisement, internet finance, social networking community, games and others. In view of the above, we consider Mr. LIU Chunhe possessing relevant experience in taking the role as the General Partner to manage the Fund. For further details of Mr. LIU Chunhe, please refer to the Company's annual report of 2020.

3. Reasons for and benefits of the establishment of the Fund under the Partnership Agreement

The Group has been a mobile app developer and mobile advertising platform services provider. In 2020, the Group has scaled down the development of the mobile advertising platform and related business in view of the global economic downturn and the outbreak of the novel coronavirus pandemic. In contrast, the Group had put in more resources to develop its games and social networking segments based on sizable traffic ecology and data previously accumulated. In recent years, the launch of several social networking products, such as Yiyo and Yummy, and a series of acquisitions of the equity interests in Beijing Mico and its successor holding the core applications including MICO further enhanced the Group's footprint in social networking segment. Currently, the Group focuses on the global open social networking sector, as well as emerging modes in social networking including video and audio formats, creating a range of diversified social networking products including video social networking, audio social networking and live-streaming social networking.

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As stated in the letter from the Board contained in the Circular, the purposes of the Fund include, among other things, (a) to participate in the going-private transaction of BlueCity by making equity investment in the buyer consortium which will be formed for the purpose of acquiring all of the outstanding ordinary shares of BlueCity that are not beneficially owned by the buyer consortium; (b) to focus on achieving capital growth primarily through privately negotiated equity and equity-related investments in companies that operate in a variety of sectors, primarily in companies driven by TMT (Telecommunication, Media, Technology), Metaverse, social media and electronic game demand of the global market. According to BlueCity's recent announcement (<https://ir.blue-city.com/node/7231/pdf>), BlueCity is an online community of LGBTQ providing a suite of services to foster connections and enhance the wellbeing of the LGBTQ community. It fulfills the needs of its members through a range of services, including social networking, livestreaming and health-related services.

Also as stated in the letter from the Board contained in the Circular, the Fund will expand its reach in global market, center on the field of TMT with a primary focus on opportunities for investment in Metaverse, social networking and game and other industries, including but not limited to businesses such as social networking and game products targeting different users and communities, avatar creation, copyrights of music content, augmented reality and virtual reality. Leveraging on the Fund to be established pursuant to the Partnership Agreement, the Company could benefit from the followings.

- (a) Firstly, participation in the establishment of the Fund and the going-private transaction of BlueCity can enable the Company to effectively reach LGBTQ community users and expand the user base that the Company can serve. The social products currently owned by the Company are not specifically for LGBTQ groups. Participation in the going-private transaction of BlueCity through the Fund can promote the two companies to carry out business cooperation. According to the third quarterly report of 2021 published by BlueCity, its monthly active users reached 7.5 million. The number of users of LGBTQ group of such size can bring the Company more accurate cutting-edge insight into this group, so that the Company can get involved in user communities that have not been reached before. At the same time, it can also enable the Company to obtain potential return on investment. BlueCity made continuous losses and its current market valuation is at an all-time low since its listing. Focuses on the global open social networking sector, the Company has successfully created a range of excellent social products and accumulated a lot of valuable experience in the operation and liquidity of global social products. After the successful privatisation of BlueCity, the Company can use the existing operation and realisation experience to empower BlueCity, improve its operation efficiency, improve its profitability, recover its value, and then enable the Company to obtain the return on investment through the Fund. The General Partner and Spriver have undertaken to the Company that after the successful privatisation of BlueCity, the Company shall have the right to access BlueCity's operational data and a priority right to cooperate and conduct business with BlueCity.

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- (b) Secondly, considering that the Company lays strategic emphasis and major operational emphasis respectively in continuous progress in social networking as well as gaming business and multi-media social networking products together with the development and operation of gaming products, participating in the investment of the Fund can ensure that the Company focuses on its principal business without allocation of a large amount of internal resources to selecting, analysing and evaluating potential investment projects so that the Company could grow and expand on the basis of its existing principal businesses and enhance its industry influence and solidify its industry foundation. In addition to making full use of the professional investment expertise and experience of the fund manager to diversify the Company's investment portfolio, rationally use its idle funds, and create more income and return on investment for the Company and its shareholders, the Company could grow and expand on the basis of its existing principal businesses and enhance its industry influence and solidify its industry foundation. It is also of benefit to the Company's forward-looking strategic plans as the Partnership is expected to serve as a platform for the Company to pursuit new development opportunities and expand business scope.

- (c) Thirdly, participation in the investment of the Fund can bring insights into potential business opportunities for the Company. The Fund will mainly invest in the quality enterprises in the field of technology, media, and telecom. The target users of its investees have more overlapping with those of the Company. By participating in the investment of the Fund, the Company can obtain quarterly and annual operation reports of the Fund, attend the Fund's annual meeting and occasional industry exchange meetings, etc. The above reports and meetings can give the Company more relevant information of the market, allow the Company to learn more about the changing trends of the international users-based social networking and game industry, keep an on-going insight into industry innovation models, actively seize good opportunities in the development of the industry, and facilitate the Company in achieving its strategic goals.

- (d) Fourthly, participation in the investment of the Fund gives the Company access to opportunities of establishing connection with investment targets and/or investees operating in similar or related industries to facilitate future cooperation.

Having considered the principal businesses of the Group, the continuous development of business in social networking sector by the Group and the purposes of the Fund, including the acquisition of BlueCity, which is engaged in the online social networking platform of LGBTQ, we concur with the view of the Board that the investment in the Fund could allow the Group to grow and expand its principal businesses and the investment in the Fund aligns with the business strategies and plans of the Group.

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4. Principal terms of the Partnership Agreement

Parties

- (i) Chizicheng Strategy Investment (as the General Partner);
- (ii) The Company (as the Limited Partner); and
- (iii) Spriver (as the Limited Partner).

Term and Commitment Period

The Fund shall be terminated upon the first to occur of any of the following events:

- (a) the expiry of the term of the Partnership, being the 10th (tenth) anniversary of the Final Closing, provided that the General Partner may extend the term of the Partnership for up to two consecutive one year periods at its discretion and for further period(s) with the consent of the Advisory Committee;
- (b) the commencement of liquidation, bankruptcy or dissolution proceedings in respect of, the making of a winding up or dissolution order in relation to, or the withdrawal or removal of the General Partner unless another person is appointed as general partner pursuant to the Partnership Agreement within 90 days;
- (c) following the Commitment Expiration Date, the date as at which all Portfolio Investments have been disposed of; or
- (d) the determination by the General Partner at any time that such earlier dissolution and termination would be in the best interests of the Limited Partners.

The Commitment Period commences on the Initial Closing and ends on the eighth anniversary of the Final Closing. The General Partner may terminate the Commitment Period at any time if:

- (a) over 75% of the aggregate Commitments are drawn down; or
- (b) in the good faith judgment of the General Partner, changes in applicable law or regulations or in business conditions make early termination of the Commitment Period necessary or advisable.

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Principal purpose of the Fund

The Fund shall operate from a global perspective, and the purposes of the Fund are:

- (a) to participate in the going-private transaction of BlueCity by making equity investment in the Buyer Group which will be formed for the purpose of acquiring all of the outstanding ordinary shares of BlueCity that are not already beneficially owned by the Buyer Group.

