THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about 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.

赤子城
newborntown

NEWBORN TOWN INC.
赤 子 城 科 技 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9911)

MAJOR AND CONNECTED TRANSACTIONS

ENTERING INTO THE SALE AND PURCHASE AGREEMENT AND THE DEEDS OF AMENDMENT OF THE PARTNERSHIP AGREEMENT OF THE FUND

CONTRACTUAL ARRANGEMENTS CONSTITUTING CONTINUING CONNECTED TRANSACTIONS

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 6/F, Tower B, Xiaoyun Road 33rd Building, Chaoyang District, Beijing, PRC on 19 July 2023 at 10:00 a.m. is set out on pages 231 to 233 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 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 17 July 2023) 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.

30 June 2023

CONTENTS

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

"Acquisition"	the proposed acquisition of the Sale Shares by the Company from Spriver pursuant to the Sale and Purchase Agreement
"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 (and for the avoidance of doubt, shall include 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
"Affiliate(s)"	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

"BGFG Limited"	BGFG Limited, a company incorporated under the laws of the British Virgin Islands with limited liability
"BlueCity"	BlueCity Holdings Limited, an exempted company with limited liability incorporated in the Cayman Islands and a wholly-owned subsidiary of Multelements Limited
"Board"	the board of directors of the Company
"Chizicheng Strategy Investment" or "Target Company"	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 before Completion
"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
"Commitment(s)"	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 Chizicheng Strategy Investment pursuant to the Partnership Agreement) (whether or not repaid to the Partner in whole or in part) but excluding any Additional Amount
"Company"	Newborn Town Inc. (赤子城科技有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 9911)
"Completion"	the completion of the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Contribution(s)"	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)

"Deeds of Amendment"	collectively, the First Deed of Amendment and the Second Deed of Amendment
"Director(s)"	the directors of the Company
"EGM"	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, amongst others, the Sale and Purchase Agreement, the Deeds of Amendment, the VIE Agreements and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Target Group upon completion of the entering into Sale and Purchase Agreement, the Deeds of Amendment and the transactions contemplated thereunder
"Equity Interest Pledge Agreement"	the equity interest pledge agreement dated 20 March 2023 between the WFOE and the PRC Equity Holders
"Exclusive Consulting and Services Agreement"	the exclusive consulting and services agreement dated 20 March 2023 between the WFOE and the VIE
"Exclusive Option Agreement"	the exclusive option agreement dated 20 March 2023 between the WFOE and the PRC Equity Holders
"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
"First Deed of Amendment"	the deed of amendment of the Partnership Agreement of the Fund entered into by the Company, Spriver and Chizicheng Strategy Investment on 23 March 2023 (after trading hours)
"General Partner"	Chizicheng Strategy Investment
"Group"	the Company and its subsidiaries
"Hande Houcheng"	Beijing Hande Houcheng Enterprise Management Centre (Limited Partnership), a limited partnership established in the PRC on 25 August 2014, being held as to 99.9% by Mr. LIU Chunhe (the general partner), and 0.1% by Mr. LI Ping (the limited partner)

"HK$" or "Hong Kong dollar"	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	International Financial Reporting Standards as effective and modified from time to time
"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 of the Company
"Independent Shareholder(s)"	the Shareholders who are not required to abstain from voting in favour of the resolution for approving the proposed resolutions under the Listing Rules
"Initial Closing"	the initial Closing which took place on the date of the Partnership Agreement
"Japanese Yen"	Japanese Yen, the lawful currency of Japan
"Land of Glory"	Land of Glory Ltd., an exempted company with limited liability incorporated in the Cayman Islands
"Latest Practicable Date"	26 June 2023, 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
"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, as amended from time to time

"Main Board"	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules
"Multelements"	Multelements Limited, an exempted company with limited liability incorporated in the Cayman Islands
"NewBornTown Mobile Technology"	NewBornTown Mobile Technology (Shandong) Holdings Co., Ltd. (赤子城移動科技(山東)股份有限公司), formerly known as NewBornTown Mobile Technology (Beijing) Co., Ltd. (赤子城移動科技(北京)股份有限公司), a company incorporated under the laws of the PRC with limited liability on 15 August 2007 and by virtue of the Company's existing contractual arrangements, accounted for as a subsidiary of the Company
"Newborn Town Network Technology"	Newborn Town Network Technology (Beijing) Co., Ltd, a limited liability company incorporated in the PRC
"Parallel Funds"	one or more additional collective investment schemes, vehicles or other arrangements managed, sponsored, advised, or established (at the cost of certain investors) by the General Partner or any Affiliates in order to facilitate investment by such investors
"Partners"	the General Partner and all Limited Partners
"Partnership" or "Fund"	Metaclass Management ELP, an exempted limited partnership to be established under the laws of the Cayman Islands
"Partnership Agreement"	the amended and restated exempted limited partnership agreement dated 4 July 2022 entered into between Spriver, Chizicheng Strategy Investment and the Company
"Partners' Undertaking"	an unconditional and irrevocable undertaking dated 24 June 2023 as executed by each of the general partner and the limited partner of Hande Houcheng (i.e. Mr. LIU Chunhe and Mr. LI Ping)

"Portfolio Investment(s)"	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
"Powers of Attorney"	the powers of attorney dated 20 March 2023 as executed by Hande Houcheng and Newborn Town Network Technology as the PRC Equity Holders
"PRC" or "China"	the People's Republic of China. For the purposes of this circular only and except where the context requires otherwise, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Equity Holders"	refer to the registered shareholders of the VIE, namely Hande Houcheng and Newborn Town Network Technology which holds 99.85% interest and 0.15% interest in the VIE, respectively
"PRC Legal Advisers"	Jingtian & Gongcheng, the legal advisers to the Company as to PRC laws
"RMB"	Renminbi, the lawful currency in the PRC
"Sale and Purchase Agreement"	the sale and purchase agreement dated 23 March 2023 entered into between the Company and Spriver in relation to the Acquisition
"Sale Shares"	the 1,000,000 ordinary shares of Chizicheng Strategy Investment of par value of US$0.01 each (representing its entire issued share capital) that the Company has agreed to acquire and Spriver has agreed to sell pursuant to the Sale and Purchase Agreement
"Second Deed of Amendment"	the second deed of amendment of the Partnership Agreement of the Fund dated 18 April 2023 between the Company, Spriver and Chizicheng Strategy Investment
"SFC"	the Securities and Futures Commission of Hong Kong
"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)"	the ordinary share(s) in the share capital of the Company with a par value of US$0.0001 each

"Share Option Scheme"	the share option scheme adopted by the Company on 31 May 2021
"Shareholder(s)"	the holder(s) of the Shares
"Somerley" or "Independent Financial Adviser"	Somerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), which has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement, the Deeds of Amendment, the VIE Agreements, and the transactions contemplated thereunder
"Spousal Undertaking"	an unconditional and irrevocable undertaking dated 24 June 2023 as executed by each of the respective spouse of the general partner and the limited partner of Hande Houcheng
"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 wholly-owned as to 100% by Mr. LIU Chunhe
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Agreement"	an agreement entered into between the Company, Spriver and Chizicheng Strategy Investment on 4 July 2022
"Subsequent Closing"	a Closing subsequent to the Initial Closing
"Takeovers Code"	the Code on Takeovers and Mergers published by the SFC
"Target Business Group"	BlueCity, and its subsidiaries, the VIE and the subsidiaries of the VIE
"Target Group"	Chizicheng Strategy Investment, the Fund and the companies held by the Fund, including Multelements (which is held as to 78.86% directly by the Fund), Land of Glory (which is held as to 78.92% directly by the Fund), and BlueCity (which is held as to 100% directly by Multelements)

"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
"US$" or "USD" or "U.S. dollar"	United States dollars, the lawful currency of the United States of America
"VIE"	Beijing BlueCity Culture and Media Co., Ltd., a limited liability company incorporated in the PRC
"VIE Agreement(s)"	collectively, the Exclusive Consulting and Services Agreement, the Powers of Attorney, the Equity Interest Pledge Agreement, the Exclusive Option Agreement, the Partners' Undertaking and the Spousal Undertaking, details of which are set out in this circular
"Vietnamese Dong"	Vietnamese Dong, the lawful currency of Vietnam
"WFOE"	Beijing BlueCity Information & Technology Co., Ltd., a limited liability company incorporated in the PRC
"%"	per cent

In this circular, the terms "associate", "connected person", "connected transaction", "controlling shareholder", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

newborntown

NEWBORN TOWN INC.

赤子城科技有限公司

(Incorporated in the 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

30 June 2023

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTIONS

ENTERING INTO THE SALE AND PURCHASE AGREEMENT AND THE DEEDS OF AMENDMENT OF THE PARTNERSHIP AGREEMENT OF THE FUND

CONTRACTUAL ARRANGEMENTS CONSTITUTING CONTINUING CONNECTED TRANSACTIONS

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

References are made to (i) the Company's announcement dated 13 January 2022 and its circular dated 16 March 2022 in relation to, among other things, the proposed establishment of the Fund under the Partnership Agreement, (ii) the announcement of the Company dated 23 March 2023 in relation to the entering into the Sale and Purchase Agreement and the First Deed of Amendment, and (iii) the announcement of the Company dated 26 June 2023 in relation to, among other things, the entering into of the Second Deed of Amendment and the contractual arrangements of the Target Group.

The purpose of this circular is to provide you with, among other things, (i) a summary on the background and purposes of the establishment of the Fund and the entering into of the Partnership Agreement; (ii) further information in relation to the Sale and Purchase Agreement, the Deeds of Amendment, the VIE Agreements, and the transactions contemplated thereunder; (iii) the recommendation from the Independent Board Committee and the recommendation from Somerley to the Independent Board Committee and the Independent Shareholders; (iv) the financial information of the Group; (v) the financial information of the Target Group; (vi) the unaudited pro forma financial information of the Enlarged Group; (vii) the management discussion and analysis of the Target Group; (viii) the general information of the Group; and (ix) a notice for convening the EGM (to consider and, if thought fit, to approve the Sale and Purchase Agreement, the Deeds of Amendment, the VIE Agreements, and the transactions contemplated thereunder).

BACKGROUND AND PURPOSES OF THE ESTABLISHMENT OF THE FUND AND THE ENTERING INTO OF THE PARTNERSHIP AGREEMENT

During the first half of 2022, the Company entered into the Partnership Agreement for the establishment of the Fund, taking on the role of Limited Partner together with Spriver (also acting as Limited Partner), and Chizicheng Strategy Investment (a wholly-owned subsidiary of Spriver) serving as General Partner, for the purpose of, among other things, participating in the going-private transaction of BlueCity by making equity investment in the buyer consortium formed for the purpose of acquiring all outstanding ordinary shares of BlueCity that are not beneficially owned by the buyer consortium, details of which are disclosed in the announcement dated 13 January 2022 and the circular dated 16 March 2022, as issued by the Company and the Company's annual report for the year ended 31 December 2022.

It was agreed by the parties to the Partnership Agreement that the funds so contributed by the Partners be allocated by the General Partner in accordance with the actual needs of the underlying investments of the Fund. With the Fund having no potential investment targets other than BlueCity, the proposed maximum allocation of investment amounts in the going-private transaction of BlueCity was set at US$100 million, being the then maximum aggregate Commitments by the Partners as stipulated in the Partnership Agreement. It was originally intended that the Fund be exclusively managed by the General Partner, and hence the financial statements of the Fund and the companies held by the Fund were not consolidated into that of the Company. Pursuant to the Partnership Agreement dated 4 July 2022, both Spriver and the General Partner 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 the priority right to cooperate and conduct business with BlueCity. The closing of the going-private transaction of BlueCity took place on 12 August 2022. On even date, the Company made most of its contribution to the Fund whilst Spriver and Chizicheng Strategy Investment have then yet to settle their respective Commitments. For the year ended 31 December 2022, the Company made a total cash contribution of US$50 million to the Fund, being the full amount of its Commitment under the Partnership Agreement.

At the time when the Fund was established, BlueCity has made continuous losses and its then market valuation was at an all-time low since its listing. It was believed that the Company can leverage its vast experience and diversified products matrix in the global open social networking sector to bring about improvements to the efficiency and profitability of BlueCity's operations. Since then, the Company, as Limited Partner, has assisted BlueCity in launching a series of initiatives aimed at optimising its customer acquisition efficiency, enriching its monetisation scenarios and deepening its localised operations, in a bid to help improve the growth rate, user retention and operational efficiency of BlueCity's products, and thereby further expanding its global social operations and product commercialisation scale.

By implementing the refined operating strategies devised by the Company to help drive down costs and ramp up efficiency, BlueCity has managed to reverse the loss-making trend in the past and yielded profits for the months of August to December 2022. In view of the success of such efforts, the Partners, after due consideration and thorough discussion, decided that in order to fully and effectively support the continued growth and drive profitability of BlueCity's operations going forward, the Company shall take on the management role instead (by acquiring the General Partner) and consolidate BlueCity's operations and technological innovations into that of the Group's to form a synergistically coherent and operationally-integrated framework. The aim of the whole exercise (i.e. the entering into of the Sale and Purchase Agreement, the Deeds of Amendment and the transactions contemplated thereunder) as disclosed herein is thus to enable the Company to exert continuous and effective control over (with streamlined costs and management processes), and consolidate the financial statements of the Fund and the companies held by the Fund, including Multelements, Land of Glory and BlueCity into that of the Group so as to give effect to the aforementioned mutual intention of the parties to the Partnership Agreement.

To align with and complement the aforementioned changes, the First Deed of Amendment was entered into by the Partners on 23 March 2023 (after trading hours) to vary the Partnership Agreement and the Commitments stipulated thereunder. Pursuant to the First Deed of Amendment (the entering into of which was announced on 23 March 2023), the aggregate commitments to the Fund and capital commitments to the Parallel Funds (if any) of the General Partner shall as of Final Closing equal to US$1.00, whereas the Commitment of Spriver shall be reduced from US$49,900,000 to US$3,800,000 with effect from the effective date of the First Deed of Amendment (the amount of which was fully settled by Spriver on 22 March 2023).

Pursuant to the First Deed of Amendment and the Partners' revised Commitments thereunder, the interests of the parties to the Partnership Agreement are to be revised accordingly such that the Company, Spriver and the General Partner would be interested in approximately 92.94%, 7.06% and 0.00%, respectively, in the Fund. The effect of such revision (being that the Company having contributed over 90% of the paid-up capital of the Fund whilst Spriver's commitment to the Fund having been reduced), although will not enable the Company to obtain control over the relevant activities of the Fund (i.e. investment management which is directed by the General Partner), will entitle the Company to a higher percentage of the variable return generated from the Fund's operations (being that of BlueCity's) in view of BlueCity's improved operating results since its acquisition by the Fund.

The Partnership Agreement was then further amended by the Second Deed of Amendment on 18 April 2023. The revision of the term of the Fund from a 10-year period to that of an indefinite one (to be voted alongside the previous revisions under the First Deed of Amendment), was intended by the Partners as a mere administrative move to spare themselves from any additional costs involved in any future extensions of term, whilst ensuring the continuity of the Fund which is conducive to the growth and development of BlueCity going forward.

MAJOR AND CONNECTED TRANSACTIONS

It is against the aforementioned backdrop that the Board is pleased to announce that, on 23 March 2023 (after trading hours), the Company entered into the Sale and Purchase Agreement with Spriver, pursuant to which the Company has agreed to acquire and Spriver has agreed to sell 1,000,000 ordinary shares of par value of US$0.01 each of Chizicheng Strategy Investment (the "**Sale Shares**") which represent the entire issued share capital of Chizicheng Strategy Investment, a wholly-owned subsidiary of Spriver and the General Partner of the Fund, for the consideration of US$1.00.

Upon completion of the Acquisition, the Company will hold the entire issued share capital of Chizicheng Strategy Investment directly and will control the Fund through its control of the General Partner and the interests held by the Company in the Fund, and will consolidate the financial statements of the Fund and the companies held by the Fund, including Multelements (which is held as to 78.86% directly by the Fund), Land of Glory (which is held as to 78.92% directly by the Fund), and BlueCity (which is held as to 100% directly by Multelements).

As completion is subject to and conditional upon satisfaction of the conditions precedent under the Sale and Purchase Agreement as set out in the section headed "Sale and Purchase Agreement – Conditions precedent" below, and inter alia, the obtaining of approval from the Independent Shareholders at the EGM, thus in the case where the Sale and Purchase Agreement has not been approved and with Completion not having taken place, the Company, as mere Limited Partner (and with the Fund being exclusively managed by the General Partner which it has no control over), would be unable to exert control over the Fund's management and operations, and hence being unable to consolidate the financial statements of the Fund into that of the Group's. The Company would, however, continue to account for its investment in the Fund as a joint venture using the equity method.

In connection with (but not conditional upon) the Acquisition, the Company, Spriver and Chizicheng Strategy Investment, entered into (i) the First Deed of Amendment on 23 March 2023 (after trading hours), and subsequently (ii) the Second Deed of Amendment on 18 April 2023 (collectively, the "**Deeds of Amendment**"), to amend or supplement the Partnership Agreement.

Pursuant to the First Deed of Amendment (the entering into of which was announced on 23 March 2023), the aggregate Commitments to the Partnership and capital commitments to the Parallel Funds (if any) of Chizicheng Strategy Investment, shall as of the Final Closing equal to US$1.00, whereas the Commitment of Spriver, as the Limited Partner, shall be reduced from US$49,900,000 to US$3,800,000 with effect from the effective date of the First Deed of Amendment, and the Commitment of the Company, as the Limited Partner, shall remain the same, representing 7.06% and 92.94% interest, respectively, in the Fund.