As confirmed by the General Partner, as of the Latest Practicable Date, the Fund has no potential investment target other than BlueCity. The General Partner will allocate funds according to the actual needs of the underlying investments of the Fund. As of the Latest Practicable Date, the proposed maximum allocation of fund to invest in the going-private transaction of BlueCity is up to US\$100 million, being the maximum aggregate Commitments of the Partners to the Fund. According to the Partnership Agreement, the General Partner shall adhere to and meet the principal purpose and investment policy of the Fund. Since the possible privatisation of BlueCity is one of the principal purposes, we consider it acceptable for the General Partner to allocate all available capital of the Fund to fulfil the financial obligation required under this possible privatisation;

- (b) to focus on achieving capital growth primarily through privately negotiated equity and equity-related investments including without limitation by way of participating in privatisation transactions similar to (a), whether directly or indirectly, in companies that operate in a variety of sectors, primarily in companies driven by TMT (Telecommunication, Media, Technology), Metaverse, social media and electronic game demand of the global market, in accordance with and subject to the other provisions of the Partnership Agreement;
- (c) to engage in such other activities as the General Partner in good faith deems necessary, advisable or incidental to the foregoing; and
- (d) to engage in any other lawful acts or activities consistent with the foregoing for which exempted limited partnerships may be formed under the ELP Act, provided that the Partnership shall not undertake business with the public in the Cayman Islands (other than so far as may be necessary for the carrying on of the business of the Partnership exterior to the Cayman Islands).

Commitments and Contributions

The aggregate Commitments of the Partners to the Fund and aggregate capital Commitments to the Parallel Funds (if any) shall not exceed US\$100 million. Each Limited Partner irrevocably agrees to make Contributions to the Fund up to, in aggregate,

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the amount specified as its Commitment in its Subscription Agreement. The minimum and maximum aggregate Commitments which the General Partner may accept shall be determined by the General Partner. The aggregate Commitments to the Fund and capital Commitments to any of the Parallel Funds (if any) of the General Partner shall as of the Final Closing equal to at least 0.1% of the aggregate Commitments of the Partners to the Fund and the capital Commitments to the Parallel Funds. As confirmed by the General Partner, as of the Latest Practicable Date, there was no plan to establish any Parallel Fund in the foreseeable future.

Pursuant to the Partnership Agreement, the respective capital Commitments of the Partners is set out below:

Partners	Type	Capital Commitment amount (US\$ million)	Percentage of the interest in the Fund
Chizicheng Strategy Investment	General Partner	0.1	0.1%
The Company	Limited Partner	50.0	50.0%
Spriver	Limited Partner	49.9	49.9%
Total		<u>100.0</u>	<u>100.0%</u>

Under the Partnership Agreement, the Company shall perform its Contribution obligations on time after receiving the Drawdown Notice issued by the General Partner. Currently, the going-private transaction of BlueCity has not been approved by the Special Committee of BlueCity, and the Buyer Group has not executed the agreement with BlueCity with respect to the going-private transaction. The timetable of the going-private transaction is uncertain. As stated in the letter from the Board contained in the Circular, the Company considered the above factors and the progress of going-private transaction, it is currently estimates that the time of actual Contribution to the Fund is before 31 July 2022.

Distributions

The General Partner may withhold, on a pro rata basis, from any distributions such amounts as it reasonably considers necessary to create appropriate reserves for Partnership Expenses and liabilities, contingent or otherwise (including liabilities for indemnities, made in connection with any actual or proposed Disposition), of the Partnership as well as for any required tax withholdings, subject to which, income shall be distributed as soon as practicable and in any case within ninety (90) Business Days after the date such Income is received by the Partnership, and disposition Proceeds from a Portfolio Investment, or any portion of a Portfolio Investment shall be distributed as soon as practicable and in any case within ninety (90) Business Days after the date such Disposition Proceeds are received by the Partnership.

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Net Proceeds in respect of each Portfolio Investment will be allocated in the first instance to the Limited Partners in proportion to each of their Percentage Interest with respect to such Portfolio Investment. Each Limited Partner's share of Net Proceeds will then be further allocated and distributed to such Limited Partner and the General Partner in the following amounts and order of priority:

- (i) Return of Contributions: first, 100% to the Limited Partner until such Limited Partner has received cumulative distributions of:
 - (a) the amount of Contributions used to meet the cost of investment of the Portfolio Investment to which the distribution relates (less any Income in respect of such Portfolio Investment previously distributed to the Limited Partner);
 - (b) the amount of the Limited Partner's share of: (1) any realised losses on the sale of any other Portfolio Investments; and (2) aggregate unrealised losses on any Portfolio Investments to the extent that the General Partner has determined that such Portfolio Investments are clearly and permanently impaired; and
 - (c) the amount of Contributions used other than for investment in Portfolio Investments (including to meet any Partnership expenses);
- (ii) Preferred return: second, 100% to the Limited Partner until the cumulative distributions to such Limited Partner represents an 8% cumulative compounded per annum rate of return on the Contributions referred to in (i) above, calculated from the date on which the relevant Contribution was paid to the date on which it was repaid;
- (iii) General Partner catch-up: third, 100% to the General Partner until the General Partner has received 20% of the sum of the amount distributed to the Limited Partner pursuant to paragraph (ii) above and to the General Partner pursuant to this paragraph (iii); and
- (iv) 80/20 split: thereafter, 80% to such Limited Partner and 20% to the General Partner.

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Escrow and Claw-back

The General Partner shall establish an Escrow Account in its name. The General Partner shall be required upon receipt of any Carried Interest to deposit into such Escrow Account, an amount equal to 100 per cent of such Carried Interest. No portion or amount of monies standing to the credit of the Escrow Account may be used or paid out by the General Partner or otherwise distributed by the General Partner during the term of the Fund save that the General Partner may pay out of or release monies from the Escrow Account:

- (i) prior to termination of the Partnership, if all Contributions have been reimbursed to the Limited Partners;
- (ii) at termination of the Partnership, provided that the Escrow Account will first be applied to satisfy any obligations of the General Partner arising under the Partnership Agreement; or
- (iii) if the Limited Partners agree by Super Majority Consent.

If at termination of the Partnership, the aggregate of all distributions of Carried Interest to the General Partner exceeds the amount that would have been distributed to the General Partner as Carried Interest had the Partnership Agreement been applied on an aggregate basis covering all transactions of the Partnership during its term (such excess the “**Claw-back Amount**”), the General Partner will be required to return to the Partnership an amount equal to the Claw-back Amount, such obligation first being satisfied by the funds standing to the credit of the Escrow Account pursuant to the Partnership Agreement. The Claw-back Amount will be allocated to the Limited Partners on a pro rata basis.

Management and control

The Fund shall be exclusively managed by the General Partner. The Company, as a Limited Partner, does not control the Fund and therefore does not consolidate the financial statements of the Fund and the companies held by the Fund.

Investment Committee

The General Partner shall establish an Investment Committee which shall consist of five members, including three representatives of the General Partner, a representative of the Company and a representative of Spriver. The principal functions of the Investment Committee are making recommendations on, reviewing and approving proposed investments and divestments of the Fund, monitoring the investment process of the Fund, and any other tasks and authorities delegated to the Investment Committee by the General Partner. Decisions of the Investment Committee shall be taken by simple majority among those members present at any quorate meeting thereof, provided that the Company shall have a veto right over all decisions to be taken by the Investment Committee.

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Management fees

The General Partner will receive a management fee, out of the assets of the Fund, each year, equivalent to 1% (one percent) per annum of the aggregate amount of Contributions to be made by each Limited Partner in respect of Portfolio Investments, less Contributions to be made by each Limited Partner in respect of Portfolio Investments that have been realised, disposed of or written off as at the relevant date.

Transfers by the Limited Partners

A Limited Partner may not effect a transfer of, or grant a security interest over, its interest in whole or in part to any person (a transferee) without the prior written consent of the General Partner.

Limited liability of the Limited Partners

Except as provided by applicable law or otherwise agreed by the Limited Partner:

- (a) a Limited Partner shall not have any personal liability whatsoever in its capacity as a Limited Partner, whether to the Partnership, to any of the Partners, or to the creditors of the Partnership, for the debts, liabilities, contracts, or other obligations of the Partnership or for any losses of the Partnership; and
- (b) a Limited Partner's obligation to make Contributions to the Partnership shall be limited to such Limited Partner's obligation to make Contributions, in aggregate, equal to the full amount of its Commitment in accordance with, and subject to, the Partnership Agreement.

For further details of the principal terms of the Partnership Agreement, please refer to the letter from the Board contained in the Circular.

5. Market comparable analysis

In order to further assess the fairness and reasonableness of the terms of the Partnership Agreement, we compared its principal terms against those of similar fund partnership agreements (the "**Comparable Partnerships**") entered into and announced by companies listed on the Stock Exchange from 13 December 2021, being one month prior to the date of announcement of the proposed establishment of the Fund by the Company, up to the Latest Practicable Date (the "**Comparable Partnerships Review Period**"). Overall, we identified 24 Comparable Partnerships, which are considered exhaustive, fair and representative of relevant fund partnership agreements based on the said criteria above.

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Set out below is a summary comparing the principal terms of the Partnership Agreement and the Comparable Partnerships as set out in the relevant announcements.

		Distribution policy													
Date of announcement	Stock code	Company name	Percentage of capital contribution	One or more LP and GP are in the same group of company (excluding the relevant listed company and its ("LP" subsidiaries)	General partner ("GP")	Limited partner ("LP")	Duration (number of year)	Investment period (number of year)	Extension of duration	Annual management fee and executive partner's fee, if applicable	Distribution mechanism	Threshold rate for distribution of capital contribution after return of capital contribution	Distribution of excess profit to the GP after the return of capital contribution and distribution of limited return	Restriction on transfer by limited partner	Investment scope(s) (and region(s), if applicable)
25 February 2022	1109	China Resources Land Limited ("CR Land")	0.01%	99.99%	Yes	5	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Approval by all partners, except for the GP and one of the LP not subject to such a restriction	Development of a project located at Hengqin New District, Zhuhai

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Distribution policy

Date of announcement	Stock code	Company name	Percentage of capital contribution		Duration (number of year)	Investment period (number of year)	Extension of duration	Annual management fee and executive partner's fee, if applicable	Distribution mechanism	Threshold rate for distribution of capital contribution after return of capital contribution	Distribution of excess profit to the GP after the return of capital contribution and transfer by limited partner	Investment scope(s) (and region(s), if applicable)	
			General partner ("GP")	Limited partner ("LP") subsidiaries)									
23 February 2022	2611	Guotai Junan Securities Co., Ltd. ("Guotai Junan")	1.12%	98.88%	7	4	Yes	Approximately 1.91%, being the weighted average of 2% for investment period of 4 years and 1.8% for exit period of 3 years	(1) Return capital contribution to the LP; (2) remaining balance shall be distributed as hurdle return to the LP according to the threshold rate; (3) after hurdle return, compensation will be distributed to the GP up to "hurdle return ÷ 80% x 20%"; (4) any excess profit after the processes numbered (1) to (3) above will be distributed as to 20% to the GP and 80% to the LP.	Annualised return rate of 8%	20% N/A	Fintech industry	
21 February 2022	32	The Cross-Harbour (Holdings) Limited ("Cross-Harbour") (Francisco Partners VII-A, L.P.) ("Cross-Harbour Partnership I")	N/A	N/A	10	N/A	Yes	1.5%	N/A	N/A	N/A	Approval by the GP	N/A

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Distribution policy

Date of announcement	Stock code	Company name	Percentage of capital contribution		Duration (number of year)	Investment period (number of year)	Extension of duration	Annual management fee and executive partner's fee, if applicable	Distribution mechanism	Threshold rate for distribution of capital contribution after return of capital contribution	Distribution of excess profit to the GP after the return of capital contribution and transfer by limited partner	Investment scope(s) (and region(s), if applicable)	
			General partner ("GP")	Limited company ("LP") subsidiaries)									
21 February 2022	32	Cross-Harbour (Francisco Partners Agility III-A, L.P.) ("Cross-Harbour Partnership II")	N/A	N/A	10	N/A	Yes	1.5%	N/A	N/A	N/A	Approval by the GP	
8 February 2022	1611	Huobi Technology Holdings Limited ("Huobi")	N/A	N/A	3	2	Yes	2.0%	(1) Return capital contribution to the LP; (2) remaining balance shall be distributed as hurdle return to the LP according to the threshold rate; (3) any excess profit after the processes numbered (1) and (2) above will be distributed as to 20% to the GP and 80% to the LP.	Annualised return rate of 8%	20%	N/A	Cryptocurrency mining ecosystem
31 January 2022	412	China Shandong Hi-Speed Financial Group Limited ("Shandong Hi-Speed")	0.12%	99.88%	8	6	Yes	0.3%	Distribution according to the capital contribution of partners.	N/A	N/A	Approval by all partners	Infrastructure construction and public service facilities construction

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Distribution policy

Date of announcement	Stock code	Company name	Percentage of capital contribution		Duration (number of year)	Investment period (number of year)	Extension of duration	Annual management fee and executive partner's fee, if applicable	Distribution mechanism	Threshold rate for distribution of capital after return of contribution	Distribution of excess profit to the GP after the return of capital contribution and distribution of limited hurdle return partner	Investment scope(s) (and region(s), if applicable)
			General partner ("GP")	Limited company partner and its ("LP") subsidiaries								
28 January 2022	1051	G-Resources Group Limited ("G-Resources")	N/A	N/A	10	N/A	Yes	2.0%	Investment proceeds from any investment shall be apportioned preliminarily among the partners in proportion to their sharing percentages with respect to the applicable investment.	N/A	N/A	"Breakout" stage investments in technology companies
28 January 2022	6699	Angelalign Technology Inc. ("Angelalign")	9.09%	90.91%	N/A	N/A	N/A	0.0%	Distribution according to the capital contribution of partners.	N/A	N/A	Innovative digital technologies and products globally across the digital orthodontic value chain

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Distribution policy

Date of announcement	Stock code	Company name	One or more LP and GP are in the same group of company (excluding the relevant listed company and its ("LP" subsidiaries)	Percentage of capital contribution	General partner ("GP")	Limited partner ("LP")	Duration (number of year)	Investment period (number of year)	Extension of duration	Annual management fee and executive partner's fee, if applicable	Distribution mechanism	Threshold rate for distribution of capital contribution after return of capital contribution	Distribution of excess profit to the GP after the return of capital contribution and transfer by limited partner	Investment scope(s) (and region(s), if applicable)
24 January 2022	2196	Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (Suzhou Xingsheng Yuanfeng Venture and Investment Partnership (Limited Partnership)) ("Shanghai Fosun I")	No	98.3%	1.7%	7	3	Yes	2.0%	(1) Return capital contribution to the LP; (2) return capital contribution to the GP; (3) remaining balance shall be distributed as hurdle return to the LP according to the threshold rate; (4) after hurdle return, compensation will be distributed to the GP up to "hurdle return ÷ 80% x 20%"; (5) any excess profit after the processes numbered (1) to (4) above will be distributed to the GP in proportion to the GP's contribution and the remaining balance shall be distributed as to 20% to the GP and 80% to the LP.	Annualised return rate of 8%	20%	N/A	Early stage enterprises in the biomedical and healthcare industries