Pursuant to the Second Deed of Amendment (the entering into of which was announced on 26 June 2023), the term of the Partnership shall be changed from a maximum of ten years to an indefinite term and shall be terminated upon the first occurrence of any of the following events (each defined thereunder as a "termination event"):

(a) the determination by the General Partner in its sole discretion at any time that such dissolution and termination would be in the best interests of the Limited Partners; or

(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 and as stipulated in the Partnership Agreement within 90 days.

As at the date of this circular, Spriver is one of the substantial shareholders of the Company. Chizicheng Strategy Investment is a wholly-owned subsidiary of Spriver. Each of Spriver and Chizicheng Strategy Investment is thus a connected person of the Company under Rule 14A.07 of the Listing Rules. Therefore, the entering into of the Sale and Purchase Agreement, the Deeds of Amendment and the transactions contemplated thereunder, either individually or together, constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Upon the Deeds of Amendment coming into effect, the Company (as Limited Partner) would be entitled to share in more than 90% of the net profit derived from BlueCity's operations on a continual basis, being proportional to its actual contribution in the Fund (as the Fund holds no investment other than BlueCity and has no other potential investment targets). However, with the Fund being exclusively managed by the General Partner (as stipulated in the Partnership Agreement), which without being varied by the revisions thereto introduced by the Deeds of Amendment, means that the Company (as mere Limited Partner) would be unable to exert control over BlueCity's management and operations, and hence being unable to consolidate its results into that of the Group.

Yet, with the Company having contributed over 90% of the paid-up capital of the Fund, and the Parties having acknowledged the synergistic benefits of having BlueCity managed and operated by the Company, such intended consolidation would be achieved instead through the Company's acquisition of the General Partner.

Completion, if and once effected upon the Sale and Purchase Agreement coming into effect (regardless of whether the Partners' Commitments are varied by the First Deed of Amendment), the Company shall be able to control and manage BlueCity through its ownership of the General Partner, and thereby being able to consolidate its results and financial operations into that of the Group's.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Sale and Purchase Agreement, the Deeds of Amendment and the transactions contemplated thereunder exceeds 25%, but all such percentage ratios are less than 100%, the entering into of the Sale and Purchase Agreement, the Deeds of Amendment and the transactions contemplated thereunder also constitute major transactions of the Company under Chapter 14 of the Listing Rules and are subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

SALE AND PURCHASE AGREEMENT

Details of the Sale and Purchase Agreement are set out below:

Date

23 March 2023 (after trading hours)

Parties

(i) The Company (as the purchaser)

(ii) Spriver (as the seller)

Shares to be acquired

Pursuant to the Sale and Purchase Agreement, the Company has agreed to acquire and Spriver has agreed to sell 1,000,000 ordinary shares at par value of US$0.01 each of Chizicheng Strategy Investment, representing the entire issued share capital of Chizicheng Strategy Investment, a wholly-owned subsidiary of Spriver and the General Partner of the Fund.

Consideration and terms of payment

The consideration is set at US$1.00 which shall be settled in cash by the Company.

Conditions precedent

Completion shall be conditional upon and subject to the fulfilment of the following conditions precedent:

(i) the obtaining of consent from the Independent Shareholders by an ordinary resolution of the Independent Shareholders as a separate class approving the Sale and Purchase Agreement and the transactions contemplated thereunder at the general meeting to be convened and held in accordance with the Listing Rules and the applicable laws and regulations;

(ii) the completion of the reorganisation and restructuring in respect of the contractual arrangements of BlueCity and its Affiliates in accordance with the requirements of the governmental authorities of the PRC (including the China Securities Regulatory Commission) and the Stock Exchange; and

(iii) the representations made by Spriver set out in the Sale and Purchase Agreement remain true and accurate at the date of the Sale and Purchase Agreement and the date of Completion.

For the avoidance of doubt, approval of and/or Completion under the Sale and Purchase Agreement are not conditional upon the approval of the Deeds of Amendment by the Independent Shareholders at the EGM.

As at the Latest Practicable Date, the reorganisation and restructuring exercise has commenced and ongoing, starting with the share transfer and registration for the entities intended to be controlled by the WFOE through Light Blue (Beijing) Media Co., Ltd. (i.e. Shandong Youping Pharmacy Chain Co., Ltd., Chongqing Changyuan Pharmaceutical Co., Ltd. and Glory City Chengdu Information Technology Co., Ltd.), which shall be followed thereafter by the transferring of the entirety of the equity interests of Light Blue (Beijing) Media Co., Ltd. to the WFOE. For details on the changes to the shareholding structure and the contractual arrangements of BlueCity and its Affiliates as, or to be effected by the reorganisation and restructuring exercise as well as the very steps taken to accomplish the same, please refer to the sections headed "Contractual arrangements of BlueCity and its Affiliates" and "Reorganisation and restructuring of BlueCity and its Affiliates" in this circular.

Governing law

The Sale and Purchase Agreement is governed by Cayman Islands law.

Choice of jurisdiction

Each of the Company and Spriver submits to the non-exclusive jurisdiction of the Cayman Islands courts for the purpose of any action arising out of or in relation to the Sale and Purchase Agreement. Each of the Company and Spriver agrees that, in any such action, it will not contest jurisdiction on the grounds that the Cayman Islands courts represent an inconvenient forum or otherwise.

The terms of the Sale and Purchase Agreement were determined after arm's length negotiations between the parties thereto.

DEEDS OF AMENDMENT OF THE PARTNERSHIP AGREEMENT OF THE FUND

References are made to the Company's announcement dated 13 January 2022 and its circular dated 16 March 2022 issued by the Company in relation to the proposed establishment of the Fund. The Partnership Agreement was entered into by the Company, Spriver and Chizicheng Strategy Investment on 4 July 2022 and that the total fund-raising target of the Fund to be established was stipulated to 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, 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. Pursuant to the Partnership Agreement, once the Commitments are settled in full by the respective parties, Chizicheng Strategy Investment, Spriver and the Company's respective percentage interest in the Fund shall be 0.1%, 49.9% and

50%. For details of the Partnership Agreement and the transactions contemplated thereunder, please refer to the announcement dated 13 January 2022 and the circular dated 16 March 2022 issued by the Company in relation to the proposed establishment of the Fund.

In connection with (but not conditional upon) the Acquisition, the Board announces that on 23 March 2023, the Company, Spriver and Chizicheng Strategy Investment entered into the First Deed of Amendment. Pursuant to the First Deed of Amendment, the aggregate Commitments to the Partnership and capital commitments to the Parallel Funds (if any) of Chizicheng Strategy Investment, shall as of the Final Closing equal to US$1.00, whereas the Commitment of Spriver, as the Limited Partner, shall be reduced from US$49,900,000 to US$3,800,000 with effect from the effective date of the First Deed of Amendment, and the Commitment of the Company, as the Limited Partner, shall remain the same, representing 7.06% and 92.94% interest, respectively, in the Fund.

It was stipulated in the Partnership Agreement that the term of the Fund could, after expiry of the 10-year period, be extended by the General Partner for up to two consecutive one-year periods at its discretion and for further period(s) with the consent of the advisory committee (comprising of up to a maximum of three members selected by the General Partner from among certain Limited Partners' representatives and third party independent experts).

Further revisions were then introduced, with the Company, Spriver and Chizicheng Strategy Investment having entered into the Second Deed of Amendment on 18 April 2023. Pursuant to the Second Deed of Amendment, the term of the Partnership shall be changed from a maximum of ten years to an indefinite term and shall be terminated upon the first occurrence of any of the termination events, being (a) the determination by the General Partner in its sole discretion at any time that such dissolution and termination would be in the best interests of the Limited Partners; or (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 and as stipulated in the Partnership Agreement within 90 days.

The revision of the term of the Fund from a 10-year period to that of an indefinite period under the Second Deed of Amendment was considered by the Partners as a mere pre-emptive step taken to prevent any potential impediment to the smooth operation of the Fund, over which the Company will, in any event, exercise management control through the General Partner upon Completion. It is worth noting that albeit being revised to an indefinite term, the Second Deed of Amendment merely aims at avoiding administration processes and costs for future extension of term, and the entering into of which is thus beneficial to the Group and the Shareholders as a whole as it provides welcome continuity, stability and certainty to the arrangement, and such that the Enlarged Group could better reap the benefits of the synergy and attain further growth by operating as one unified entity.

Details of the relevant parts of the Partnership Agreement and the Deeds of Amendment of the Partnership Agreement are set out below:

Partnership Agreement

Date

4 July 2022

Parties

(i) The Company (as the Limited Partner)

(ii) Spriver (as the Limited Partner)

(iii) Chizicheng Strategy Investment (as the General Partner)

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 of which, 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 such that the Partners' respective percentage interest in the Fund, once the Commitments are fully settled, shall be 0.1%, 49.9% and 50%.

Each Limited Partner irrevocably agrees to make cash contributions to the Fund up to, in aggregate, the amount specified as its Commitments 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 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.

Albeit the establishment of Parallel Funds is provided for under the Partnership Agreement, as of the Latest Practicable Date, no Parallel Funds has been, or is intended to be, established.

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 shall be accounted for as "investments accounted for using the equity method" in the consolidated balance sheet of the Company. The investment in the Fund is to 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.

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.

Amendments to the Partnership Agreement

The Partnership Agreement may be amended or supplemented by the written agreement of the General Partner and Limited Partners representing not less than a super majority consent (i.e. the approval by one or more Limited Partners entitled to vote together holding two-thirds majority of the total interests in the Fund by value, as determined on the basis of contributions) provided that no such amendment shall be made, without the consent of the relevant Limited Partner, to (i) increase any Limited Partner's Commitment, or (ii) reduce any Limited Partner's share of the Partnership's distributions, income and gains, increase any Limited Partner's share of the Partnership's losses.

Governing law

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

Choice of 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.

First Deed of Amendment

Date

23 March 2023 (after trading hours)

Parties

(i) The Company (as the Limited Partner)

(ii) Spriver (as the Limited Partner)

(iii) Chizicheng Strategy Investment (as the General Partner)

Subject matter

The parties to the First Deed of Amendment agree that notwithstanding anything provided in the Subscription Agreement, (i) the aggregate Commitments to the Partnership and capital commitments to any of the Parallel Funds (if any) of Chizicheng Strategy Investment, shall as of the Final Closing equal to US$1.00; (ii) the Commitment of Spriver shall be reduced from US$49,900,000 to US$3,800,000 with effect from the effective date of the First Deed of Amendment; and (iii) the Commitment of the Company shall remain the same with effect from the effective date of the First Deed of Amendment.

For the avoidance of doubt, such changes in the Commitments of the Limited Partners shall not trigger (i) any change in the actual or deemed Contributions made to date by any Limited Partner; (ii) any requirement for the Partnership to repay any Contributions as a consequence of such reduction in Commitment; or (iii) any requirement for the General Partner to repay amounts of management fee already received, if any, pursuant to the Partnership Agreement.

Pursuant to the First Deed of Amendment, the respective capital Commitments of the Partners are revised as set out below:

Partners	Type	Capital Commitment amount *(US$)*	Percentage of the interest in the Fund
Chizicheng Strategy Investment	General Partner	1	0.00%
Spriver	Limited Partner	3,800,000	7.06%
The Company	Limited Partner	50,000,000	92.94%
Total		53,800,001	100%

Second Deed of Amendment

Date

18 April 2023 (after trading hours)

Parties

(i) The Company (as the Limited Partner)

(ii) Spriver (as the Limited Partner)

(iii) Chizicheng Strategy Investment (as the General Partner)

Subject matter

The parties to the Second Deed of Amendment agree that the term of the Partnership shall be changed from a maximum of ten years to an indefinite term and shall be terminated upon the first occurrence of any of the following events (each a termination event) and that Clause 34.1 of the Partnership Agreement will be deleted in its entirety and replaced with the following:

"Termination. The Partnership shall be terminated upon the first to occur of any of the following events (each a Termination Event):

(a) the determination by the General Partner in its sole discretion at any time that such dissolution and termination would be in the best interests of the Limited Partners; or

(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 Clause 31.4 within 90 days."

Conditions precedent

The Deeds of Amendment shall take effect upon the obtaining of consent from the Independent Shareholders by an ordinary resolution of the Independent Shareholders as a separate class approving the Deeds of Amendment and the transactions contemplated thereunder at the general meeting to be convened and held in accordance with the Listing Rules and the applicable laws and regulations.

The terms of the Deeds of Amendment were determined after arm's length negotiations between the parties thereto. For the avoidance of doubt, the Deeds of Amendment were not conditional upon the approval and/or completion of the Sale and Purchase Agreement.

INFORMATION ON THE PARTIES TO THE SALE AND PURCHASE AGREEMENT AND DEEDS OF AMENDMENT OF THE PARTNERSHIP AGREEMENT OF THE FUND

The Company

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 the Middle East, North America, Southeast Asia and South Asia.

Spriver

Spriver, an investment holding company incorporated in the British Virgin Islands with limited liability, is, at the date of this circular, held as to 100% by Mr. LIU Chunhe.

Chizicheng Strategy Investment

As the General Partner of the Fund, Chizicheng Strategy Investment is, as at the date of this circular, a wholly-owned subsidiary of Spriver, and was incorporated as an exempted company in the Cayman Islands.

INFORMATION ON THE FUND, BLUECITY AND LAND OF GLORY

The Fund

As at the date of this circular, the Fund directly holds 78.86% interest in Multelements and 78.92% interest in Land of Glory. Multelements directly holds 100% interest in BlueCity, and as at the date of this circular, conducts no business other than the holding of all such shares in BlueCity.

Upon Completion, the Company will hold the entire issued share capital of Chizicheng Strategy Investment directly and will thereby be able to exert effective control over the Fund by way of its ownership of the General Partner and through its interests in, and as Limited Partner of, the Fund. On such basis, the Company will consolidate the financial statements of the Fund and the companies held by the Fund, including Multelements, Land of Glory and BlueCity.

BlueCity

As a world-leading online LGBTQ community which provides a comprehensive suite of services that fosters connections and enhance the well-being 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, live-streaming and health-related services. With its 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 the LGBTQ crowd whilst having drawn a substantial following across the globe.

BlueCity and its Affiliates adopt contractual arrangements to operate its business onshore in the PRC. Being condition precedent to Completion, the contractual arrangements of BlueCity and its Affiliates will be reorganised and restructured in accordance with the requirements of the governmental authorities of the PRC (including the China Securities Regulatory Commission) and the Stock Exchange. For details of the reorganised and restructured contractual arrangements, please refer to the sections headed "Contractual arrangements of BlueCity and its Affiliates" and "Information on the VIE Agreements" below.

Land of Glory

Land of Glory, an exempted company with limited liability incorporated under the laws of the Cayman Islands, holds business, assets and liabilities which were originally held by BlueCity outside of the PRC (the "**Offshore Business**"). The Offshore Business mainly engages in the operation of the international version of the mobile app *Blued* with online social networking and live streaming functions for global users outside China. Following the completion of the going-private transaction of BlueCity, BlueCity divested the Offshore Business, which accounted for approximately 12% of BlueCity's revenue (before the aforementioned divestment). As at the date of this circular, Land of Glory is held as to 78.92% by the Fund.

Financial Information

The Fund has consolidated the business of BlueCity since 12 August 2022 through the acquiring of interests in Multelements. The table below sets forth the profit (before and after taxation) for the period from the Fund's inception (i.e. 20 January 2022) to 31 December 2022 and the net assets as at 31 December 2022 based on the consolidated financial statements of the Fund, the profit (before and after taxation) for the period from Chizicheng Strategy Investment's inception (i.e. 11 January 2022) to 31 December 2022 and the net assets as of 31 December 2022 based on the financial statements of Chizicheng Strategy Investment and the loss (before and after taxation) for the two financial years ended 31 December 2022 and the net assets as of 31 December 2021 and 2022 based on the consolidated financial statements of BlueCity in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board:

Unit: RMB'000

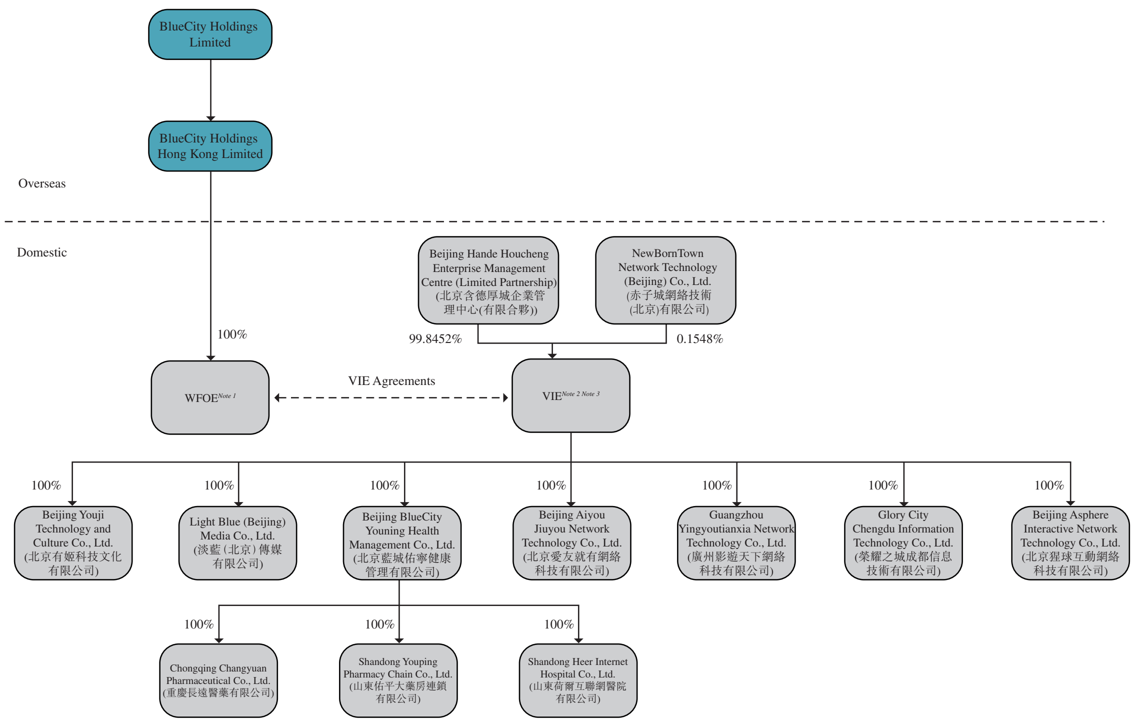
The Fund	**For the period from its inception at 20 January 2022 to 31 December 2022/As at 31 December 2022**
Profit before income tax	44,762
Profit for the period	46,477
Net assets	151,921

Chizicheng Strategy Investment	**For the period from its inception at 11 January 2022 to 31 December 2022/As at 31 December 2022**
Profit before income tax	1,278
Profit for the period	1,278
Net assets	1,268

BlueCity	**For the year ended/ As at 31 December**	
	2021	**2022**
Loss before income tax	(312,398)	(35,006)
Loss for the year	(312,945)	(34,033)
Net assets	446,190	181,849

CONTRACTUAL ARRANGEMENTS OF BLUECITY AND ITS AFFILIATES

The following diagram illustrates the contractual arrangements of BlueCity and its Affiliates prior to the reorganisation and restructuring (and prior to Completion):



Notes:

1: Beijing BlueCity Information & Technology Co., Ltd. (北京藍城兄弟信息技術有限公司)

2: Beijing BlueCity Culture and Media Co., Ltd. (北京藍城兄弟文化傳媒有限公司)

3: The PRC Equity Holders, being the registered shareholders of the VIE are Hande Houcheng (a limited partnership established under the laws of the PRC on 25 August 2014 by LIU Chunhe and LI Ping, being founders of the Group and executive Directors of the Company) and Newborn Town Network Technology (a company incorporated under the laws of the PRC with limited liability on 28 February 2014 and a direct wholly-owned subsidiary of NewBornTown Mobile Technology which by virtue of the Company's existing contractual arrangements, accounted for as the Company's subsidiary), holding approximately 99.85% and approximately 0.15% interest in the VIE, respectively.

BlueCity and its Affiliates adopt contractual arrangements to operate their businesses in the PRC as certain onshore entities operate in sectors that are subject to foreign investment restriction or prohibition under the applicable PRC laws and regulations, namely, the provision of internet and social networking and related services by Beijing BlueCity Culture and Media Co., Ltd. and its wholly-owned subsidiaries, Beijing Youji Technology and Culture Co., Ltd., Beijing Asphere Interactive Network Technology Co., Ltd., Beijing Aiyou Jiuyou Network Technology Co., Ltd., and Guangzhou Yingyoutianxia Network Technology Co., Ltd. (the "**Internet and Social Networking Business**").

PRC LAWS AND REGULATIONS RELATING TO FOREIGN OWNERSHIP RESTRICTIONS

Foreign investment activities in the PRC are primarily regulated by the Special Administrative Measures for Foreign Investment Access (Negative List) (Edition 2021) (《外商投資准入特別管理措施(負面清單)(2021年版)》) (the "**Negative List**") and the Catalogue of Industries for Encouraging Foreign Investment (2021 Version) (the "**Encouraging Catalogue**"), which were promulgated and amended from time to time jointly by the Ministry of Commerce of the PRC and the National Development and Reform Commission of the PRC.

Restrictions and prohibitions regarding the Internet and Social Networking Business

The Internet and Social Networking Business involves the provision of internet information service, a subcategory (B25 Information Service) of value-added telecommunications service within the Catalogue of Classification of Telecommunications Services (《電信業務分類目錄》). As advised by the PRC Legal Advisers, value-added telecommunications business (except for e-commerce, domestic multi-party communications, storage-forwarding, and call centers) is categorised as "restricted" by the Negative List, and thus the proportion of foreign investments in such entity shall not exceed 50%.

The PRC Legal Advisers are also of the view that the operating through apps of live broadcast platforms which allows app users to engage in online performance activities falls within the activities related to "internet cultural products" as governed by the Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》) issued by the Ministry of Culture of the PRC, and as such requires the obtaining of the Internet Cultural Operation License (網絡文化經營許可證) (the "**Internet Cultural Operation License**") from the applicable provincial level counterpart of the Ministry of Culture and Tourism of the PRC.

Further, pursuant to the Negative List, investment in internet news information services, internet publication services, internet video and audio program services, internet cultural business (except music) shall be prohibited. The PRC Legal Advisers consider that the operation of apps that provide video uploading services for its users, would constitute the engagement in internet audio and video dissemination business as is prohibited thereunder.

Reasons for entering into the contractual arrangements

Having taken all possible actions or steps to enable it to reach its legal conclusions, and having considered the Stock Exchange's Guidance Letter HKEx-GL77-14 and the requirements therein, the PRC Legal Advisers are of the opinion that the contractual arrangements are legal, binding on, and enforceable against all the parties thereto. The contractual arrangements do not violate the PRC Laws, rules and regulations applicable to Beijing BlueCity Information & Technology Co., Ltd. (the "**WFOE**"), Beijing BlueCity Culture and Media Co., Ltd. (the "**VIE**"), and the PRC subsidiaries and their respective businesses, and that the contractual arrangements would not be deemed as "concealing illegal intention with a lawful form" under the PRC Civil Code (《中華人民共和國民法典》) and void thereunder.

As advised by the PRC Legal Advisers, in light of the above restrictions or prohibitions on foreign investment, the establishment of the contractual arrangements between the WFOE, the VIE and the registered shareholders of the VIE, namely Hande Houcheng and Newborn Town Network Technology (collectively, the "**PRC Equity Holders**") are necessary for the Group to proceed with the Acquisition.

After reviewing the principal businesses as carried out by BlueCity and its Affiliates, the PRC Legal Advisers are of the opinion that the contractual arrangements are not subject to any laws and relevant regulations that disallow foreign investors from using any agreements or contractual arrangements to gain control of or operating a foreign restricted business. Thus, the contractual arrangements do not violate the PRC Laws, and any such rules and regulations applicable to the WFOE, the VIE and the PRC subsidiaries and their respective businesses.

Thus the WFOE, the VIE and the PRC Equity Holders entered into the VIE Agreements prior to Completion to enable the financial results, the entire economic benefits and risks of the businesses of the VIE (including that of the entities controlled by the VIE that operate in the restricted or prohibited sectors, details of which are set out in the section headed "Revenue contributed by the entities controlled by the VIE" below) to flow into the WFOE and enable the WFOE to gain control over the VIE.

REORGANISATION AND RESTRUCTURING OF BLUECITY AND ITS AFFILIATES

As certain of the PRC entities umbrellaed under the internet and social networking sector are engaged in business areas that are categorised as "prohibited" or "restricted" (as against foreign investment) by the Negative List, the Enlarged Group will be unable to exert full control over the Internet and Social Networking Business due to the varying restrictions or prohibitions on foreign ownership of the relevant PRC operating entities. For details, please refer to the paragraphs headed "restrictions and prohibitions regarding the Internet and Social Networking Business" above . In light of the foregoing hurdles (which could not be overcome by other means such as the obtaining of the Internet Cultural Operation License), the Company has been planning and coordinating such internal reorganisation and restructuring efforts over BlueCity and its Affiliates to ensure that the contractual arrangements adopted for the Internet and Social Networking Business are in compliance with the "narrowly tailored" requirement (as stipulated in the Stock Exchange's Guidance Letter HKEx-GL77-14), which is more specifically accomplished, by the following steps:

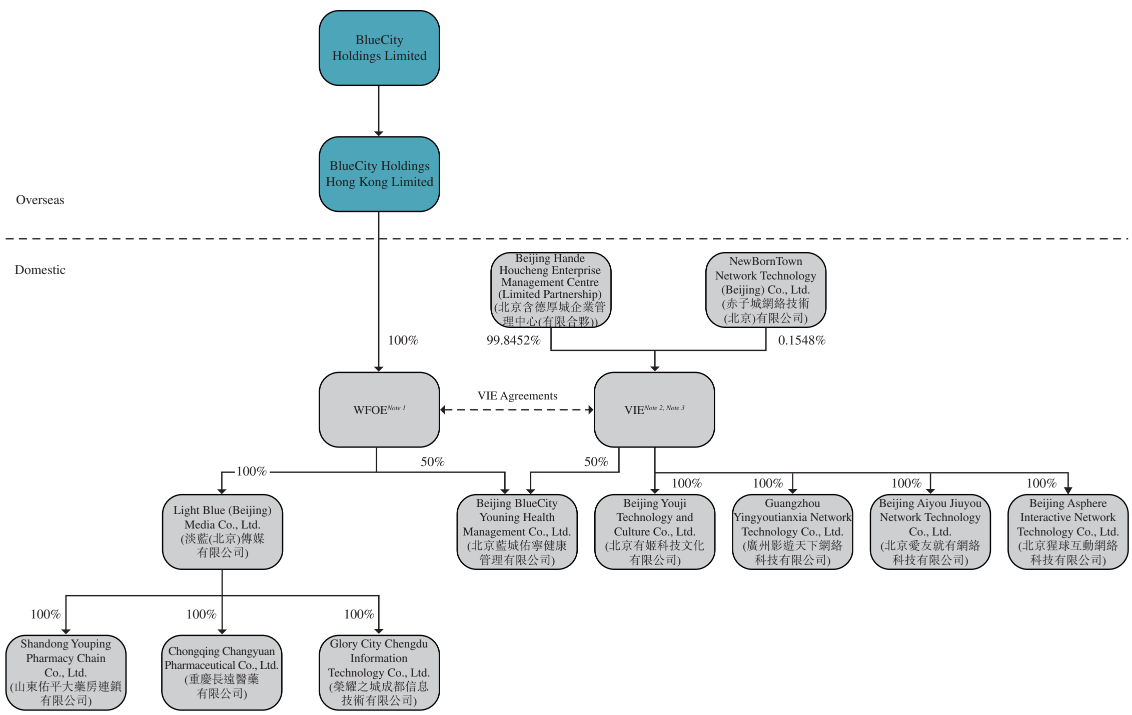
(i) For each of such PRC entities currently controlled by the WFOE through contractual arrangements (i.e. through the VIE structure) that operates or plans to operate in business areas where foreign investments are "prohibited" under the Negative List (notwithstanding the holding of the relevant license (i.e. Internet Cultural Operation License) the Company shall preserve the existing arrangement (such that the WFOE shall continue to hold, through the VIE structure, 100% interests in the aforementioned entities) to ensure compliance with the relevant PRC laws and regulations;

(ii) as for the PRC entity currently controlled by the WFOE through the VIE structure that engages in the provision of value-added telecommunication services whilst holding only the foreign-investment restricted business license (i.e. ICP License), reorganisation is considered necessary for such entity to ensure compliance with the relevant PRC laws and regulations as value-added telecommunication services being classed as "restricted" under the Negative List such that foreign investors are only permitted to hold a maximum of 50% equity interests over entities that hold ICP Licenses. After completion of the reorganisation exercise, the WFOE will directly hold 50% of the shares in such PRC entity, and the remaining 50% of its shares will be held by the WFOE through the VIE structure; and

(iii) as for those PRC entities currently controlled by WFOE through the VIE structure that are engaged in businesses that are neither "restricted" nor "prohibited" from foreign investment pursuant to the Negative List (namely, Light Blue (Beijing) Media Co., Ltd., Shandong Youping Pharmacy Chain Co., Ltd., Chongqing Changyuan Pharmaceutical Co., Ltd. and Glory City Chengdu Information Technology Co., Ltd.), they will undergo such reorganisation and restructuring as deemed necessary by the Company (as advised by the PRC Legal Advisers) to ensure compliance with the relevant PRC laws and regulations as well as the Stock Exchange's "narrowly tailored" requirement for contractual arrangements.

Upon completion of the reorganisation exercise, the WFOE will directly hold 100% of the shares of Light Blue (Beijing) Media Co., Ltd., and controls indirectly Shandong Youping Pharmacy Chain Co., Ltd., Chongqing Changyuan Pharmaceutical Co., Ltd. and Glory City Chengdu Information Technology Co., Ltd. through Light Blue (Beijing) Media Co., Ltd.'s holding of 100% equity interests in each of those entities.

The following diagram illustrates the contractual arrangements of BlueCity and its Affiliates after the reorganisation and restructuring (immediately upon Completion):



Notes:

1: Beijing BlueCity Information & Technology Co., Ltd. (北京藍城兄弟信息技術有限公司)

2: Beijing BlueCity Culture and Media Co., Ltd. (北京藍城兄弟文化傳媒有限公司)

3: The PRC Equity Holders, being the registered shareholders of the VIE are Hande Houcheng (a limited partnership established under the laws of the PRC on 25 August 2014 by LIU Chunhe and LI Ping, being founders of the Group and executive Directors of the Company) and Newborn Town Network Technology (a company incorporated under the laws of the PRC with limited liability on 28 February 2014 and a direct wholly-owned subsidiary of NewBornTown Mobile Technology which by virtue of the Company's existing contractual arrangements, accounted for as the Company's subsidiary) holding approximately 99.85% and approximately 0.15% interest in the VIE, respectively.

REVENUE CONTRIBUTED BY THE ENTITIES CONTROLLED BY THE VIE

In order that a clearer picture of the potential effects of such reorganisation and restructuring exercise can be shown, revenue of each of such entities under the VIE's control (after the reorganisation) for the respective years of 2020, 2021 and 2022 is set out below for illustrative purposes:

Entities controlled by the VIE (after reorganisation)

	2022	**2021**	**2020**
		Revenue	
		RMB'000	
Beijing BlueCity Youning Health Management Co., Ltd. (北京藍城佑寧健康管理有限公司)	10,726	7,241	6,720
Guangzhou Yingyoutianxia Network Co., Ltd. (廣州影遊天下網絡科技有限公司)	8,970	4,692	62
Beijing Asphere Interactive Network Technology Co., Ltd. (北京猩球互動網絡科技有限公司)	85,787	74,013	5,364
Beijing Youji Technology and Culture Co., Ltd. (北京有姬科技文化有限公司)	–	–	–
Beijing Aiyou Jiuyou Network Technology Co., Ltd. (北京愛友就有網絡科技有限公司)	–	–	–
	105,483	85,946	12,146

INFORMATION ON THE VIE AGREEMENTS

Principal terms of each of the VIE Agreements are set out as follows:

(i) Exclusive Consulting and Services Agreement

Date

20 March 2023

Parties

(a) The WFOE

(b) The VIE

Subject matter

The WFOE has exclusive right to provide consultation and services required by the VIE's business. Without the WFOE's prior written consent, the VIE may not accept the consultation and services provided by any third party, including the VIE's own shareholders, during the term of the Exclusive Consulting and Services Agreement. The VIE agrees to pay the WFOE quarterly service fees at an amount confirmed by the WFOE and all of its subsidiaries, which amount and percentage may be adjusted by, and which should be paid within 10 business days upon receipt of invoice from the WFOE.

The WFOE has exclusive ownership over all the intellectual property rights created under the Exclusive Consulting and Services Agreement, and both the WFOE and the VIE will further their negotiations on the licensing of such intellectual properties.

Term

The Exclusive Consulting and Services Agreement shall remain effective, unless otherwise terminated by the WFOE.

(ii) Powers of Attorney

Date

20 March 2023

Parties

(a) The WFOE

(b) The PRC Equity Holders

Subject matter

The Powers of Attorney were executed by the PRC Equity Holders, namely Hande Houcheng and Newborn Town Network Technology, collectively, to irrevocably authorise the WFOE to act as their attorney-in-fact to exercise all of their rights as shareholders of the VIE, including but not limited to, the right to attend shareholders' meetings, to vote, to dispose of any such equity interests under their names, to recommend and appoint directors, managers in chief and other senior management of the VIE as authorised representatives of the shareholders of the VIE, and to sign minutes and file documents with the relevant companies registry.

Term

The Powers of Attorney shall, unless otherwise terminated by the WFOE, remain effective for as long as Hande Houcheng and Newborn Town Network Technology remain as shareholders of the VIE.

(iii) Equity Interest Pledge Agreement

Date

20 March 2023

Parties

(a) The WFOE

(b) The PRC Equity Holders

Subject matter

The PRC Equity Holders have collectively pledged 100% equity interests in the VIE to the WFOE to guarantee the performance by the VIE of its obligations under the Exclusive Consulting and Services Agreement. In the event of a breach by the VIE of contractual obligations under the contractual arrangements stipulated in the Exclusive Consulting and Services Agreement, the WFOE, as pledgee, shall have the right to dispose of the pledged equity interests in the VIE and shall be accorded priority in receiving the proceeds from such disposal.

The PRC Equity Holders also covenant that they will not, without the prior written consent of the WFOE, dispose of, create or allow any encumbrance on the pledged equity interests.

Term

The Equity Interest Pledge Agreement shall remain effective until (i) the termination of the Exclusive Consulting and Services Agreement (provided that all service fees under the Exclusive Consulting and Services Agreement have been paid and no further obligations need be undertaken by the VIE); or (ii) all equity interests of the VIE have been transferred to the WFOE or any third party designated by it.

(iv) Exclusive Option Agreement

Date

20 March 2023

Parties

(a) The WFOE

(b) The PRC Equity Holders

Subject matter

The PRC Equity Holders have irrevocably granted the WFOE an exclusive option to purchase all or part of their equity interests in the VIE and/or the assets in the VIE. The WFOE may exercise such options at the lowest price as permitted by PRC laws and regulations, which price may be adjusted based on the valuation of the equity interests of the assets, if required by the relevant PRC laws and regulations. The PRC Equity Holders should remit to the VIE any amount that is paid by the VIE or its designated person(s) in connection with the purchased equity interest.