LETTER FROM SOMERLEY

Distribution policy

Date of announcement	Stock code	Company name	Percentage of capital contribution		One or more LP and GP are in the same group of company (excluding the relevant listed company and its ("LP" subsidiaries))	Duration (number of year)	Investment period (number of year)	Extension of duration	Annual management fee and executive partner's fee, if applicable	Distribution mechanism	Threshold rate for distribution of capital after return of contribution	Distribution of excess profit to the GP after the return of capital contribution and transfer by limited partner	Investment scope(s) and region(s), if applicable)	
			General partner ("GP")	Limited partner ("LP")										
18 January 2022	750/956	China Shuifa Singyes Energy Holdings Limited/China Sunten Green Energy Corporation Limited ("China Shuifa")	0.556%	99.444%	Yes	7	5	Yes	Approximately 0.66%, being the weighted average of 0.8% for investment period of 5 years and 0.3% for exit period of 2 years	(1) Return capital contribution to the LP; (2) return capital contribution to the GP; (3) remaining balance shall be distributed to partners as hurdle return according to the threshold rate; (4) any excess profit after the processes numbered (1) to (3) above will be distributed to GP and LP.	Annualised return rate of 6%	N/A	N/A	Wind power, photovoltaics, hydrogen energy, energy storage, integrated smart energy, etc.

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Distribution policy

Date of announcement	Stock code	Company name	Percentage of capital contribution	General partner ("GP")	Limited partner ("LP")	Subsidiaries	One or more LP and GP are in the same group of company (excluding the relevant listed company and its subsidiaries)	Duration (number of year)	Investment period (number of year)	Extension of duration	Annual management fee and executive partner's fee, if applicable	Distribution mechanism	Threshold rate for distribution of capital contribution after return of capital contribution	Distribution of excess profit to the GP after the return of capital contribution and transfer by limited partner	Restriction on distribution of limited partner	Investment scope(s) (and region(s), if applicable)
10 January 2022	111	Cinda International Holdings Limited ("Cinda")	1.0%	99.0%	Yes	5	N/A	Yes	(1) Return capital contribution to partners; (2) remaining balance shall be distributed to partners as hurdle return according to the threshold rate; (3) after hurdle return, compensation will be distributed to the GP up to 25% of the hurdle return to the LP; and (4) any excess profit after the processes numbered (1) to (3) above will be distributed as to 20% to the GP and 80% to the LP.	1.7%, being the weighted average of 2.0% for the first two years and 1.5% for the following three years	(1) Return capital contribution to partners; (2) remaining balance shall be distributed to partners as hurdle return according to the threshold rate; (3) after hurdle return, compensation will be distributed to the GP up to 25% of the hurdle return to the LP; and (4) any excess profit after the processes numbered (1) to (3) above will be distributed as to 20% to the GP and 80% to the LP.	Annualised return rate of 8%	25%	Approval by the GP	A company engages in the research and development, manufacturing and sales of the photovoltaic encapsulant film	

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Distribution policy

Date of announcement	Stock code	Company name	Percentage of capital contribution	General partner ("GP")	Limited partner ("LP")	One or more LP and GP are in the same group of company (excluding the relevant listed company and its subsidiaries)	Duration (number of year)	Investment period (number of year)	Extension of duration	Annual management fee and executive partner's fee, if applicable	Distribution mechanism	Threshold rate for distribution of capital contribution after return of capital contribution	Distribution of excess profit to the GP after the return of capital contribution and transfer by limited partner	Investment scope(s) (and region(s), if applicable)
7 January 2022	2196	Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (Dalian Xingweilai Venture and Innovation Fund Partnership (Limited Partnership)) ("Shanghai Fosun II")	1.0%	99.0%	No		7	5	Yes	Approximately 1.86%, being the weighted average of 2.0% for investment period of 5 years and 1.5% for divestment period of 2 years	(1) Return capital contribution to the LP; (2) return capital contribution to the GP; (3) remaining balance shall be distributed to partners as hurdle return according to the threshold rate; (4) after hurdle return, compensation will be distributed to the GP up to "hurdle return ÷ 80% x 20%"; (5) any excess profit after the processes numbered (1) to (4) above shall be distributed as to 20% to the GP and 80% to the LP up to 300% of the capital contributions; and (6) remaining balance shall be distributed as to 30% to the GP and 70% to the LP.	Annualised return rate of 8%	20% and 30% if the excess profit exceeds 300% of the total capital contribution by all partners (we used 20% for the calculation of mean and median below)	Start-up, early and mid-stage innovative enterprises in the medical equipment, medical technology and related industries in the northern region of the PRC

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Distribution policy

Date of announcement	Stock code	Company name	One or more LP and GP are in the same group of company (excluding the relevant listed company and its subsidiaries)	Percentage of capital contribution		Duration (number of year)	Investment period (number of year)	Extension of duration	Annual management fee and executive partner's fee, if applicable	Distribution mechanism	Threshold rate for distribution of capital after return of contribution	Distribution of excess profit to the GP after the return of capital contribution	Restriction on transfer by limited partner	Investment scope(s) (and region(s), if applicable)
				General partner ("GP")	Limited partner ("LP")									
31 December 2021	697	Shoucheng Holdings Limited ("Shoucheng") (Beijing Lvhe Equity Investment Partnership (Limited Partnership)) ("Shoucheng I")	No	1.0%	99.0%	8	5	Yes	1.0%	(1) Return capital contribution to partners; (2) remaining balance shall be distributed to partners as hurdle return according to the threshold rate; and (3) any excess profit after the processes numbered (1) and (2) above will be distributed as to 20% to the GP and 80% to the LP.	N/A	20%	Approval by the GP and manager of the partnership	Green environmental infrastructures
30 December 2021	245	China Vered Financial Holding Corporation Limited ("China Vered")	No	0.04%	99.96%	10	N/A	Yes	0.4%	(1) Return capital contribution to partners; and (2) remaining balance shall be distributed to the LP.	N/A	N/A	N/A	N/A
24 December 2021	390	China Railway Group Limited ("China Railway")	No	0.04%	99.96%	15	N/A	Yes	0.24%	N/A	N/A	N/A	N/A	Projects in line with national regional development strategies

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Distribution policy

Date of announcement	Stock code	Company name	Percentage of capital contribution		Duration (number of year)	Investment period (number of year)	Extension of duration	Annual management fee and executive partner's fee, if applicable	Distribution mechanism	Threshold rate for distribution of capital contribution after return of capital	Distribution of excess profit to the GP after the return of capital contribution and transfer by limited partner	Investment scope(s) (and region(s), if applicable)
			General partner ("GP")	Limited company ("LP") subsidiaries)								
23 December 2021	183	Winfull Group Holdings Limited ("Winfull")	N/A	1.3% N/A	6	3	Yes	2.0%	(1) Return capital contribution to the LP; (2) remaining balance shall be distributed as hurdle return to the LP according to the threshold rate; (3) after satisfying LP's hurdle return, compensation will be distributed to the GP up to "hurdle return ÷ 80% x 20%"; and (4) any excess profit after the processes numbered (1) to (3) above will be distributed as to 20% to the GP and 80% to the LP.	Annualised return rate of 8%	20%	Approval by the GP Unlisted corporations in the areas of technology or consumer
17 December 2021	1070	TCL Electronics Holdings Limited ("TCL")	80.01%	19.99% No	N/A	N/A	N/A	N/A	Distribution according to the capital contribution of partners.	N/A	N/A	Approval by the GP Core emerging and frontier technology