The PRC Equity Holders further covenant that, without the WFOE's prior written consent, they will not, among other things, (i) transfer or otherwise dispose of, or create any pledge or encumbrance on their equity interests in the VIE, (ii) change the VIE's registered capital, or cause any increase or decrease in the number of the VIE's current equity interests owners, (iii) dispose of, or cause the VIE's management to dispose of any assets of the VIE, other than in the ordinary course of business, or (iv) amend the VIE's articles of association.

Term

The Exclusive Option Agreement shall, unless otherwise terminated by the WFOE in its sole discretion, with immediate effect upon written notice, remain effective until the PRC Equity Holders have transferred all of their equity interests and/or assets in the VIE to the WFOE or to any third party so designated by it.

(v) Partners' Undertaking

Date

24 June 2023

Parties

(a) Mr. LIU Chunhe, the general partner of Hande Houcheng

(b) Mr. LI Ping, the limited partner of Hande Houcheng

Subject matter

Each of the general partner and the limited partner of Hande Houcheng (i.e. Mr. LIU Chunhe and Mr. LI Ping) unconditionally and irrevocably undertakes:

(1) to procure Hande Houcheng to continuously comply with the contractual arrangements and will not initiate or adopt any claims which will contradict the contractual arrangements;

(2) that his interests in the VIE through Hande Houcheng are beneficially owned by the WFOE and he will not claim any such interests;

(3) that without prior written consent of the WFOE or its designated person, he will not, and will procure Hande Houcheng not to, amend the partnership agreements, partnership composition or dispose of any interests in Hande Houcheng;

(4) that he will transfer his interests in Hande Houcheng to the designated person in accordance with the instruction(s) of the WFOE or its designated person to the extent permissible by applicable laws, and remit the consideration (if any) to the WFOE or its designated person(s);

(5) that he will procure that Hande Houcheng refrain from breaching any contractual arrangements or taking any action in violation of the contractual arrangements by virtue of the equity interests held by Hande Houcheng in the VIE;

(6) that if the WFOE or its designated person(s) requires, pursuant to the contractual arrangements, that amendments be made to the relevant terms of the partnership agreement of Hande Houcheng or that adjustments be made to Hande Houcheng itself, he will facilitate and complete such requirements as requested; and

(7) that if he breaches any of the undertakings therein, he will be deemed a contracting party thereto, and bear liability of such breach in accordance with the contractual arrangements and compensate for losses so suffered by other parties to the contractual arrangements.

(vii) Spousal Undertaking

Date

24 June 2023

Parties

(a) Spouse of Mr. LIU Chunhe, the general partner of Hande Houcheng

(b) Spouse of Mr. LI Ping, the limited partner of Hande Houcheng

Subject matter

Each of the respective spouse of the general partner and the limited partner of Hande Houcheng unconditionally and irrevocably undertakes:

(1) to agree that any equity interests (together with any other interests therein) held by her spouse as a general partner or a limited partner of Hande Houcheng (as the case may be) are separate properties of her spouse and do not fall within the scope of communal properties; and her spouse and Hande Houcheng are entitled to deal with the equity interests in the VIE and any interests therein in accordance with the contractual arrangements without her prior consent;

(2) to agree that her spouse may amend or terminate the contractual arrangements without her authorisation or consent;

(3) that she will not raise any proposition or take any action against the contractual arrangements by virtue of the equity interests held by her spouse (through Hande Houcheng) in the VIE;

(4) that if all or part of the shares held by her spouse are transferred to her, to pledge, sell or dispose such shares in accordance with the provisions and requirements prescribed in the contractual arrangements, she will observe obligations of her spouse as a general partner or a limited partner of Hande Houcheng (as the case may be) under the contractual arrangements and to sign all necessary documents and take all necessary actions to ensure the contractual arrangements to be properly performed;

(5) that she has never participated, nor does she intend to participate in the operation, management or voting matters of Hande Houcheng or the VIE; and

(6) to waive any rights related to the interests in Hande Houcheng held by her spouse that may be vested in her in accordance with the applicable laws.

COMPLIANCE OF THE VIE AGREEMENTS WITH PRC LAWS, RULES AND REGULATIONS

As advised by the PRC Legal Advisers, the VIE Agreements do not violate any mandatory requirements under PRC laws and administrative regulations applicable to the business of the VIE and would not be deemed void under the PRC Civil Rights Code (中華人民共和國民法典).

The contractual arrangements do not violate the provisions of the articles of associations (or partnership agreements) of the WFOE and the VIE, and that the VIE Agreements entered into by the WFOE, the VIE and/or the PRC Equity Holders are legally binding on each party in accordance with their terms and provisions under the PRC laws except certain terms of the VIE Agreements as set out in the paragraphs headed "Risk factors in relation to the VIE Agreements – Certain terms of the VIE Agreements may not be enforceable under PRC laws" below.

Dispute resolutions

The VIE Agreements are governed by and will be construed in accordance with the PRC laws. Any dispute arising from the VIE Agreements between the parties should first be resolved through negotiation. In case the dispute cannot be resolved within 30 days, any party may submit the said dispute to China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會) in accordance with the then effective arbitration rules. The arbitration venue shall be in Beijing and the language used during the arbitration shall be Chinese. The arbitration award shall be final and binding on all parties. The arbitrators may award remedies over the equity interest or assets of the VIE or grant injunctive relief (limiting or restricting transfer or sale of shares or assets). Any party may apply to the courts having jurisdiction (i.e. in the PRC) for arbitral awards.

Succession

The provisions set out in the VIE Agreements are also binding on the successors of the PRC Equity Holders, as if the successors were signing parties to the VIE Agreements. Any breach by the successors would be deemed to be a breach of the VIE Agreements such that the WFOE can enforce its rights against the successors of the PRC Equity Holders. Under the succession law of the PRC, the statutory successors of a PRC individual include the spouse, children, parents, brothers, sisters, paternal grandparents and the maternal grandparents. Under the PRC Companies Law* (《中華人民共和國公司法》), the liabilities of a company shall be assumed by, in the case of merger, the surviving company or the newly established company, and in the case of split, the parties to the split on a joint and several basis (unless otherwise agreed in writing with the creditors prior to such split).

Liquidation

All equity interest owned by the PRC Equity Holders as shareholders of the VIE have been pledged to the WFOE under the Equity Interest Pledge Agreement to secure the performance of obligations by the VIE and the PRC Equity Holders under the VIE Agreements and in case of any breach of such obligations, the WFOE is entitled to enforce such pledge. Accordingly, in the event of a dissolution or liquidation of the VIE, a liquidator may seize and deal with assets that are attributable to the PRC Equity Holders based on the VIE Agreements for the benefit of the WFOE.

Death, bankruptcy and divorce

Appropriate arrangements have been made (through the execution of the Partners' Undertaking and the Spousal Undertaking) to protect the interests of the Target Group (or the Enlarged Group after Completion) in the VIE in the event of bankruptcy of the VIE and death, bankruptcy or divorce of the PRC Equity Holders to avoid any practical difficulties in enforcing the VIE Agreements. For details of the Partners' Undertaking and the Spousal Undertaking, please refer to the section headed "Information on the VIE Agreements" above.

Conflict of interests

The Company confirms that appropriate arrangements have been made to address the potential conflict of interests between the PRC Equity Holders and the Group. The PRC Equity Holders have, both individually and collectively, made certain undertakings, details of which are set out in the paragraphs headed "Information on the VIE Agreements" above.

Loss sharing

The Company confirms that none of the VIE Agreements provides that the Target Group or the Enlarged Group is obligated to share the losses of the VIE or provide financial support to the VIE. Further, the VIE is a limited liability company and shall be solely liable for its own debts and losses with assets and properties owned by it. As advised by the PRC Legal Advisers, under the PRC laws and regulations, the Target Group, as the primary beneficiary of the VIE under the VIE Agreements, is not required to share the losses of the VIE or provide financial support to the VIE. However, since the Target Group will be conducting business through the VIE and the financial results of the VIE are consolidated into the financial statements of the Target Group, any losses suffered by the VIE would be reflected in the Target Group's consolidated financial statements (and after completion, that of the Enlarged Group's) and therefore the Enlarged Group's consolidated financial position such as the consolidated earnings and profits will be adversely affected by losses so suffered by the VIE.

Measures implemented by the Group in compliance with the contractual arrangements

The Group has adopted the following measures to ensure the effective operation of the Group with the implementation of the contractual arrangements and the Group's compliance with the contractual arrangements:

(i) the Powers of Attorney are granted to the WFOE, and the related matters are decided by designated persons of the WFOE, including for instance Directors and their successors, and the Powers of Attorney will not be exercised by officers or directors of the Company who are also the PRC Equity Holders to prevent any potential conflict of interest;

(ii) major issues arising from the implementation and compliance with the contractual arrangements or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;

(iii) the Board will review the overall performance of and compliance status of the contractual arrangements at least once a year;

(iv) the Company will disclose the overall performance and compliance status of the contractual arrangements in its annual reports;

(v) the Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board in conducting reviews on the implementation of the contractual arrangements, assessing the legal compliance of the WFOE and the VIE, and in dealing with specific issues or matters arising from the contractual arrangements; and

(vi) the Company shall consult its PRC legal advisers from time to time to check if there are any legal developments in the PRC affecting the contractual arrangements contemplated under the VIE Agreements, and, where necessary, immediately report to the Board and provide it with appropriate advice and recommendations to enable it to timely determine if any modification or amendment needs to be made in compliance with the updated legal requirements.

THE BOARD'S VIEW ON THE VIE AGREEMENTS

By entering into the VIE Agreements, the Enlarged Group, through the WFOE, shall enjoy the entire economic interests and benefits generated by the VIE, since:

(i) quarterly service fees payable by the VIE to the WFOE under the Exclusive Consulting and Services Agreement shall comprise of all such total consolidated profit before tax (after deduction of any losses (where necessary) incurred in preceding financial year(s), operating costs, expenses, taxes and other statutory contributions) of the VIE and its subsidiaries. The WFOE is entitled to adjust the actual amount and proportion of the fees payable in accordance with the actual circumstances of the arrangement and taking into account the operating conditions of the VIE and its subsidiaries (including but not limited to such necessary costs, expenses, etc. incurred for the development of their businesses and operations);

(ii) the WFOE shall have exclusive ownership of all the intellectual property rights created by the VIE under the Exclusive Consulting and Services Agreement;

(iii) upon the breach by the VIE of any contractual obligations under the Exclusive Consulting and Services Agreement, the WFOE as pledgee under the Equity Interest Pledge Agreement, shall have the right to dispose of the pledged equity interests in the VIE and shall be accorded priority in receiving the proceeds from such disposal. The PRC Equity Holders also further covenant that they will not, without the prior written consent of the WFOE, dispose of, create or allow any encumbrance on the pledged equity interests; and

(iv) pursuant to the Powers of Attorney, each of the PRC Equity Holders has unconditionally and irrevocably authorised the WFOE to exercise all its rights as a shareholder of the VIE, including but not limited to the exercising of full rights to exert control over, and manage the finance, accounting and daily operations of the VIE.

Further, being condition precedent to Completion, the contractual arrangements of BlueCity and its Affiliates will be reorganised and restructured to ensure compliance with the requirements of the governmental authorities of the PRC (including the China Securities Regulatory Commission) and the Stock Exchange.

Based on the above, the Board (including the independent non-executive Directors) is of the view that the VIE Agreements, when viewed in totality, are in compliance with the requirements set out in the Stock Exchange's Guidance Letter HKEx-GL77-14, and being narrowly tailored to achieve the VIE's business purpose and to minimise the potential conflicts with and are enforceable under the relevant PRC laws. The Board confirms that appropriate arrangements have been made (through the execution of the Partners' Undertaking and the Spousal Undertaking) to protect the interests of the Target Group (or the Enlarged Group after Completion) in the VIE in the event of bankruptcy of the VIE and death, bankruptcy or divorce of the PRC Equity Holders to avoid any practical difficulties in enforcing the VIE Agreements. The VIE Agreements and the transactions contemplated thereunder are fundamental to the Target Group's legal structure and business operations, and such transactions have been or will be entered into in the Target Group's ordinary and usual course of business. The terms of the VIE Agreements are fair and reasonable and on normal commercial terms or better, and the entering into of such agreements is in the interests of the Group and the Shareholders as a whole, and as such would enable the WFOE to gain control over the VIE and entitle it to the economic interests and benefits of the VIE.

The Board (including the independent non-executive Directors), as advised by the PRC Legal Advisers, further believes that save for such issues as disclosed in the paragraphs headed "Risk factors in relation to the VIE Agreements – Certain terms of the VIE Agreements may not be enforceable under PRC laws", the VIE Agreements conferring significant control and economic benefits from the VIE to the Company are enforceable under the relevant PRC laws, and that the VIE Agreements will provide a mechanism that enables the WFOE to exercise effective control over the VIE based on the following reasons:

(i) The Directors have consulted with the PRC Legal Advisers in respect of the enforceability of the VIE Agreements, and the PRC Legal Advisers are of the view that the VIE Agreements do not violate any mandatory requirements under PRC laws and administrative regulations applicable to the business of the VIE, would not be deemed void under the PRC Civil Rights Code (中華人民共和國民法典), and do not violate the provisions of the articles of associations (or partnership agreements) of the WFOE and the VIE.

(ii) The Directors undertake that they shall consult the PRC legal advisers from time to time to check if there are any legal developments in the PRC affecting the contractual arrangements contemplated under the VIE Agreements, and shall, where necessary, immediately report to the Board and provide it with appropriate advice and recommendations to enable it to timely determine if any modification or amendment needs be made in compliance with the updated legal requirements.

As a result, the contractual arrangements enable the Group, through the Fund, to:

(1) irrevocably exercise such voting rights as entitled by equity holders of the VIE;

(2) exercise effective financial and operational control over the VIE;

(3) receive substantially all such economic interest returns generated by the VIE through the fees charged for the technical and consulting services provided by the WFOE;

(4) obtain an irrevocable and exclusive right to purchase all or part of the equity interests in the VIE from the respective equity holders at a minimum purchase price permitted under the PRC laws and regulations; and

(5) obtain a pledge over the entire equity interests of the VIE from its respective equity holders to secure performance of the VIE's obligation under the VIE Agreements.

The Board (including the independent non-executive Directors), based on the advice of the PRC Legal Advisers, consider that the use of VIE Agreements is in compliance with the relevant PRC laws and regulations currently in effect and are legally binding and enforceable. As a result of the contractual arrangements, the Enlarged Group, through the Fund, is able to exert effective control over the VIE as it has rights to exercise power over the VIE (as entitled by its equity holders), receive variable returns from its arrangements with the VIE, and has the ability to affect those returns through its power over the VIE upon the completion of the Acquisition. Consequently, the Enlarged Group, through the Fund, will treat the VIE and its subsidiaries as controlled entities and consolidate the financial position and results of operations of these entities in the consolidated financial statements of the Group in accordance with International Financial Reporting Standards ("**IFRS**") 10 – Consolidated Financial Statements upon the completion of the Acquisition. The Company has discussed with the Company's auditors and the Company's auditors concurred with management's assessment and conclusion on the accounting treatment.

CONTRACTUAL ARRANGEMENTS CONSTITUTING CONTINUING CONNECTED TRANSACTIONS

Benefits of the contractual arrangements through entering into of the VIE Agreements

Neither the Group nor the WFOE holds any equity interests in the VIE. Yet through the entering into of the VIE Agreements, the Group is able to exert effective control over the VIE to derive substantially all its economic benefits. The contractual arrangements between the Enlarged Group (through the WFOE), the VIE and the PRC Equity Holders enable the Enlarged Group to (i) derive substantially all the economic benefits from the VIE in consideration for the services provided by the WFOE; (ii) exercise effective control over the VIE; and (iii) hold an exclusive option to purchase all or part of the equity interests and assets in the VIE when and to the extent permitted by PRC laws.

Listing Rules implications

However, the contractual arrangements between the Group (through the WFOE) and the PRC Equity Holders, once implemented, shall constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules as one of the PRC Equity Holders, Hande Houcheng, being a limited partnership controlled as to 99.9% by Mr. LIU Chunhe (the executive Director of the Company who currently serves as the Chairman of the Board), is a connected person of the Group.

Further, for the purposes of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the VIE will be treated as the Company's wholly-owned subsidiary, and its directors, chief executives or substantial shareholders (as defined in the Listing Rules) and their respective associates will be treated as "connected persons" of the Company.

Thus, in view of the foregoing, the transactions contemplated under the VIE Agreements constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules and shall be subject to the announcement, independent shareholders' approval, annual reporting and annual review requirements under Chapter 14A of the Listing Rules.

The Board (including the independent non-executive Directors) is of the view that the VIE Agreements and the continuing connected transactions contemplated thereunder have been entered into in the ordinary and usual course of business of the Target Group and in the interests of the Company and the Shareholders as a whole.

WAIVER FROM STRICT COMPLIANCE WITH CHAPTER 14A OF THE LISTING RULES

(i) Waiver application and the relevant requirements under Chapter 14A of the Listing Rules

The Company has applied for, and the Stock Exchange has granted, a waiver (the "**Waiver**") from strict compliance with (i) the requirement of limiting the term of the contractual arrangements to three years or less pursuant to Rule 14A.52 of the Listing Rules, and (ii) the requirement of setting an annual cap for the transactions under the contractual arrangements pursuant to Rule 14A.53 of the Listing Rules, for so long as the Shares of the Company are listed on the Stock Exchange.

(ii) Reasons for the waiver application

The Waiver was sought by the Company for the reasons set out below:

(a) The contractual arrangements are conducive to the Company's realisation of its twin objectives, namely to enable the consolidation into the Group the results and financial operations of the VIE and its subsidiaries so as to enable the flow of the economic benefits derived therefrom to the Group, whilst serving as such necessary and integral mechanism to efficiently manage and exert effective control over the prohibited and/or restricted businesses operated by the VIE and its subsidiaries in the PRC. It is thus in the interests of the Company and the Shareholders as a whole to ensure that continuity of the contractual arrangements be preserved, such that the Group's constant and consistent control over and effective management of the VIE are not otherwise hindered by any expiration of term under the VIE agreements, and that the economic benefits so derived are not limited by any annual caps imposed.

(b) Whilst the contractual arrangements, once implemented, constitute continuing connected transactions of the Company for the purpose of Chapter 14A of the Listing Rules, the Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administration costs to the Company, for all transactions contemplated under the VIE Agreements to be subject to strict compliance with the requirements set out under Rules 14A.52 and 14A.53 of the Listing Rules.

(c) Upon the results and financial operations of the VIE and its subsidiaries being consolidated into that of the Group's by virtue of the contractual arrangements coming into effect, the Company will not only receive substantially all the economic benefits derived therefrom, but also that the interests of its Shareholders will not be prejudiced as the PRC Equity Holders (and especially the connected person, Hande Houcheng), having relinquished their rights through the VIE Agreements, will not be able to derive any benefits thereunder.

(d) Based on the foregoing, the transactions contemplated under the VIE Agreements, albeit deemed "continuing connected" under the Listing Rules, were merely considered so in form as they lack, in substance, the qualifying features of "continuing connected transactions", as is typical of contractual arrangements in relation to that of a variable interest entity structure.

(e) The Board (including the independent non-executive Directors) is of the view that the contractual arrangements and the transactions contemplated thereunder are fundamental to the Group's legal structure and business operations, have been entered into in the ordinary and usual course of business of the Target Group, are on normal commercial terms or better and are fair and reasonable and in the interests of the Company and its Shareholders as a whole. The waiver application for the lifting of restrictions on both the term and annual caps in relation to the contractual arrangements is thus deemed justifiable by the Directors, whom consider such being but normal business practice to ensure that the financial and operational policies of the VIE and its subsidiaries remain continually under the effective control of the Group with economic benefits derived therefrom consistently, and such that any possible leakages of assets and values are being prevented on an uninterrupted basis.

(iii) Conditions of the Waiver

The Waiver is subject to the following conditions:

(a) No change without independent non-executive Directors' approval

No change to the contractual arrangements (including with respect to any fees payable to the WFOE thereunder) will be made without the approval of the independent non-executive Directors.

(b) No change without Independent Shareholders' approval

Save as disclosed in paragraph (d) below, no change to the agreements governing the contractual arrangements will be made without the approval of the Independent Shareholders.

Once Independent Shareholders' approval of any change has been obtained, no further announcement or approval of the Independent Shareholders, except for those described above, will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the contractual arrangements in the annual reports of the Company will however continue to be applicable.

(c) Economic benefits and flexibility

The contractual arrangements shall continue to enable the Group to receive the economic benefits derived by the VIE and its subsidiaries through (i) the options (if and when so allowed under the applicable PRC laws) to acquire, all or part of the entire equity interests in the VIE for nil consideration or the minimum amount of consideration permitted by applicable PRC laws and regulations, (ii) the business structure under which the profit generated by the VIE and its subsidiaries is substantially retained by the Group, such that no annual cap shall be set on the amount of service fees payable to the WFOE by the VIE under the contractual arrangements, and (iii) the Group's right to control the management and operation of, as well as, in substance, all of the voting rights of the VIE.

(d) Renewal and reproduction

On the basis that the contractual arrangements provide an acceptable framework for the relationship between the WFOE (which the Company effectively controls through the Fund) and its subsidiaries in which the WFOE has direct shareholding, on the one hand, and the VIE and its subsidiaries, on the other hand, that framework may be renewed and/or reproduced without obtaining the approval of Shareholders: (i) upon the expiry of the existing arrangements, (ii) in connection with any changes to the registered shareholders or directors of the VIE, or (iii) in relation to any existing, newly established or acquired wholly foreign-owned enterprise or operating company (including branch company), engaging in a business similar or relating to those of the Target Group. Such renewal and/or reproduction is justified by business expediency. The directors, chief executive or substantial shareholders of any existing or new wholly foreign-owned enterprise or operating company (including branch company) engaging in the same business as that of the Target Group which the Target Group may establish will, upon renewal and/or reproduction of the contractual arrangements, however, be treated as connected persons of the Target Group and transactions between these connected persons and the Target Group other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals. Any renewed or reproduced framework will be on substantially the same terms and conditions as the existing contractual arrangements.

(e) On-going reporting and approvals

The Group will disclose details relating to the contractual arrangements on an on-going basis as follows:

- the contractual arrangements in place during each financial period will be disclosed in the Company's annual report in accordance with relevant provisions of the Listing Rules;

- the independent non-executive Directors will review the contractual arrangements annually and confirm in the Company's annual report for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the contractual arrangements, (ii) no dividends or other distributions have been made by the VIE and its subsidiaries to the PRC Equity Holders which are not otherwise subsequently assigned or transferred to the Group, and (iii) any new contracts entered into, renewed or reproduced between the Group and the VIE and its subsidiaries during the relevant financial period above are fair and reasonable, or advantageous to the Shareholders, so far as the Group is concerned and in the interests of the Shareholders as a whole;

- the Company's auditors will carry out procedures annually on the transactions carried out pursuant to the contractual arrangements and will provide a letter to the Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of the Directors and have been entered into in accordance with the relevant contractual arrangements and that no dividends or other distributions have been made by the VIE and its subsidiaries to the PRC Equity Holders which are not otherwise subsequently assigned or transferred to the Target Group;

- for the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", each of the VIE and its subsidiaries will be treated as the Company's wholly-owned subsidiary, but at the same time, the directors, chief executives or substantial shareholders of each of the VIE and its subsidiaries and their respective associates will be treated as connected persons of the Company as applicable under the Listing Rules (excluding for this purpose, the VIE and its subsidiaries), and transactions between these connected persons and the Group (including for this purpose, the VIE and its subsidiaries), other than those under the contractual arrangements, will be subject to requirements under Chapter 14A of the Listing Rules; and

- the VIE and its subsidiaries will undertake that, for so long as the Shares are listed on the Stock Exchange, the VIE ad its subsidiaries will provide the Group's management and the Company's auditors full access to their relevant records for the purpose of the Company's auditing procedures with regard to the connected transactions.

RISK FACTORS IN RELATION TO THE VIE AGREEMENTS

(i) The PRC government may determine that the VIE Agreements do not comply with the applicable laws and regulations, particularly in light of the changes to the PRC foreign investment legal regime

There can be no assurance that the VIE Agreements will be deemed by the relevant governmental or judicial authorities to be in compliance with the existing or future applicable PRC laws and regulations, or the relevant governmental or judicial authorities may in the future interpret the existing laws or regulations with the result that the VIE Agreements will be deemed to be in compliance of the PRC laws and regulations.

On 15 March 2019, the Standing Committee of the National People's Congress promulgated the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》, (the "**Foreign Investment Law**"), which upon being effective on 1 January 2020, replaced the Law on Sino-Foreign Equity Joint Ventures, the Law on Sino-Foreign Contractual Joint Ventures and the Law on Foreign-Capital Enterprises as the legal foundation for foreign investment in the PRC. Further, relevant provisions of the Foreign Investment Law are being clarified and elaborated by the Implementation Rules to the PRC Foreign Investment Law which came into effect on 1 January 2020. Yet uncertainties still exist in relation to interpretation and implementation of the Foreign Investment Law, especially with regard to, among other things, the nature of consolidated affiliated entity contractual arrangements and specific rules regulating the organisation form of foreign-invested enterprises within the five-year transition period. While the Foreign Investment Law does not define contractual arrangements as a form of foreign investment explicitly, it has a catch-all provision under definition of "foreign investment" that includes investments made by foreign investors in the PRC through other means as provided by laws, administrative regulations or the State Council, there is thus no guarantee that future laws and regulations will not deem the VIE Agreements as foreign investment in the future. In the event of such possibility, the contractual arrangements in the form of the VIE Agreements may be deemed invalid and illegal, and the Target Group may be required to unwind such contractual arrangement and/or dispose of any affected business. Also, if future laws, administrative regulations or provisions mandate further actions to be taken with respect to existing contractual arrangements, the Target Group may face substantial uncertainties as to whether such remedial actions can be taken in a timely manner, or at all.

Furthermore, under the Foreign Investment Law, foreign investors or the foreign investment enterprise would be liable for any failure to disclose investment information where required. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect the Target Group's current corporate structure, corporate governance, financial condition and business operations. In light of the above uncertainties, the Board will consult the PRC Legal Advisers on a regular basis in order to assess the possible impact of the Foreign Investment Law on the VIE Agreements and the business of the Company. In case there would be material impact on the VIE's business, the Company will timely publish announcements in relation to material developments of and arising from the implementation or interpretation of the Foreign Investment Law.

(ii) The VIE Agreements may not be as effective as direct ownership

The Enlarged Group, the Fund and/or the WFOE will not have equity ownership interests in the VIE. The VIE Agreements may not be as effective as direct ownership in providing the Target Group with control over the VIE, which would otherwise allow the Target Group to directly exercise its rights as a shareholder to effect changes in the board of directors of the VIE, which, in turn, could effect changes, subject to any applicable fiduciary obligations, at the management level.

(iii) The contractual arrangements may be subject to scrutiny of the PRC tax authorities and transfer pricing adjustments and additional tax may be imposed

The Target Group could face material adverse tax consequences if the PRC tax authorities determine that the arrangements under the VIE Agreements were not entered into based on arm's length negotiations. If the PRC tax authorities determine that the VIE Agreements were not entered into on an arm's length basis, they may adjust income and expenses of the WFOE and/or the VIE for PRC tax purposes, which could result in higher tax liabilities on the WFOE and/or the VIE.

The operating and financial results of the Target Group may be materially and adversely affected if the tax liabilities of the VIE or those of the WFOE increase significantly or if they are required to pay interest on late payments and other penalties.

(iv) Certain terms of the VIE Agreements may not be enforceable under PRC laws

The VIE Agreements provide that the arbitration tribunal of the PRC may award remedies over the equity interests or assets of the VIE or injunctive relief. However, the PRC Legal Advisers are of the view that pursuant to the PRC laws, only the people's courts* (人民法院) have the power to order the winding up of the VIE. As a result, in the event that the VIE or any of the PRC Equity Holders breaches the terms of the VIE Agreements, the Company may not be able to obtain sufficient remedies in a timely manner, and its ability to exert effective control over the VIE could be materially and adversely affected.

(v) A substantial amount of costs and time may be involved in transferring the ownership of the VIE to the Group under the Exclusive Option Agreement

In case the WFOE exercises its option to acquire all or part of the equity interests in the VIE under the Exclusive Option Agreement, such acquisition may only be conducted to the extent as permitted by the applicable PRC laws and will be subject to necessary approvals and relevant procedures under the applicable PRC laws. In addition, the aforementioned acquisitions may be subject to a minimum price limitation (such as an appraised value for the equity interests in the VIE) or other limitations as imposed by the applicable PRC laws. Further, a substantial amount of taxes, other necessary costs (if any), expenses and time may be involved in transferring the ownership of the VIE, which may have a material adverse impact on the Target Group's business, prospects and results of operation.

(vi) Neither the Company nor the Target Group has any insurance which covers the risks relating to the VIE Agreements and the transactions contemplated thereunder

Neither the insurance of the Group, nor that of the Target Group, covers the risks relating to the VIE Agreements and the transactions contemplated thereunder and the Company has no intention to purchase any additional insurance in this regard. If any risk arises from the VIE Agreements in the future, such as those affecting the enforceability of the VIE Agreements and the relevant agreements for the transactions contemplated thereunder and the operation of the

VIE Agreements, the results of the Target Group may be adversely affected. However, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. The Company will be evaluating the feasibility, the cost and the benefit of insuring the transactions contemplated under the VIE Agreements on a continual basis.

REASONS AND BENEFITS OF ENTERING INTO THE SALE AND PURCHASE AGREEMENT AND DEEDS OF AMENDMENT OF THE PARTNERSHIP AGREEMENT OF THE FUND

With the General Partner of the Fund taking the lead, the Company, as the Limited Partner, participated in the privatisation of BlueCity, which in turn fosters a deeper mutual understanding and tighter collaborative relationship at business level as among the two companies. Throughout the process, both the Company and BlueCity have their sights set on great collaborative opportunities in overseas market development and localised operations. Priming its focus on overseas social channels, the Company has successfully incubated and rolled out a number of distinguished products, and thereby having accumulated extensive experience in global market development and localised operations in different countries. The aforementioned experience can be replicated and applied towards accelerating the development of BlueCity's overseas business and improving its profitability.

In terms of potential benefits and synergistic effects, the Company considers BlueCity, having accumulated a vast user base in many regions worldwide in the global LGBTQ social networking segment, occupies a leading position in the market. With the LGBTQ community being one that is continually valued and embraced in society nowadays, the Company acknowledges the development potential and prospects of the LGBTQ community in the field of social networking. Meanwhile, with the Company being principally engaged in overseas social networking business, both parties are highly compatible in terms of business model. As for BlueCity's financial performance, it is noted that BlueCity has recorded a loss for both years ended 31 December 2021 and 2022 and a decline in net assets between the two years. However, the Company's focus is primed instead on tapping into BlueCity's established user base and the opening up of vast market opportunities. By leveraging its rich experience in overseas social networking business, especially when it comes to localised operations and commercialisation of live social networking in overseas settings, the Company has, during the period spanning from August to December 2022, helped BlueCity with driving down costs and ramping up efficiency through refined operating strategies, and thereby having yielded profits. Thus, if the Company is able to take the reins and spearhead the development of BlueCity through its control of the Fund, and such that it can utilise its business resources and operating models to further optimise BlueCity's business offerings, the Company is confident that it can, and considers itself well-poised to assist BlueCity in attaining better financial performance.

Accordingly, and based on the foregoing, the Company facilitated this transaction through friendly business negotiations with all the Partners of the Fund. It is envisaged that after Completion, the Company will be empowered to exercise the management authority as conferred on the General partner and can thereby directly engage in business collaboration with BlueCity to better reap the benefits spurred on by the synergistic effect.

The Company believes that by drawing on BlueCity's unique appeal to the LGBTQ community, which would otherwise be hard or costly to reach, the Enlarged Group would reap the potential benefits of enhanced brand influence, awareness and recognition whilst achieving growth through the expansion and diversification of user base, thereby leading to a wider scope of service offerings and a surge in business opportunities which could fuel future growth in market share and profitability.

Alternatively, when considered individually (on a standalone basis), the entering into of the Deeds of Amendment is beneficial to the Company as it enables it to reap such benefits commensurable to its actual contribution towards the privatisation of BlueCity, as is then aptly reflected by its revised entitlement under the First Deed of Amendment to a majority (approximately 92.94%) share in BlueCity's gains, but both the reduction of Spriver's commitment (under the First Deed of Amendment), and correspondingly it's entitlement under the Partnership Agreement, as well as the revision of the term of the Partnership Agreement to that of an indefinite period (pursuant to the Second Deed of Amendment) serve to provide much needed certainty and stability for the growth, innovation and development of BlueCity's business.

Yet, assuming that both the term of the Partnership Agreement and the Commitments of the Partners thereunder are not varied by the Deeds of Amendment, the Sale and Purchase Agreement on its own (upon coming into effect) will provide the Company with effective control over the business and affairs of BlueCity through its ownership of the General Partner, and thus forming the necessary basis for consolidation of its results and financial operations into that of the Group's. Furthermore, net proceeds in respect of each Portfolio Investment held by the Fund shall be distributed to the Limited Partners in proportionate to their respective actual contributions. It is worth noting that as of the date of the First Deed of Amendment and as of the date of this circular, the Company has fulfilled its contribution obligations in full under the Partnership Agreement (with the funds contributed by the Company being then utilised to facilitate the going-private transaction of BlueCity), whilst Spriver has only contributed US$3,800,000. Accordingly, the Company's beneficial interest in the Fund's investment portfolio of BlueCity shall remain at 92.94% regardless of whether the Deeds of Amendment were approved or not.

Under the scenario where only the entering into of the Deeds of Amendment is approved, the Company, as mere Limited Partner (and with the Fund being exclusively managed by the General Partner which it has no control over), would be unable to exert control over the Fund's management and operations, and hence being unable to consolidate the financial statements of the Fund into that of the Group's. The Company would, however, continue to account for its investment in the Fund as a joint venture using the equity method.

On the other hand, as Spriver's Commitment under the Partnership Agreement hinges upon whether approval from the Shareholders of the Company is obtained for the entering into of the Deeds of Amendment, two scenarios are thus contemplated as follows:

(1) Assuming the entering into of the Deeds of Amendment is approved, there will be no difference between Spriver's Commitment under the Partnership Agreement (as amended by the First Deed of Amendment) and its current Contribution, because Spriver's Commitment under the Partnership Agreement shall be reduced to US$3,800,000 pursuant to the First Deed of Amendment and it has already contributed US$3,800,000.

(2) Assuming the entering into of the Deeds of Amendment is not approved, Spriver will be subject to an obligation to make Contributions to the Partnership up to its Commitment of US$49,900,000 under the Partnership Agreement if and when the General Partner specifies the amount which Spriver is required to contribute in a drawdown notice pursuant to the Partnership Agreement, which means Spriver may be required to further contribute the difference between US$49,900,000 and US$3,800,000.