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Distribution policy

Date of announcement	Stock code	Company name	Percentage of capital contribution	General partner ("GP")	Limited partner ("LP")	One or more LP and GP are in the same group of company (excluding the relevant listed company and its subsidiaries)	Duration (number of year)	Investment period (number of year)	Extension of duration	Annual management fee and executive partner's fee, if applicable	Distribution mechanism	Threshold rate for distribution of capital after return of contribution	Distribution of excess profit to the GP after the return of capital contribution and distribution of limited return partner	Investment scope(s) (and region(s), if applicable)	
17 December 2021	697	Shoucheng (Beijing Shouxin Jin'an Equity Investment Partnership (L.P.)) ("Shoucheng II")	1.0%	99.0%	No	No	7	4	Yes	Approximately 1.57%, being the weighted average of 2.0% for investment period of 4 years and 1.0% for exit period of 3 years	(1) Return capital contribution to partners; (2) remaining balance shall be distributed to partners as hurdle return according to the threshold rate; and (3) any excess profit after the processes numbered (1) and (2) above will be distributed to the GP and the LP.	N/A	N/A	Approval by partners holding at least two-thirds of the interests in the partnership	New metal materials industry

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Distribution policy

Date of announcement	Stock code	Company name	One or more LP and GP are in the same group of company (excluding the relevant listed company and its subsidiaries)	Percentage of capital contribution		Duration (number of year)	Investment period (number of year)	Extension of duration	Annual management fee and executive partner's fee, if applicable	Distribution mechanism	Threshold rate for distribution of capital contribution after return of capital contribution	Distribution of excess profit to the GP after the return of capital contribution and transfer by limited partner	Investment scope(s) (and region(s), if applicable)	
				General partner ("GP")	Limited partner ("LP")									
16 December 2021	2628	China Life Insurance Company Limited ("China Life") (Beijing Xinyuan No. 1 Equity Investment Fund Partnership (Limited Partnership)) ("China Life Partnership I")	Yes	0.066%	99.934%	5	3	Yes	0.23%	(1) Return capital contribution and hurdle return according to the threshold rate to the LP1; (2) return capital contribution and hurdle return according to the threshold rate to the GP1; (3) return capital contribution and hurdle return according to the threshold rate to the other LP; (4) return capital contribution and hurdle return according to the threshold rate to the other GP; and (5) any excess profit after the processes numbered (1) to (4) above will be distributed to the GP and the LP and the allocation to LP1 will be no more than 20% of the excess profits. (Note 3)	Annualised return rate of 6%	N/A	N/A	Green and low-carbon investment targets

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Distribution policy

Date of announcement	Stock code	Company name	Percentage of capital contribution		Duration (number of year)	Investment period (number of year)	Extension of duration	Annual management fee and executive partner's fee, if applicable	Distribution mechanism	Distribution of excess profit to the GP after the return of capital contribution and transfer by distribution of limited partner hurdle return	Investment scope(s) (and region(s), if applicable)	
			General partner ("GP")	Limited partner ("LP") subsidiaries)								
16 December 2021	2628	China Life (Beijing Xindian No. 1 Equity Investment Fund Partnership (Limited Partnership)) ("China Life Partnership II")	0.017%	99.983%	6	5	Yes	0.39%	(1) On an annual basis: (i) hurdle return according to the threshold rate to the LP; (ii) hurdle return according to the threshold rate to the GP; and (iii) hurdle return according to the threshold rate to the other LP. (Note 3)	Annualised return rate of 6%	N/A	Unlisted enterprises in the clean energy sectors
									(2) At the time of exit from investment projects: (i) return capital contribution to partners; (ii) remaining balance shall be distributed to partners as hurdle return according to the threshold rate; and (iii) any excess profit after the processes numbered (i) and (ii) above will be distributed in proportion to partners' contribution.			

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Distribution policy

Date of announcement	Stock code	Company name	One or more LP and GP are in the same group of company (excluding the relevant listed company and its ("LP" subsidiaries))	Percentage of capital contribution		Duration (number of year)	Investment period (number of year)	Extension of duration	Annual management fee and executive partner's fee, if applicable	Distribution mechanism	Threshold rate for distribution of capital after return of capital contribution	Distribution of excess profit to the GP after the return of capital contribution and transfer by limited partner	Investment scope(s) (and region(s), if applicable)	
				General partner ("GP")	Limited partner ("LP")									
16 December 2021	2628	China Life (China) Life Chengda (Wuxi) Equity Investment Center (Limited Partnership) ("China Life Partnership III")	Yes	0.925%	99.075%	8	5	Yes	Approximately 0.81%, being the weighted average of 1.0% for investment period of 5 years and 0.5% for exit period of 3 years	(1) Return capital contribution to the LP except for the special LP; (2) return capital contribution to the GP and the special LP; (3) remaining balance shall be distributed as hurdle return to the LP except for the special LP according to the threshold rate; (4) after satisfying LP' hurdle return, compensation will be distributed to the GP and the special LP up to 20% of the hurdle return to the LP; (5) any excess profit after the processes numbered (1) to (4) above shall be distributed as to 20% to the GP and 80% to the LP.	Annualised compound return rate of 8%	20%	N/A	Medical health and technological innovation sectors

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Distribution policy

Date of announcement	Stock code	Company name	Percentage of capital contribution	General partner ("GP")	Limited company ("LP") subsidiaries)	One or more LP and GP are in the same group of company (excluding the relevant listed company and its subsidiaries)	Duration (number of year)	Investment period (number of year) of duration	Annual management fee and executive partner's fee, if applicable	Distribution mechanism	Threshold rate for distribution of capital after return contribution	Distribution of excess profit to the GP after the return of capital contribution and transfer by limited partner	Investment scope(s) (and region(s), if applicable)	
15 December 2021	6837	Haitong Securities Co., Ltd. ("Haitong")	0.7%	99.3%	Yes	Yes	6	N/A	2.0%	(1) Return capital contribution to partners; (2) remaining balance shall be distributed to partners as hurdle return according to the threshold rate; and (3) any excess profit after the processes numbered (1) to (2) above will be distributed as to 20% to the executive partner (one of the GP) and 80% to the LP and the other GP.	Annualised return rate of 8%	20%	N/A	Culture and internet economy

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Distribution policy

Date of announcement	Stock code	Company name	One or more LP and GP are in the same group of company (excluding the relevant listed company and its ("LP" subsidiaries))	Percentage of capital contribution		Duration (number of year)	Investment period (number of year)	Extension of duration	Annual management fee and executive partner's fee, if applicable	Distribution mechanism	Threshold rate for distribution of capital contribution after return of capital contribution	Distribution of excess profit to the GP after the return of capital contribution and transfer by limited partner	Investment scope(s) (and region(s), if applicable)
				General partner ("GP")	Limited partner ("LP")								
15 December 2021	1100	Mainland Headwear Holdings Limited ("Mainland Headwear")		N/A	2.0%	N/A	3	Yes	2.0%	(1) Return capital contribution to the LP; (2) remaining balance shall be distributed as hurdle return to the LP according to the threshold rate; (3) after satisfying LP's hurdle return, compensation will be distributed to the GP up to "hurdle return ÷ 80% x 20%"; and (4) any excess profit after the processes numbered (1) to (3) above will be distributed as to 20% to the GP and 80% to the LP.	Annualised return rate of 8%	20% Approval by the GP	Unlisted corporations in the areas of technology or consumer