As Chizicheng Strategy Investment is a wholly-owned subsidiary of Spriver and Spriver is 100% owned by Mr. LIU Chunhe, Mr. LIU Chunhe and Mr. LI Ping are parties acting in concert (having the meaning ascribed thereto in the Takeovers Code). Thus, Mr. LIU Chunhe and Mr. LI Ping are considered interested in the transactions contemplated under the Sale and Purchase Agreement and the Deeds of Amendment and have thus abstained from voting on the Board resolutions to approve the Sale and Purchase Agreement and the Deeds of Amendment. Save for Mr. LIU Chunhe and Mr. LI Ping, none of the other Directors is regarded as having a material interest in the transactions contemplated under the Sale and Purchase Agreement and the Deeds of Amendment. Accordingly, none of the other Directors is required to abstain from voting on the resolutions with respect to the Sale and Purchase Agreement and the Deeds of Amendment at the Board meeting under the Listing Rules.

FINANCIAL EFFECTS OF THE ACQUISITION

After Completion, the results of the Target Group will be consolidated into the consolidated financial statements of the Group.

As set out in the Unaudited Pro Forma Financial Information of the Enlarged Group in Appendix III to this circular and on the basis of the notes set out therein under the scenario where both the Sale and Purchase Agreement and the Deeds of Amendment have been approved and with Completion having proceeded accordingly, for illustrative purposes, the net asset value of the Group amounted to approximately RMB1,504,133,000 if the Acquisition and the Deeds of Amendment of the Partnership Agreement of the Fund had taken effect on 31 December 2022. The consolidated total assets of the Group were expected to increase by approximately RMB519,133,000 to the consolidated total asset of the Enlarged Group of approximately RMB2,239,350,000. Such increase was primarily attributable to the consolidation of Target Group's total assets of approximately RMB397,474,000 and the addition of the goodwill and intangible assets of Target Group of approximately RMB254,080,000 and RMB17,406,000 respectively resulting from the Acquisition which would be partially offset by the decrease in the investments accounted for using the equity method of approximately RMB148,559,000 arising from the consolidation of the financial statements of the Target Group. The consolidated total liabilities of the Group would also increase by approximately RMB253,010,000 to approximately RMB735,217,000, being primarily attributable to the consolidation of Target Group's total liabilities of approximately RMB244,285,000 resulting from the Acquisition.

Under the scenario where only the entering into of the Deeds of Amendment has been approved and the amendments therein having taken effect accordingly, the Company, as mere Limited Partner (and with the Fund being exclusively managed by the General Partner which it has no control over), would be unable to exert control over the Fund's management and operations, and hence being unable to consolidate the financial statements of the Fund into that of the Group's. The Company would, however, continue to account for its investment in the Fund as a joint venture using the equity method. Accordingly, the Company's consolidated balance sheet as at 31 December 2022 would be the same as set out in its published annual report for the year ended 31 December 2022 and no pro forma financial information is applicable under this scenario.

Under the scenario where only the Sale and Purchase Agreement has been approved and with the transactions thereunder having proceeded accordingly, the Company will hold the entire issued share capital of Chizicheng Strategy Investment directly and will control the Fund through its control of Chizicheng Strategy Investment and the interests held by the Company in the Fund. Meanwhile, given the net proceeds in respect of each Portfolio Investment held by the Fund shall be distributable to the Limited Partners in proportionate to their respective actual contributions, there would be no change in terms of the Company's and Spriver's actual Contributions in the Portfolio Investment of BlueCity, as well as their respective entitlement to the net proceeds, regardless of whether the Deeds of Amendment were approved or not. Accordingly, when consolidating the Fund's financial statements for the purpose of the Unaudited Pro Forma Financial Information, the Company's beneficial interest in the Fund's Portfolio Investment of BlueCity remains at 92.94% regardless of whether the Deeds of Amendment were approved or not. Therefore, under this scenario, the Unaudited Pro Forma Financial Information would mirror that of the scenario as illustrated above where both the Sale and Purchase Agreement and the Deeds of Amendments have been approved.

The Target Group is expected to contribute revenue generated from its operations to the Enlarged Group, and will enhance the revenue stream of the Enlarged Group and the Enlarged Group's earnings are expected to increase as a result of the completion of the Acquisition.

For details of the Target Group, please refer to the Financial Information of the Target Group in Appendix II, and the Management Discussion and Analysis on the Target Group in Appendix IV to this circular.

LISTING RULES IMPLICATIONS

As at the date of this circular, Spriver is one of the substantial shareholders of the Company. Chizicheng Strategy Investment is a wholly-owned subsidiary of Spriver. Each of Spriver and Chizicheng Strategy Investment is a connected person of the Company under Rule 14A.07 of the Listing Rules. Therefore, the Sale and Purchase Agreement, the Deeds of Amendment and the transactions contemplated thereunder constitute connected transactions 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 Sale and Purchase Agreement, the Deeds of Amendment, the transactions contemplated thereunder exceeds 25%, but all such percentage ratios are less than 100%, the entering into of the Sale and Purchase Agreement, the Deeds of Amendment and the transactions contemplated thereunder also constitute major transactions of the Company under Chapter 14 of the Listing Rules and are subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders in respect of the Sale and Purchase Agreement, the Deeds of Amendment, the VIE Agreements, and the transactions contemplated thereunder. Somerley has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

THE EGM

A notice convening the EGM to be held on 19 July 2023 at 6/F, Tower B, Xiaoyun Road 33rd Building, 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.

Mr. LIU Chunhe, Parallel World Limited and Mr. LI Ping are interested in approximately 22.05%, 6.14% and 6.64%, respectively of the shares in the Company. For details of their respective shareholdings in the Company, please refer to the section headed "Directors' and chief executive's interests and short position in Shares, underlying shares and debentures" in Appendix V to this circular. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, save for Spriver, Mr. LIU Chunhe, Parallel World Limited and Mr. LI Ping who will abstain from voting, no Shareholders or any of their respective associates have any material interest in the Sale and Purchase Agreement, the Deeds of Amendment, the VIE Agreements, and the transactions contemplated thereunder.

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 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 17th 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 17 July 2023) 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 resolutions in respect of the Sale and Purchase Agreement, the Deeds of Amendment, the VIE Agreements, and the transactions contemplated thereunder. Mr. LIU Chunhe and Mr. LI Ping are considered interested in the transactions contemplated under the Sale and Purchase Agreement, the Deeds of Amendment and the VIE Agreements, and have thus abstained from voting on the Board resolutions to approve the Sale and Purchase Agreement, the Deeds of Amendment and the VIE Agreements. Save for Mr. LIU Chunhe and Mr. LI Ping, none of the other Directors is regarded as having a material interest in the transactions contemplated under the Sale and Purchase Agreement and the Deeds of Amendment. Accordingly, none of the other Directors is required to abstain from voting on the resolutions with respect to the Sale and Purchase Agreement, the Deeds of Amendment and the VIE Agreements, at the Board meeting under the Listing Rules.

The Board (including the independent non-executive Directors) considers that the terms and conditions of the Sale and Purchase Agreement, the Deeds of Amendment, the VIE Agreements, and the transactions contemplated thereunder are fair and reasonable and on normal commercial terms and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including the independent non-executive Directors) recommends the Shareholders to vote in favour of the resolutions as set out in the notice of the EGM.

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

赤子城
newborntown

NEWBORN TOWN INC.
赤子城科技有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 9911)

To the Independent Shareholders 30 June 2023

Dear Sir or Madam,

**MAJOR AND
CONNECTED TRANSACTIONS**

**ENTERING INTO THE SALE AND PURCHASE AGREEMENT
AND THE DEEDS OF AMENDMENT OF
THE PARTNERSHIP AGREEMENT OF THE FUND**

**CONTRACTUAL ARRANGEMENTS CONSTITUTING
CONTINUING CONNECTED TRANSACTIONS**

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the terms and conditions of the Sale and Purchase Agreement, the Deeds of Amendment and the VIE Agreements are fair and reasonable and on normal commercial terms and in the interests of the Company and the Shareholders as a whole and how to vote.

Having considered the above and the advice of Somerley in relation thereto as set out on pages 53 to 101 of this circular, we consider that the entering into of the Sale and Purchase Agreement, the Deeds of Amendment and the VIE Agreements, though not in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as a whole, and that the terms of the Sale and Purchase Agreement and the Deeds of Amendment are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of and approve all resolution(s) in relation to the entering into Sale and Purchase Agreement, the Deeds of Amendment, the VIE Agreements, and the transactions contemplated thereunder to be proposed at the EGM.

Yours faithfully,
for and on behalf of the Independent Board Committee

Mr. GAO Ming	Mr. CHI Shujin	Mr. HUANG Sichen
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

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

30 June 2023

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

Dear Sirs,

MAJOR AND CONNECTED TRANSACTIONS

ENTERING INTO THE SALE AND PURCHASE AGREEMENT AND THE DEEDS OF AMENDMENT OF THE PARTNERSHIP AGREEMENT OF THE FUND

AND

CONTRACTUAL ARRANGEMENTS CONSTITUTING CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with entering into the Sale and Purchase Agreement and the Deeds of Amendment. Details of the Sale and Purchase Agreement and the Deeds of Amendment are set out in the circular of the Company to the Shareholders dated 30 June 2023 ("**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.

Reference is made to the circular of the Company dated 16 March 2022 in relation to the proposed establishment of the Fund. On 23 March 2023, the Company entered into the Sale and Purchase Agreement with Spriver, pursuant to which the Company has agreed to acquire and Spriver has agreed to sell 1,000,000 ordinary shares of par value of US$0.01 each of Chizicheng Strategy Investment ("**Sale Shares**") which represent the entire issued share capital of Chizicheng Strategy Investment, a wholly-owned subsidiary of Spriver and the General Partner of the Fund, for the consideration of US$1.00. Upon completion of the Acquisition, the

Company will hold the entire issued share capital of Chizicheng Strategy Investment directly and will control the Fund through its control of the General Partner and the interests held by the Company in the Fund, and will consolidate the financial statements of the Fund and the companies held by the Fund, including Multelements Limited, Land of Glory and BlueCity. In the case where the Sale and Purchase Agreement has not been approved and Completion not having taken place, the Company, as mere Limited Partner (and with the Fund being exclusively managed by the General Partner which it has no control over), would be unable to exert control over the Fund's management and operations, and hence being unable to consolidate the financial statements of the Fund into that of the Group. The Company would, however, continue to account for its investment in the Fund as a joint venture using the equity method.

In connection with (but not conditional upon) the Acquisition, the Company, Spriver and Chizicheng Strategy Investment, entered into (i) the First Deed of Amendment on 23 March 2023; and (ii) the Second Deed of Amendment on 18 April 2023. Pursuant to the First Deed of Amendment, the aggregate Commitments to the Partnership and capital commitments to the Parallel Funds (if any) of Chizicheng Strategy Investment being the General Partner, shall as of the Final Closing equal to US$1.00, whereas the Commitment of Spriver, as the Limited Partner, shall be reduced from US$49,900,000 to US$3,800,000 with effect from the effective date of the First Deed of Amendment, and the Commitment of the Company, as the Limited Partner, shall remain the same, representing 7.06% and 92.94% interest, respectively, in the Fund.

Pursuant to the Second Deed of Amendment, the term of the Partnership shall be changed from a maximum of ten years to an indefinite term and shall be terminated upon the occurrence of certain events.

BlueCity and its Affiliates adopt the Contractual Arrangements to operate their businesses in the PRC as certain onshore entities operate in sectors that are subject to foreign investment restriction or prohibition under the applicable PRC laws and regulations. The VIE Agreements were entered among the parties to the Contractual Arrangements, including the WOFE to be indirectly controlled by the Company upon Completion.

Spriver is one of the substantial shareholders of the Company. Chizicheng Strategy Investment is a wholly-owned subsidiary of Spriver. Each of Spriver and Chizicheng Strategy Investment is a connected person of the Company under Rule 14A.07 of the Listing Rules. Therefore, entering into the Sale and Purchase Agreement, the Deeds of Amendment and the transactions contemplated thereunder, either individually or together, constitute connected transactions of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the Sale and Purchase Agreement, the Deeds of Amendment and the transactions contemplated thereunder exceed 25% but all applicable percentage ratios are less than 100%, entering into the Sale and Purchase Agreement, the Deeds of Amendment and the transactions contemplated thereunder also constitute major transactions of the Company under Chapter 14 of the Listing Rules and therefore are subject to reporting, announcement, circular and independent shareholders' approval requirements under the Listing Rules.

The Contractual Arrangements between the Group (through the WFOE) and the PRC Equity Holders, once implemented, shall constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules as one of the PRC Equity Holders, Hande Houcheng, being a limited partnership controlled as to 99.9% by Mr. LIU Chunhe (the executive Director of the Company who currently serves as the Chairman of the Board), is a connected person of the Group. Furthermore, the VIE is a connected person of the Company. The transactions contemplated under the VIE Agreements constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules and shall be subject to the announcement, independent shareholders' approval, annual reporting and annual review requirements under Chapter 14A of 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 in respect of the Sale and Purchase Agreement, the Deeds of Amendment, the VIE Agreements and the transactions contemplated thereunder, 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 involving issue of consideration shares under specific mandate (as disclosed in the Company's circular dated 26 November 2021); and (ii) the establishment of the Fund under the Partnership Agreement (as disclosed in the Company's circular dated 16 March 2022). 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, the WFOE, the VIE, the PRC Equity Holders 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, the WFOE, the VIE, the PRC Equity Holders or any of their close associates, associates or core connected persons.

In formulating our opinion and recommendation, we have reviewed, among other things, the Sale and Purchase Agreement, the Deeds of Amendment, the VIE Agreements, the annual reports of the Company for the years ended 31 December 2022 ("**2022 Annual Report**") and 2021 and the information as set out in the Circular. We have also discussed with the management of the Group ("**Management**") regarding the future prospects of the Group after Completion.

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. Shareholders will be notified of any material changes to such information and opinions in the Circular up to the date of the EGM as soon as possible. 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, Chizicheng Strategy Investment, the WFOE, the VIE and the PRC Equity Holders, 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.

The Company operates through two reporting segments, namely social networking business and innovative business. Social networking business segment mainly includes diversified social networking products with product portfolio including Yumy (a heartbeat social networking platform), MICO (an open social networking platform), YoHo (an audio social networking platform) and other audio and video social media products. Innovative business segment mainly includes niche games, metaverse and other related businesses.

(b) Financial performance of the Group

Set out below is a summary of the Group's financial performance for three years ended 31 December 2020, 2021, and 2022.

	For the year ended 31 December		
	2022	**2021**	**2020**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Revenue from contracts with customers	2,799,698	2,359,816	1,181,593
Cost of revenue	(1,741,791)	(1,356,496)	(429,104)
Gross profit	1,057,907	1,003,320	752,489
Gross profit margin	*37.8%*	*42.5%*	*63.7%*
Selling and marketing expenses	(484,068)	(504,918)	(483,513)
Research and development expenses	(212,072)	(130,858)	(58,534)
General and administrative expenses	(111,813)	(730,089)	(55,335)
Others	19,307	(27,516)	(23,015)
Operating profit/(loss)	269,261	(390,061)	132,092
Finance cost – net	(530)	(3,615)	(1,906)
Share of net gain/(loss) of associates and joint ventures accounted for using the equity method	18,648	(205)	(6)
Profit/(Loss) before income tax	287,379	(393,881)	130,180
Income tax (expenses)/credits	(44)	6,756	(15,837)
Profit/(Loss) for the year	287,335	(387,125)	114,343
Profit/(Loss) for the year attributable to:			
the Shareholders	130,135	(286,284)	39,688
non-controlling interests	157,200	(100,841)	74,655
	287,335	(387,125)	114,343

Revenue of the Group increased by approximately 99.7% for the year ended 31 December 2021 compared to that for the year ended 31 December 2020, which was mainly attributable to (i) the successful launch of Yumy at the beginning of 2021 enriched the Group's social networking product matrix and offered richer social networking experience for global users; (ii) the Group's social networking products had achieved breakthroughs in developed markets such as Europe, America, Japan and Korea, with significant growing value and monetisation efficiency of users; and (iii) the Group continued to optimising middle platform systems which have improved the efficiency of matching and development and operation of the Group's social products. The gross profit for the year ended 31 December 2021 amounted to approximately RMB1,003.3 million, representing an increase of approximately 33.3% from that of approximately RMB752.5 million for the year ended 31 December 2020. The gross profit margins were approximately 42.5% and 63.7% for the years ended 31 December 2021 and 2020, respectively. The decrease in gross profit margin for the year ended 31 December 2021 was mainly due to increase in revenue sharing to streamers of the Group's social networking business and increase in the payment handling cost. Meanwhile, the general and administrative expenses increased by over 12 times to approximately RMB730.1 million for the year ended 31 December 2021 as compared to that for the year ended 31 December 2020. The significant increase was mainly due to an increase in share-based compensation expenses of approximately RMB651.0 million. Overall, the results of the Group dropped from a net profit of approximately RMB114.3 million for the year ended 31 December 2020 to a net loss of approximately RMB387.1 million, which was mainly due to the aforesaid increase in share-based compensation expenses but partially offset by the significant growth of revenue and gross profit. Similarly, the Group recorded a net loss attributable to the Shareholders of approximately RMB286.3 million for the year ended 31 December 2021, dropped from a net income attributable to the Shareholders of approximately RMB39.7 million for the year ended 31 December 2020.