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Distribution policy

Date of announcement	Stock code	Company name	Percentage of capital contribution	General partner ("GP")	Limited partner ("LP")	One or more LP and GP are in the same group of company (excluding the relevant listed company and its subsidiaries)	Duration (number of year)	Investment period (number of year)	Extension of duration	Annual management fee and executive partner's fee, if applicable	Distribution mechanism	Threshold rate for distribution of capital contribution after return of capital contribution	Distribution of excess profit to the GP after the return of capital contribution and transfer by limited partner	Investment scope(s) (and region(s), if applicable)
15 December 2021	3366	Overseas Chinese Town (Asia) Holdings Limited ("OCT Asia")	2.0%	98.0%	Yes	Yes	7	5	Yes	Approximately 1.86%, being the weighted average of 2.0% for the first 5 years and 1.5% for the remaining 2 years	(1) Return capital contribution to partners; (2) remaining balance shall be distributed as hurdle return to partners according to the threshold rate; (3) any excess profit after the processes numbered (1) and (2) above will be distributed as to 20% to the GP and 80% to partners in proportion to partners' contribution.	Annualised return rate of 8%	20% Approval by all partners	(1) strategic new industries like smart home, digital economy, robot, high-end manufacturing, and new material, and (2) upgrade and transformation of the five industrial parks of the Foshan National HI-tech Industrial Development Zone

LETTER FROM SOMERLEY

Distribution policy

Date of announcement	Stock code	Company name	Percentage of capital contribution		One or more LP and GP are in the same group of company (excluding the relevant listed company and its subsidiaries)	Duration (number of year)	Investment period (number of year)	Extension of duration	Annual management fee and executive partner's fee, if applicable	Distribution mechanism	Threshold rate for distribution of return after contribution of capital	Distribution of excess profit to the GP after the return of capital contribution and distribution of hurdle return	Investment scopes (and region(s), if applicable)
			General partner ("GP")	Limited partner ("LP")									
			5.58%	85.15%		7.4	4.1		1.27%		7.50%	20.5%	
			0.96%	99.00%		7.0	4.5		1.54%		8.0%	20.0%	
			80.01%	99.99%		15.0	6.0		2.0%		8.0%	30.0%	
			0.008%	1.30%		3.0	2.0		0.0%		6.0%	20.0%	
13 January 2022	9911	The Company (the Partnership Agreement)	0.1%	99.9%	Yes	10	8	Yes	1.0%	(1) Return capital contribution to the LP; (2) remaining balance shall be distributed as hurdle return to the LP according to the threshold rate; (3) after satisfying LP's hurdle return, compensation will be distributed to the GP up to 20% of the hurdle return to the LP; and (4) any excess profit after the processes numbered (1) to (3) above will be distributed as to 20% to the GP and 80% to the LP.	Annualised return rate	Annualised compound return rate of 8.0%	20% Approval by the TMT, GP meaverse, social media and electronic game demand of the global market

Source: Announcements in respect of the Comparable Partnerships published by the respective companies

Notes:

1. “N/A” denotes not disclosed as the corresponding information was not disclosed in the respective announcement.
2. Threshold rate means the percentage investment return regarding the profit distribution arrangement as stated in the respective agreement of the Comparable Partnerships.
3. “LPI” and “GPI” are partners with higher priority in distribution mechanism.

LETTER FROM SOMERLEY

As illustrated in the table above, the Comparable Partnerships have (i) the percentage of contribution by the LP generally closes to 99%; (ii) the duration ranging from 3 years to 15 years; (iii) the investment period ranging from two to six years and one to four years less than the duration; (iv) annual management fee ranging from 0% to 2.0% with a mean of approximately 1.27% and a median of approximately 1.54%; (v) threshold rate for distribution of hurdle return after return of capital contribution ranging from 6.0% to 8.0% (for annualised return rate) or 8.0% (for annualised compound return rate); and (vi) distribution of excess profit to the GP ranging from 20% to 30%. The corresponding terms of the Partnership Agreement are considered comparable or no less favourable to the Company as compared with those of the Comparable Partnerships. Moreover, certain attributes of the Fund, including one of the Limited Partners and the General Partner are in the same group of company, extension of the duration of the Partnership and restriction on transfer of the Limited Partners, can also be seen in certain Comparable Partnerships.

Furthermore, regarding the distribution mechanism, among the Comparable Partnerships, there were (i) 3 Comparable Partnerships (i.e. Guotai Junan, Winfull and Mainland Headwear) with distribution mechanism identical to that of the Partnership Agreement except these three Comparable Partnerships will distribute compensation to the GP up to 20% of “the LP’s hurdle return ÷ 80%”, as compared to the compensation to the GP will be up to 20% of the aggregate income of the LP under the Partnership Agreement; (ii) 10 Comparable Partnerships (i.e. Huobi, Shanghai Fosun I, China Shuifa, Cinda, Shanghai Fosun II, Shoucheng I, Shoucheng II, China Life Partnership III, Haitong and OCT Asia) with distribution mechanism similar to that of the Partnership Agreement except for minor differences in some specific arrangements; (iii) 7 Comparable Partnerships (i.e. Shandong Hi-Speed, G-Resources, Angelalign, China Vered, TCL, China Life Partnership I and China Life Partnership II) with distribution mechanism not comparable to that of the Partnership Agreement; and (iv) 4 Comparable Partnerships (i.e. CR Land, Cross-Harbour Partnership I, Cross-Harbour Partnership II and China Railway) did not disclose the distribution mechanism in its announcement. Overall, despite not all the Comparable Partnerships follow the same distribution mechanism, the distribution mechanism of the Partnership Agreement is broadly in line with those of the Comparable Partnerships.

6. Financial effects of the establishment of the Fund on the Group

The Fund shall be exclusively managed by the General Partner. The Company, as a Limited Partner, does not control the Fund and therefore does not consolidate the financial statements of the Fund and the companies held by the Fund.

(i) Earnings

As mentioned above, the Fund to be established will carry out investment activities in relation to companies engaged in variety of sectors. The establishment of the Fund is not expected to have any immediate and significant impact on the Group’s earnings. In the longer term, the Fund may bring earnings or losses to the Group when the Group recognises the share of profit or loss and other comprehensive income of the Fund by using the equity method of accounting in the consolidated statement of comprehensive income of the Company. Therefore the financial impact on the Group will be hinged on the actual financial performance of the investments made by the Fund.

LETTER FROM SOMERLEY

(ii) NAV

The consolidated net asset value (the “NAV”) of the Company attributable to the Shareholders as at 30 June 2021 was approximately RMB587.5 million. Upon the establishment of the Fund, the Company’s investment in the Fund will be recorded as investments accounted for using the equity method in the consolidated balance sheet of the Company. The investment in the Fund will be initially recognised at cost and adjusted thereafter to recognise the Group’s share of the post-acquisition profits or losses of the Fund in profit or loss, and the Group’s share of movements in other comprehensive income of the Fund in other comprehensive income. Dividends received or receivable from the Fund are recognised as a reduction in the carrying amount of the investment in the Fund. The establishment of the Fund is not expected to have any immediate material impact on the NAV of the Group. In the long run, the profits or losses and comprehensive income of the Fund will be equity accounted for in the consolidated balance sheet of the Company and hence may affect the NAV of the Group.