Revenue of the Group increased by approximately 18.6% for the year ended 31 December 2022 compared to that for the year ended 31 December 2021. As stated in the 2022 Annual Report, the increase in revenue of the Group mainly contributed by the growth of social network business for the year ended 31 December 2022, which was primarily attributable to (i) the continuous building of a high-quality and diversified social product matrix, meeting users' diversified social needs through incorporating multiple social interaction scenarios, thereby continuously improving the user scale and business efficiency; and (ii) the in-depth practice of the concept of localised operation, improving user activation and stickiness by enriching content ecology and strengthening brand effect, thereby achieving high-quality growth of social networking business. The gross profit margin of the Group further dropped by approximately 4.7 percentage points to approximately 37.8% for the year ended 31 December 2022. The decrease in gross profit margin for the year ended 31 December 2022 was mainly due to change of the incentive policy for content creators which increased the revenue sharing to streamers of social networking business and resulted in a decrease in gross profit margin of the Group. The research and development expenses increased by over 60% for the year ended 31 December 2022 as compared to that for the year ended 31 December 2021, which was mainly due to increase in employee benefit expenses. Meanwhile, the general and administrative expenses decreased by approximately RMB618.3 million to approximately RMB111.8 million for the year ended 31 December 2022 as compared to that for the year ended 31 December 2021. The significant decrease was mainly due to a decrease in the share-based compensation expenses of approximately RMB641.2 million for the year ended 31 December 2022 as compared to that for the prior year. In addition, the share of results of associates and joint ventures accounted for using equity method improved from a loss of approximately RMB0.2 million for the year ended 31 December 2021 to a gain of approximately RMB18.6 million for the year ended 31 December 2022, which was mainly attributable to share of profits of the Fund. Overall, the results of the Group changed from a net loss of approximately RMB387.1 million for the year ended 31 December 2021 to a net profit of approximately RMB287.3 million for the year ended 31 December 2022, which was mainly due to the improved business operations of the Group and the decrease in share-based compensation expenses as mentioned above. Similarly, the Group recorded a net profit attributable to the Shareholders of approximately RMB130.1 million for the year ended 31 December 2022.

(c) Financial position of the Group

Set out below is a summary of the financial position of the Group as at 31 December 2020, 2021 and 2022.

	For the year ended 31 December		
	2022	**2021**	**2020**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
ASSETS			
Non-current assets			
Property and equipment	122,155	16,107	6,886
Intangible assets	185,635	226,412	267,189
Goodwill	197,287	197,287	197,287
Investments accounted for using the equity method	176,051	2,789	2,994
Others	62,472	53,839	31,113
	743,600	496,434	505,469
Current assets			
Accounts receivable	164,877	146,810	144,386
Financial assets measured at fair value through profit or loss	149,401	166,119	178,009
Cash and cash equivalents	596,729	724,588	431,015
Others	65,610	88,477	9,285
	976,617	1,125,994	762,695

	For the year ended 31 December		
	2022	**2021**	**2020**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
LIABILITIES			
Current liabilities			
Accounts payable	189,739	226,120	155,937
Other payable	110,366	478,759	234,593
Others	48,969	22,418	18,957
	349,074	727,297	409,487
Net current assets	627,543	398,697	353,208
Non-current liabilities			
Lease liabilities	86,244	3,229	102
Deferred tax liabilities	46,889	51,808	71,567
	133,133	55,037	71,669
EQUITY			
Equity attributable to the Shareholders	707,822	476,803	536,472
Non-controlling interests	530,188	363,291	250,536
	1,238,010	840,094	787,008

The property and equipment of the Group increased by over 6 times from approximately RMB16.1 million as at 31 December 2021 to approximately RMB122.2 million as at 31 December 2022, which was mainly attributable to the increases in right-of use assets and leasehold improvement as a result of renting a new office during the year ended 31 December 2022. The investment accounted for using the equity method amounted to approximately RMB176.1 million as at 31 December 2022, representing an increase of approximately RMB173.3 million from that of approximately RMB2.8 million as at 31 December 2021. The significant increase in the investment accounted for using the equity method was mainly related to the Fund including the cash contribution of US$50 million (equivalent to approximately RMB350.0 million), but it was partly offset by the reduction in other reserve attributable to the Group. As at 31 December 2022, the cash and cash equivalents of the Group amounted to approximately RMB596.7 million, representing a decrease by approximately RMB127.9 million from that of approximately RMB724.6 million as at 31 December 2021. The decrease was mainly due to the investments accounted for using the equity method including the cash contribution to the Fund, and the payment of the considerations for the acquisition of additional equity interests in non-wholly-owned subsidiaries of the Company.

The total liabilities of the Group amounted to approximately RMB482.2 million as at 31 December 2022, representing a decrease of approximately 38.4% from that of approximately RMB782.3 million as at 31 December 2021. The decrease in total liabilities was mainly due to the decrease in other payable by approximately RMB368.4 million compared to that of the prior year, primarily attributable to the settlement of the considerations for the acquisition of subsidiaries.

The equity attributable to the Shareholders increased from approximately RMB476.8 million as at 31 December 2021 to approximately RMB707.8 million as at 31 December 2022, chiefly attributable to the profit generated during the year ended 31 December 2022 and issuance of shares by way of placing.

As at 31 December 2022, the Group maintained a healthy working capital position (i.e., net current assets) of approximately RMB627.5 million, representing an increase of approximately 57.4% from that as at 31 December 2021 mainly as a result of the improved business performance of the Group for the year ended 31 December 2022 as discussed above and issuance of shares by way of placing. The Group's gearing ratio or liabilities-to-assets ratio, calculated as total liabilities divided by total assets, was approximately 28.0% as at 31 December 2022, which decreased from approximately 48.2% as at the 31 December 2021 as a result of the improved business performance of the Group and issuance of shares by way of placing as discussed above.

2. Background of entering into the Sale and Purchase Agreement and the Deeds of Amendment

During the first half of 2022, the Company entered into the Partnership Agreement for the establishment of the Fund, taking on the role of Limited Partner together with Spriver (also acting as Limited Partner), and Chizicheng Strategy Investment (a wholly-owned subsidiary of Spriver) serving as General Partner, for the purpose of, among other things, participating in the going-private transaction of BlueCity, details of which are disclosed in the announcement dated 13 January 2022 and the circular dated 16 March 2022, as issued by the Company and the Company's annual report for the year ended 31 December 2022.

It was agreed by the parties to the Partnership Agreement that the funds so contributed by the Partners be allocated by the General Partner in accordance with the actual needs of the underlying investments of the Fund. With the Fund having no potential investment targets other than BlueCity, the proposed maximum allocation of investment amounts in the going-private transaction of BlueCity was set at US$100 million, being the then maximum aggregate Commitments by the Partners as stipulated in the Partnership Agreement. The closing of the going-private transaction of BlueCity took place on 12 August 2022. On even date, the Company made most of its contribution to the Fund whilst Spriver and Chizicheng Strategy Investment have then yet to settle their respective Commitments. For the year ended 31 December 2022, the Company made a total cash contribution of US$50 million to the Fund, being the full amount of its Commitment under the Partnership Agreement.

Since then, the Company, as Limited Partner, has assisted BlueCity in launching a series of initiatives aimed at optimising its customer acquisition efficiency, enriching its monetisation scenarios and deepening its localised operations, in a bid to help improve the growth rate, user retention and operational efficiency of BlueCity's products, and thereby further expanding its global social operations and product commercialisation scale.

By implementing the refined operating strategies devised by the Company to help drive down costs and ramp up efficiency, BlueCity has managed to reverse the loss-making trend in the past and yielded profits for the months of August to December 2022. In view of the success of such efforts, the Partners, decided that in order to fully and effectively support the continued growth and drive profitability of BlueCity's operations going forward, the Company shall take on the management role instead (by acquiring the General Partner) and consolidate BlueCity's operations and technological innovations into that of the Group's to form a synergistically coherent and operationally integrated framework. The aim of the whole exercise (i.e., entering into of the Sale and Purchase Agreement, the Deeds of Amendment and the transactions contemplated thereunder) as disclosed herein is thus to enable the Company to exert continuous and effective control over (with streamlined costs and management processes), and consolidate the financial statements of the Fund and the companies held by the Fund, including Multelements, Land of Glory and BlueCity into that of the Group so as to give effect to the aforementioned mutual intention of the parties to the Partnership Agreement.

To align with and complement the aforementioned changes, the First Deed of Amendment was entered into by the Partners on 23 March 2023 to vary the Partnership Agreement and the Commitments stipulated thereunder. Pursuant to the First Deed of Amendment, the aggregate commitments to the Fund and capital commitments to the Parallel Funds (if any) shall be changed to the amounts paid up by the Partners by then (except for the US$1.00 of the General Partner).

Pursuant to the First Deed of Amendment and the Partners' revised Commitments thereunder, the interests of the parties to the Partnership Agreement are to be revised accordingly such that the Company, Spriver and the General Partner would be interested in approximately 92.94%, 7.06% and 0.00%, respectively, in the Fund. The effect of such revision (being that the Company having contributed over 90% of the paid-up capital of the Fund whilst Spriver's commitment to the Fund having been reduced), although will not enable the Company to obtain control over the relevant activities of the Fund (i.e., investment management which is directed by the General Partner), will entitle the Company to a higher percentage of the variable return generated from the Fund's operations (being that of BlueCity's) in view of BlueCity's improved operating results since its acquisition by the Fund.

The Partnership Agreement was then further amended by the Second Deed of Amendment on 18 April 2023. The revision of the term of the Fund from a 10-year period to that of an indefinite one (to be voted alongside the previous revisions under the First Deed of Amendment), was intended by the Partners as a mere administrative move to spare themselves from any additional costs involved in any future extensions of term, whilst ensuring the continuity of the Fund which is conducive to the growth and development of BlueCity going forward.

Further details of background and purposes of the establishment of the Fund and the entering into of the Partnership Agreement is set out in the letter from the Board contained in the Circular.

3. Reasons for and benefits of entering into the Sale and Purchase Agreement and the Deeds of Amendment

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 Yumy and YoHo, 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.

During the first half of 2022, the Company has established the Fund with the General Partner and Spriver for the purpose of, among other things, to participate in the going private transaction of BlueCity. As stated in the letter from the Board contained in the Circular, with the General Partner of the Fund taking the lead, the Company, as the Limited Partner, participated in the privatisation of BlueCity ("**Privatisation**"), which in turn fosters a deeper mutual understanding and tighter collaborative relationship at business level as among the two companies. Throughout the process, both the Company and BlueCity have their sights set on great collaborative opportunities in overseas market development and localised operations. Priming its focus on overseas social channels, the Company has successfully incubated and rolled out a number of distinguished products, and thereby having accumulated extensive experience in global market development and localised operations in different countries. The aforementioned experience can be replicated and applied towards accelerating the development of BlueCity's overseas business and improving its profitability.

In terms of potential benefits and synergistic effects, the Company considers BlueCity, having accumulated a vast user base in many regions worldwide in the global LGBTQ social networking segment, occupies a leading position in the market. With the LGBTQ community being one that is continually valued and embraced in society nowadays, the Company acknowledges the development potential and prospects of the LGBTQ community in the field of social networking. Meanwhile, with the Company being principally engaged in overseas social networking business, both parties are highly compatible in terms of business model. As for BlueCity's financial performance, it is noted that BlueCity has recorded a loss for both years ended 31 December 2021 and 2022 and a decline in net assets between the two years. However, the Company's focus is primed instead on tapping into BlueCity's established user base and the opening up of vast market opportunities. By leveraging its rich experience in overseas social networking business, especially when it comes to localised operations and commercialisation of live social networking in overseas settings, the Company has, during the period spanning from August to December 2022, helped BlueCity with driving down costs and ramping up efficiency through refined operating strategies, and thereby having yielded profits. Thus, if the Company is able to take the reins and spearhead the development of BlueCity through its control of the Fund, and such that it can utilise its business resources and operating models to further optimise BlueCity's business offerings, the Company is confident that it can, and considers itself well-poised to assist BlueCity in attaining better financial performance.

Accordingly, and based on the foregoing, the Company facilitated this transaction through friendly business negotiations with the Partners of the Fund. It is envisaged that after Completion, the Company will be empowered to exercise the management authority as conferred on the General Partner and can thereby directly engage in business collaboration with BlueCity to better reap the benefits spurred on by the synergistic effect.

The Company believes that by drawing on BlueCity's unique appeal to the LGBTQ community, which would otherwise hard or costly to reach, the Enlarged Group would reap the potential benefits of enhanced brand influence, awareness and recognition whilst achieving growth through the expansion and diversification of user base, thereby leading to a wider scope of service offerings and a surge in business opportunities which could fuel future growth in market share and profitability.

As stated in the letter from the Board contained in the Circular, alternatively, when considered individually (on a standalone basis), the entering into of the Deeds of Amendment is beneficial to the Company as it enables it to reap such benefits commensurable to its actual contribution towards the privatisation of BlueCity, as is then aptly reflected by its revised entitlement under the First Deed of Amendment to a majority (approximately 92.94%) share in BlueCity's gains, but both the reduction of Spriver's commitment (under the First Deed of Amendment), and correspondingly it's entitlement under the Partnership Agreement, as well as the revision of the term of the Partnership Agreement to that of an indefinite period (pursuant to the Second Deed of Amendment) serve to provide much needed certainty and stability for the growth, innovation and development of BlueCity's business.

Having considered the principal businesses of the Group and the continuous development of business in social networking sector by the Group, we concur with the view of the Board that the Acquisition could allow the Group to take control in BlueCity and to apply the Group's extensive experience towards accelerating overseas business development and improving the profitability of BlueCity and hence the Group. We also concur with the view of the Board that entering into the Deeds of Amendment is beneficial in the light that the revision of the capital commitments of the Partners to the Fund and the percentage of the interest in the Fund held by the Partners based on the actual amount paid up by the Partners would reflect the actual contributions of each of the Partners to the Fund and the revision of the term of the Fund from a maximum of 10 years to an indefinite period will remove the restriction of a fixed operating period of the Fund and provides flexibility to the Group in operating the Fund.

4. Industry overview

According to a report published by Frost & Sullivan, an independent market research and consulting company, in 2022 ("**2022 F&S Report**"), the GBTQ+ (i.e., gays, bisexuals, transgender, queer and others) population makes up the largest proportion of the overall LGBTQ population, comprising almost 81% of the total with 434.9 million people in 2021 and the percentage will continue increasing to over 81% by 2026. The growths of the LGBTQ population in absolute number and as a percentage of the general population are due to the increasing social acceptance of the LGBTQ population and more openness and willingness of the younger generation to identify themselves as LGBTQ. Over the past decades, society has become increasingly inclusive and friendly to the LGBTQ community. For example, the number of countries where same-sex marriage is legal has increased from one in 2001 to seven in 2009 and to 27 as of August 2019, whereas 162 countries and regions legalised same-sex relationships. The younger generations today tend to more openly embrace their identity than older generations or the same younger generations from earlier periods.

The self-identified LGBTQ population skews towards younger generations. According to the 2022 F&S Report, self-identified LGBTQ 18-24 years old are estimated at 10.3% of the total 18-24 years old global population in 2021, 25-34 years old are estimated at 8.9%, and 35-49 years old are estimated at 6.3%, respectively. These population percentages are expected to grow to 13.4% of the total 18-24 years old global population by 2026, 10.9% for 25-34 years old, and 7.3% for 35-49 years old, respectively.

The pink economy is an economic model based on the culture and needs of the LGBTQ community, which refers to an economy generated by the consumption of LGBTQ people. In some western countries in the world, especially those countries that have partially legalised homosexuality, the pink economy has become a booming market. According to another report published by Frost & Sullivan in 2020 ("**2020 F&S Report**"), the LGBTQ population in general has a higher average disposable income than that of the general population. The LGBTQ population also tends to spend more across various categories, such as healthcare, recreation, clothing and footwear, and dining out, compared to the general population.

As stated in the 2020 F&S Report, the LGBTQ online social and entertainment market had a total global revenue of US$2.7 billion (equivalent to approximately RMB18.9 billion) in 2018, consisting of revenues from membership fees, advertising revenue and live streaming, and was expected to reach US$6.2 billion (equivalent to approximately RMB43.4 billion) in 2023, representing a compound annual growth rate ("**CAGR**") of approximately 18.3%. The LGBTQ online social networking market had total global revenues of US$2.1 billion (equivalent to approximately RMB14.7 billion) in 2018, consisting of revenues from membership fees and advertising revenue, and was expected to reach US$3.8 billion (equivalent to approximately RMB26.6 billion) in 2023, representing a CAGR of approximately 12.5%. Within the global LGBTQ online social networking market, the total revenues generated in Asia were US$975.1 million (equivalent to approximately RMB6,825.7 million) in 2018, representing a CAGR of approximately 26.6% since 2014, and was expected to grow to US$2.1 billion (equivalent to approximately RMB14.7 billion) in 2023, representing a CAGR of approximately 16.8%. The LGBTQ live streaming market had a total global revenue of US$557.8 million (equivalent to approximately RMB3,904.6 million) in 2018, which had a CAGR of approximately 84.7% since 2014 and was expected to reach US$2.4 billion (equivalent to approximately RMB16.8 billion) in 2023, representing a CAGR of approximately 34.0%. Within the global LGBTQ online live streaming market, the total revenues generated in Asia contributed 80.4% of the global revenues in 2018.

5. Principal terms of the Sale and Purchase Agreement

Date

23 March 2023

Parties

(i) The Company (as the purchaser); and

(ii) Spriver (as the seller).

Subject matter

Pursuant to the Sale and Purchase Agreement, the Company has agreed to acquire and Spriver has agreed to sell 1,000,000 ordinary shares at par value of US$0.01 each of Chizicheng Strategy Investment, representing the entire issued share capital of Chizicheng Strategy Investment, a wholly-owned subsidiary of Spriver and the General Partner of the Fund.

Consideration and terms of payment

The consideration is set at US$1.00 which shall be settled in cash by the Company.

Conditions precedent

Completion shall be conditional upon and subject to the fulfilment of the following conditions precedent:

(i) the obtaining of consent from the Independent Shareholders by an ordinary resolution of the Independent Shareholders as a separate class approving the Sale and Purchase Agreement and the transactions contemplated thereunder at the general meeting to be convened and held in accordance with the Listing Rules and the applicable laws and regulations;

(ii) the completion of the reorganisation and restructuring in respect of the contractual arrangements of BlueCity and its affiliates in accordance with the requirements of the governmental authorities of the PRC (including the China Securities Regulatory Commission) and the Stock Exchange; and

(iii) the representations made by Spriver set out in the Sale and Purchase Agreement remain true and accurate at the date of the Sale and Purchase Agreement and the date of Completion.