(iii) Gearing

The Group’s gearing ratio, being calculated as total liabilities divided by total assets, was approximately 32.9% as at 30 June 2021. As the Company’s Contributions to the Fund will be recognised as investments accounted for using the equity method and the cash and cash equivalents will be reduced on the other hand, both total assets and total liabilities of the Group will remain unchanged. Therefore, there will be no immediate impact on the gearing ratio of the Group after making the Contribution of US\$50.0 million (equivalent to approximately RMB317.5 million) to the Fund.

(iv) Liquidity

As mentioned in the sub-section 1(c) headed “Financial position of the Group”, the Group would have cash and cash equivalents and net current assets of approximately RMB638.9 million and approximately RMB691.4 million as at 31 December 2021, respectively, after taking into account the payment of the Mico Cash Consideration of approximately RMB395.8 million and the receipt of net proceeds of approximately RMB284.4 million from the Top-up Placing. According to the letter from the Board contained in the Circular, the Company’s committed capital Contribution to the Fund under the Partnership Agreement of US\$50.0 million (equivalent to approximately RMB317.5 million) will be satisfied by the Group’s internal resources. Cash and cash equivalents and net current assets of the Group, after adding the net proceeds from the Top-up Placing and deducting the Mico Cash Consideration and the aforesaid capital Contribution to the Fund, would reduce to approximately RMB321.4 million and approximately RMB373.9 million as at 31 December 2021, respectively. Accordingly, we consider that the Company’s committed capital Contributions to the Fund will inevitably tighten the Group’s liquidity. Having said the above, we have obtained and reviewed a working capital forecast prepared by the Management, in which we note that the Group shall continue to have sufficient working capital to meet its financial needs in this year.

LETTER FROM SOMERLEY

DISCUSSION AND ANALYSIS

The Group has been a mobile app developer and mobile advertising platform services provider. In recent years, the Group had put in more resources to develop its games and social networking segments. The launch of several social networking products and a series of acquisitions of the equity interests in Beijing Mico and its successor further enhanced the Group's footprint in social networking segment. Currently, the Group focuses on the global open social networking sector, as well as emerging modes in social networking including video and audio formats, creating a range of diversified social networking products including video social networking, audio social networking and live-streaming social networking.

The purposes of the Fund include, among other things, the participation of the going-private transaction of BlueCity, which is engaged in the online social networking platform of LGBTQ, and investments in companies that operate in a variety of sectors, primarily in companies driven by TMT (Telecommunication, Media, Technology), Metaverse, social media and electronic game demand of the global market. The proposed investment in the Fund by the Group represents another step into the social networking sector and aligns with the business strategies and plans of the Group.

The Company (as the Limited Partner), Spriver (as the Limited Partner) and Chizicheng Strategy Investment (as the General Partner) will enter into the Partnership Agreement for establishing the Fund, which is a typical fund structure whereby the Fund will be managed by the General Partner. The aggregate Commitments of the Partners to the Fund will be US\$100 million (equivalent to approximately RMB635.0 million). The Commitments of the Company, Spriver and Chizicheng Strategy Investment, which are determined based on the respective shareholding percentage in the Fund, will be US\$50 million (equivalent to approximately RMB317.5 million), US\$49.9 million (equivalent to approximately RMB316.9 million) and US\$0.1 million (equivalent to approximately RMB0.64 million), respectively. In addition, it is also a typical arrangement for the limited partners to have limited liabilities to the relevant fund.

Furthermore, we compared the principal terms of the Partnership Agreement against those of the Comparable Partnerships and we note that:

- (i) the duration of the Partnership Agreement is within the range of those of the Comparable Partnerships;
- (ii) the management fee of 1.0% under the Partnership Agreement is below the mean and the median of the management fee of the Comparable Partnerships, and is within the range of those of the Comparable Partnerships;

LETTER FROM SOMERLEY

- (iii) the compensation to the General Partner up to 20% of the Limited Partners' hurdle return and the proportion of distributable profits as to 20% to the General Partner and 80% to the Limited Partners, which are considered no less favourable to the Company after taking into account of the distribution mechanism of the Comparable Partnerships;
- (iv) the other principal terms of the Partnership Agreement, including the percentage of capital Contribution by the General Partner, distribution policy and restriction on transfer by the Limited Partners, are broadly in line with those of the Comparable Partnerships.

The Company, as a Limited Partner, does not control the Fund and therefore does not consolidate the financial statements of the Fund and the companies held by the Fund. The establishment of the Fund is not expected to have any immediate and significant impact on the Group's earnings, NAV or gearing. In the longer term, the Fund may bring additional earnings and enhancement of NAV to the Group subject to the actual financial performance of the investments made by the Fund. The Company's committed capital Contribution of US\$50 million (equivalent to approximately RMB317.5 million) to the Fund will inevitably tighten the Group's liquidity. Nevertheless, having considered the latest working capital position of the Group, the payment of the Mico Cash Consideration, the net proceeds from the Top-up Placing, the Company's committed capital Contribution to the Fund as well as working capital forecast of the Group, we note that the Group shall continue to have sufficient working capital to meet its financial needs in this year.

OPINION AND RECOMMENDATION

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

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

Mr. Danny Cheng is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has over 15 years of experience in corporate finance industry.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As of the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Capacity/Nature of interest	Number of Shares and underlying shares ⁽¹⁾	Approximate percentage of shareholding ⁽²⁾
Mr. LIU Chunhe ⁽³⁾⁽⁵⁾	Interest in a controlled corporation ⁽³⁾	237,806,646	19.96%
	Concert party ⁽⁵⁾	340,928,420	28.62%
	Beneficial owner ⁽⁶⁾	24,000,000	2.01%
Mr. LI Ping ⁽⁴⁾⁽⁵⁾	Interest in a controlled corporation ⁽⁴⁾	73,121,774	6.14%
	Concert party ⁽⁵⁾	340,928,420	28.62%
	Beneficial owner ⁽⁶⁾	6,000,000	0.50%
Mr. Su Jian	Beneficial owner ⁽⁷⁾	9,000,000	0.76%
Mr. Ye Chunjian	Beneficial owner ⁽⁸⁾	6,000,000	0.50%

Notes:

- (1) All interests stated are long positions.
- (2) The calculation is based on the total number of 1,191,216,000 Shares in issue as at the Latest Practicable Date.
- (3) The Shares are registered under the name of Spriver Tech Limited, the issued share capital of which is owned as to 100% by Mr. LIU Chunhe. Accordingly, Mr. LIU Chunhe is deemed to be interested in all the Shares held by Spriver Tech Limited for the purpose of Part XV of the SFO.
- (4) The Shares are registered under the name of Parallel World Limited, the issued share capital of which is owned as to 100% by Mr. LI Ping. Accordingly, Mr. LI Ping is deemed to be interested in all the Shares held by Parallel World Limited for the purpose of Part XV of the SFO.
- (5) Mr. LIU Chunhe and Mr. LI Ping are parties acting in concert (having the meaning ascribed thereto in the Takeovers Code). Accordingly, Mr. LIU Chunhe, Spriver Tech Limited, Mr. LI Ping, Parallel World Limited are each deemed to be interested in the Shares held by themselves under the SFO.
- (6) On 30 August 2021, Mr. LIU Chunhe and Mr. LI Ping were granted 24,000,000 and 6,000,000 share options respectively by the Company under the Share Option Scheme adopted by the Company on 31 May 2021. The grant of 24,000,000 share options to Mr. LIU Chunhe and 6,000,000 share options to Mr. LI Ping is subject to the approval by the independent Shareholders at the EGM.
- (7) On 30 August 2021, Mr. Su Jian was granted 9,000,000 share options by the Company under the Share Option Scheme.
- (8) On 30 August 2021, Mr. Ye Chunjian was granted 6,000,000 share options by the Company under the Share Option Scheme.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company nor their associates had any interest or short positions in the shares, underlying shares or debentures of the Company, its specified undertakings or any of its other associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO and the Companies Ordinance (Cap. 622), to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

3. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As of the Latest Practicable Date, to the best knowledge of the Directors, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying shares were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholder	Capacity/Nature of interest	Number of Shares ⁽¹⁾	Approximate percentage of shareholding ⁽²⁾
BGFG Limited ⁽³⁾	Beneficial owner	100,000,000	8.39%
Phoenix Auspicious FinTech Investment L.P. ⁽⁴⁾	Beneficial owner ⁽⁴⁾	89,210,948	7.49%
Phoenix Wealth (Cayman) Asset Management Limited ⁽⁴⁾	Interest in a controlled corporation ⁽⁴⁾	89,210,948	7.49%
Phoenix Wealth (Hong Kong) Asset Management Limited ⁽⁴⁾	Interest in a controlled corporation ⁽⁴⁾	89,210,948	7.49%
Mr. DU Li ⁽³⁾	Interest in a controlled corporation ⁽⁴⁾	89,210,948	7.49%

Notes:

- (1) All interests stated are long positions.
- (2) The calculation is based on the total number of 1,191,216,000 Shares in issue as at the Latest Practicable Date.
- (3) BGFG Limited is an investment holding company incorporated in the British Virgin Islands with limited liability, which is directly and wholly owned by Mr. WANG Xinming. Mr. WANG Xinming is therefore deemed to be interested in all the Shares held by BGFG Limited under the Securities and Futures Ordinance.
- (4) Phoenix Auspicious FinTech Investment L.P. is an exempted limited partnership established under the laws of Cayman Islands, the general partner of which is Phoenix Wealth (Cayman) Asset Management Limited, an exempted company incorporated under the laws of Cayman Islands. Phoenix Wealth (Cayman) Asset Management Limited is wholly owned by Phoenix Wealth (Hong Kong) Asset Management Limited, a limited company incorporated under the laws of Hong Kong, which is in turn wholly owned by Mr. Du Li. Mr. Du Li is therefore deemed to be interested in all the Shares held by Phoenix Auspicious FinTech Investment L.P. under the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any persons (other than the Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register required to be kept by the Company under section 336 of the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any other persons (other than Directors, supervisors and chief executive of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of the Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

4. OTHER INTERESTS OF DIRECTORS

Save as disclosed in this circular and as at the Latest Practicable Date,

(a) Interests in service contracts

None of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(b) Interests in assets

None of the Directors had any direct or indirect interest in any assets which have, since 31 December 2020, being the date to which the latest published audited consolidated accounts of the Company were made up, been acquired or disposed of by or leased to any member of the Group or were proposed to be acquired or disposed of by or leased to, any member of the Group.

(c) Interests in contracts or arrangements

None of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group.

(d) Competing interest

None of the Directors or their associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors and their associates were appointed to represent the interests of the Company and/or the Group.

5. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, there was no litigation or claim of material importance pending or threatened against any member of the Group.

6. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular or have provided its opinion, letter or advice, which are contained in this circular:

Name	Qualification
Somerley	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

The expert mentioned above has given and has not withdrawn its written consent to the issue of this circular, with the inclusion therein of its letter and the references to its name in the form and context in which they appear respectively.

As at the Latest Practicable Date, the expert mentioned above did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, the expert mentioned above did not have, nor had, any direct or indirect interest in any assets which had been since 31 December 2020, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Company since 31 December 2020 (being the date to which the latest published audited financial statements of the Group were made up).

8. DOCUMENTS ON DISPLAY

The following documents will be posted on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<https://www.newborntown.com/>) for at least 14 days from the date of this circular:

- (i) the Partnership Agreement;
- (ii) the letter from Somerley, the text of which is set out in this circular; and
- (iii) the consent letter of Somerley referred to in the paragraph headed “6. Expert and Consent” of this appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING

赤子城

newborntown

NEWBORN TOWN INC.

赤子城科技有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 9911)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the first extraordinary general meeting of 2022 (the “**Meeting**”) of Newborn Town Inc. (the “**Company**”) will be held at 12/F, Tower A, CEC Development Building, Sanyuanqiao, Chaoyang District, Beijing, PRC on 31 March 2022 at 10:00 a.m. for considering and, if thought fit, passing, with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. To consider and, if thought fit, to approve the establishment of the Fund under the Partnership Agreement;
2. The Directors (or a duly authorised committee thereof) be and are hereby generally and unconditionally authorised to do all such further acts and things and to sign and execute all such other or further documents or agreements and to take all such steps which, in the opinion of the Directors (or a duly authorised committee thereof), may be necessary, appropriate, desirable or expedient to implement and/or give effect to the establishment of the Fund under the Partnership Agreement as are, in the opinion of the Directors (or a duly authorised committee thereof), in the interests of the Company;
3. The grant of share options (the “**Share Options**”) to Mr. LIU Chunhe under the share option scheme adopted by the Company on 31 May 2021 (the “**Share Option Scheme**”) to subscribe for 24,000,000 shares in the share capital of the Company (the “**Share(s)**”) at the exercise price of HK\$4.81 per Share and on the terms and conditions set out in the circular to the shareholders of the Company dated 16 March 2022 (the “**Circular**”) be and is hereby approved and that any one director of the Company (the “**Director(s)**”) be and is hereby authorised to do all such acts and/or execute all such documents as may be necessary or expedient in order to give effect to the foregoing; and

NOTICE OF EXTRAORDINARY GENERAL MEETING

4. The grant of the Share Options to Mr. LI Ping under the Share Option Scheme to subscribe 6,000,000 Shares at the exercise price of HK\$4.81 per Share and on the terms and conditions set out in the Circular be and is hereby approved and that any one Director be and is hereby authorised to do all such acts and/or execute all such documents as may be necessary or expedient in order to give effect to the foregoing.

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

Beijing, 16 March 2022

Registered office:

The offices of Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

Principal place of business

in Hong Kong:
Room 1903-4, Floor 19
Hong Kong Trade Centre
161 Des Voeux Road Central
Hong Kong

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

- (i) A shareholder entitled to attend and vote at the Meeting is entitled to appoint another person as his/her proxy to attend and vote instead of him/her; a proxy need not be a shareholder of the Company. A shareholder who is the holder of two or more shares may appoint more than one proxy to represent him/her and vote on his/her behalf at the Meeting. On a poll, votes may be given either personally or by proxy.
- (ii) In the case of joint holders, any one of such joint holders may vote at the Meeting, either in person or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the Meeting, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined as that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
- (iii) In order to be valid, a form of proxy must be deposited at the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) not less than 48 hours before the time appointed for the holding of the above meeting (i.e. before 10:00 a.m. on 29 March 2022) or any adjournment thereof. The completion and return of the form of proxy shall not preclude shareholders of the Company from attending and voting in person at the above meeting (or any adjourned meeting thereof) if they so wish.
- (iv) The record date for determining the entitlement of the shareholders of the Company to attend and vote at the Meeting will be 28 March, 2022. All transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 28 March 2022.

As at the date of this notice, 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.