For the avoidance of doubt, approval of and/or Completion under the Sale and Purchase Agreement are not conditional upon the approval of the Deeds of Amendment by the Independent Shareholders at the EGM. As at the Latest Practicable Date, no condition precedent has been fulfilled or waived.

For details of the principal terms of the Sale and Purchase Agreement, please refer to the letter from the Board contained in the Circular.

6. Principal terms of the Deeds of Amendment

The First Deed of Amendment

Date

23 March 2023

Parties

(i) The Company (as the Limited Partner);

(ii) Spriver (as the Limited Partner); and

(iii) Chizicheng Strategy Investment (as the General Partner).

Subject matter

The parties to the First Deed of Amendment agree that notwithstanding anything provided in the Subscription Agreement, (i) the aggregate Commitments to the Partnership and capital commitments to any of the parallel funds (if any) of Chizicheng Strategy Investment, shall as of the Final Closing equal to US$1.00; (ii) the Commitment of Spriver shall be reduced from US$49,900,000 to US$3,800,000 with effect from the effective date of the First Deed of Amendment; and (iii) the Commitment of the Company shall remain the same with effect from the effective date of the First Deed of Amendment.

For the avoidance of doubt, such changes in the Commitments of the Limited Partners shall not trigger (i) any change in the actual or deemed Contributions made to date by any Limited Partner; (ii) any requirement for the Partnership to repay any Contributions as a consequence of such reduction in Commitment; or (iii) any requirement for the General Partner to repay amounts of management fee already received, if any, pursuant to the Partnership Agreement.

Pursuant to the First Deed of Amendment, the respective capital Commitments of the Partners is revised as set out below:

Partners	**Type**	**Capital Commitment amount** *(US$)*	**Percentage of the interest in the Fund**
Chizicheng Strategy Investment	General Partner	1	0.00%
Spriver	Limited Partner	3,800,000	7.06%
The Company	Limited Partner	50,000,000	92.94%
Total		53,800,001	100.00%

The Second Deed of Amendment

Date

18 April 2023

Parties

(i) The Company (as the Limited Partner);

(ii) Spriver (as the Limited Partner); and

(iii) Chizicheng Strategy Investment (as the General Partner).

Subject matter

The parties to the Second Deed of Amendment agree that the term of the Partnership shall be changed from a maximum of ten years to an indefinite term and shall be terminated upon the first occurrence of any of the following events (each a termination event) and that Clause 34.1 of the Partnership Agreement will be deleted in its entirety and replaced with the following:

"Termination. The Partnership shall be terminated upon the first to occur of any of the following events (each a Termination Event):

(a) the determination by the General Partner in its sole discretion at any time that such dissolution and termination would be in the best interests of the Limited Partners; or

(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 Clause 31.4 within 90 days."

Condition precedent to the Deeds of Amendment

The Deeds of Amendment shall take effect upon the obtaining of consent from the Independent Shareholders by an ordinary resolution of the Independent Shareholders as a separate class approving the Deeds of Amendment and the transactions contemplated thereunder at the general meeting to be convened and held in accordance with the Listing Rules and the applicable laws and regulations. For the avoidance of doubt, the Deeds of Amendment were not conditional upon the approval and/or completion of the Sale and Purchase Agreement.

As at the Latest Practicable Date, the aforesaid condition precedent has not been fulfilled.

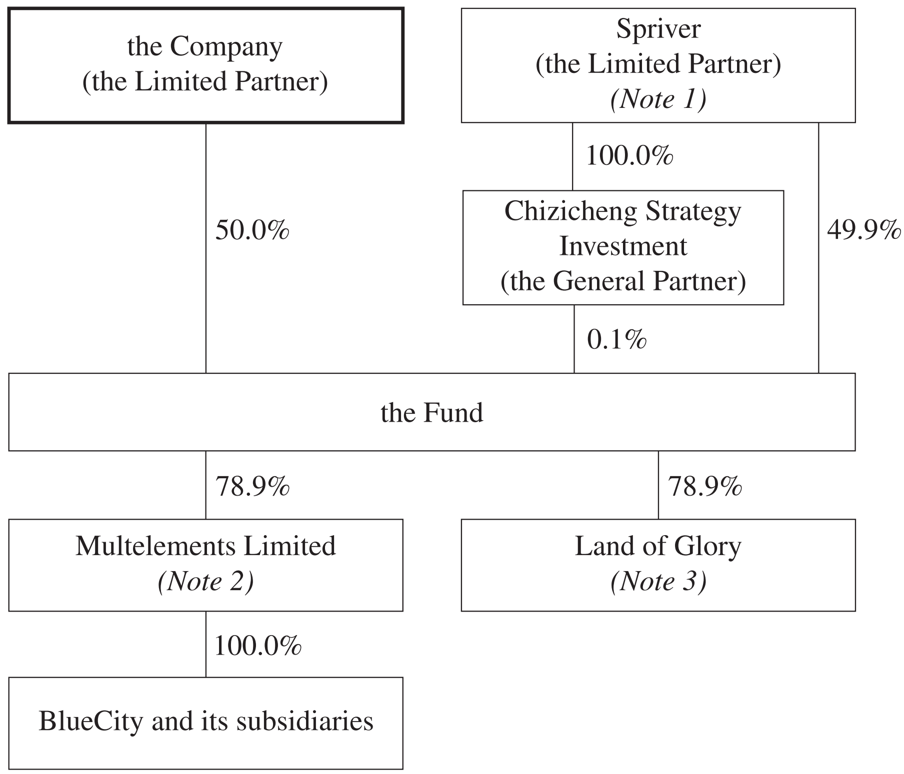
For details of the principal terms of the Deeds of Amendment, please refer to the letter from the Board contained in the Circular.

7. Information on BlueCity, the Fund and Chizicheng Strategy Investment

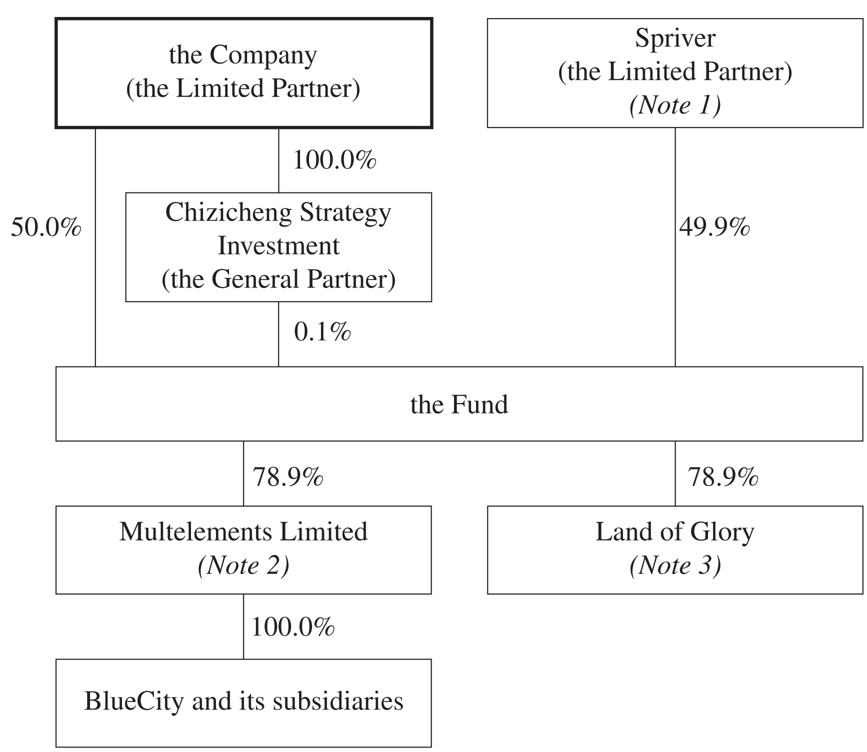
(a) Shareholding structure of BlueCity, the Fund and Chizicheng Strategy Investment

Set out in the table below are the shareholding structures of BlueCity, the Fund and Chizicheng Strategy Investment: (i) as at the Latest Practicable Date; (ii)(a) immediately upon Completion (but prior to the Deeds of Amendment becoming effective); (ii)(b) the Deeds of Amendment becoming effective (but prior to Completion); and (iii) immediately upon Completion and the Deeds of Amendment becoming effective.

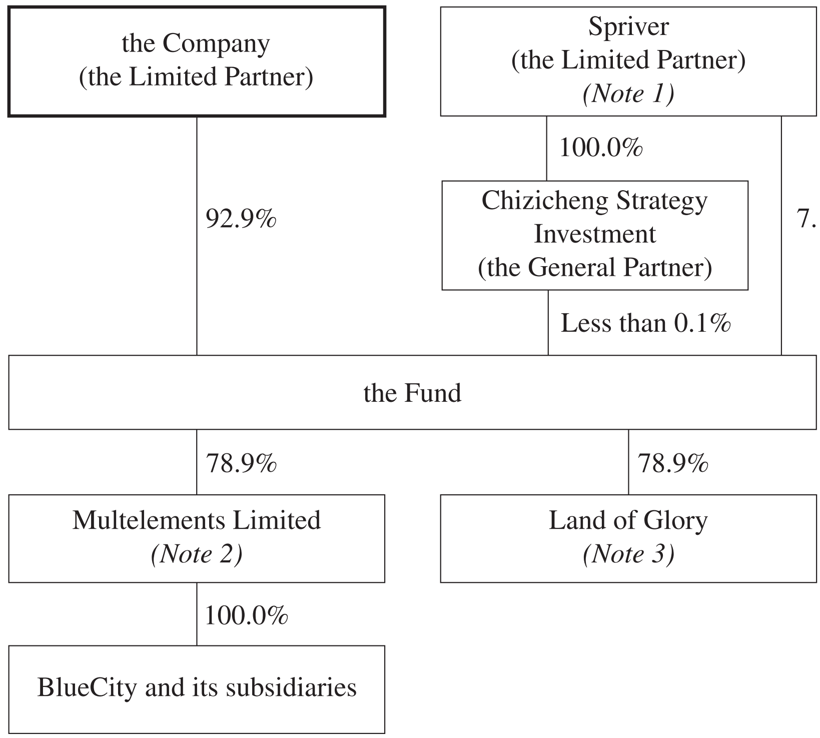
(i) As at the Latest Practicable Date:



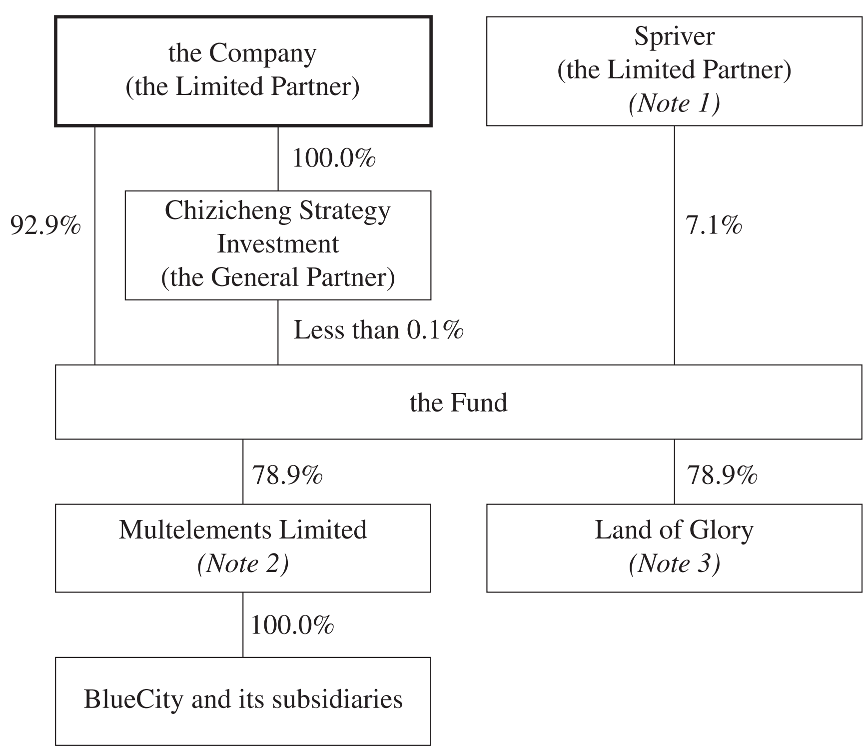
(ii) (a) Immediately upon Completion (but prior to the Deeds of Amendment becoming effective):



(ii) (b) Immediately upon the Deeds of Amendment becoming effective (but prior to Completion):



(iii) Immediately upon Completion and the Deeds of Amendment becoming effective:



Notes:

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

2. Multelements Limited is and will be held as to 78.9% by the Fund and the remaining 21.1% by other independent third parties.

3. Land of Glory is and will be held as to 78.9% by the Fund and the remaining 21.1% by other independent third parties.

(b) Business of BlueCity, the Fund and Chizicheng Strategy Investment

(i) BlueCity

As a world-leading online LGBTQ community which provides a comprehensive suite of services that fosters connections and enhance the well-being 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, live-streaming and health-related services. With its 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 the LGBTQ crowd whilst having drawn a substantial following across the globe.

BlueCity and its Affiliates adopt contractual arrangements to operate its business onshore in the PRC. Being condition precedent to Completion, the contractual arrangements of BlueCity and its Affiliates will be reorganised and restructured in accordance with the requirements of the governmental authorities of the PRC (including the China Securities Regulatory Commission) and the Stock Exchange. For details of the reorganised and restructured contractual arrangements, please refer to the sections headed "Contractual arrangements of BlueCity and its Affiliates" and "Information on the VIE Agreements" in the letter from the Board contained in the Circular.

BlueCity is principally engaged in providing live streaming, advertising, membership, merchandise sales and other services. Set out in the table below is the breakdown of revenue by major service lines for the years ended 31 December 2020 to 2022:

	For the year ended 31 December		
	2022	**2021**	**2020**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Revenue			
Live streaming	607,562	820,826	868,946
Membership	173,068	128,809	71,227
Merchandise sales	87,709	64,209	28,674
Advertising	46,270	53,881	45,453
Others	6,542	8,866	17,023
	921,151	1,076,591	1,031,323

(1) Live streaming

BlueCity operates integrated platforms, namely Blued, Finka and LESDO, consisting of information technology infrastructure, mobile applications and its proprietary algorithm, to offer live and interactive streaming services to individual viewers as its customers. BlueCity engages broadcasters to perform on its platform, which through its proprietary algorithm, enables individual viewers to discover live streaming channels and broadcasters they may find interesting and provide more personal experience.

Individual viewer can purchase virtual gifts on BlueCity's platform, and simultaneously present to broadcasters during their live streaming performance to show their support for their favorite broadcasters. BlueCity has sole discretion in designing and establishing pricing of virtual gifts. Individual viewer purchases virtual gifts using the BlueCity's virtual currency which is in turn acquired through online third-party payment platforms. Virtual currency is non-refundable and does not have expiration date. It is often consumed soon after it is purchased.

(2) Membership

Membership revenue includes subscription-based membership services and Pay-Per-Use services. Subscription-based membership services enable individual users to enjoy additional functions and privileges over a period of time ranging from one month to one year. Pay-Per-Use services enable individual users to better promote themselves and raise their profiles through advanced enhancement functions on a pay-per-service basis.

(3) Merchandise sales

BlueCity generates revenue from merchandise sales to customers through BlueCity's own and third-parties' platforms.

(4) Advertising

BlueCity offers marketing services on the BlueCity's mobile app, primarily through banner advertisements. Marketing services allow customers to place advertisements on particular areas of BlueCity's mobile app, in particular formats and over particular periods of time. The marketing services typically last from several days to one year.

(5) Others

Others mainly consists of family planning service revenue, service fee from the provision of consulting service to healthcare and medical institutions and marketplace service revenue.

(ii) The Fund

The Fund was incorporated in the Cayman Islands on 20 January 2022, as an exempted limited partnership. As at the date of this circular, the Fund directly holds approximately 78.9% interest of Multelements and approximately 78.9% interest of Land of Glory and has had no other investment or business since its incorporation and up to the Latest Practicable Date. Multelements directly holds 100% interest of BlueCity, other than which, Multelements does not have any other business. On 12 August 2022, BlueCity completed the going-private transaction and became a wholly-owned subsidiary of Multelements Limited and ceased to be a publicly traded company. Multelements Limited is a subsidiary of the Fund.

Land of Glory, an exempted company with limited liability incorporated under the laws of the Cayman Islands, holds business, assets and liabilities which were originally held by BlueCity outside of the PRC ("**Offshore Business**"). The Offshore Business mainly engages in the operation of the international version of the mobile app *Blued* with online social networking and live streaming functions for global users outside China. Following completion of the going-private transaction of BlueCity, BlueCity divested the Offshore Business, which accounted for approximately 12% of BlueCity's revenue (before the aforementioned divestment), to the Fund. As at the date of this circular, Land of Glory is held as to approximately 78.9% by the Fund.

Upon Completion, the Company will hold the entire issued share capital of Chizicheng Strategy Investment directly and will thereby be able to exert effective control over the Fund by way of its ownership of the General Partner and through its interests in, and as Limited Partner of, the Fund. On such basis, the Company will consolidate the financial statements of the Fund and the companies held by the Fund, including Multelements, Land of Glory and BlueCity.

(iii) Chizicheng Strategy Investment

Chizicheng Strategy Investment, the General Partner of the Fund, is a wholly-owned subsidiary of Spriver and was incorporated as an exempted company in the Cayman Islands on 11 January 2022. Save for the aforementioned, Chizicheng Strategy Investment has not had any other business or own any other asset or interest since its incorporation and up to the Latest Practicable Date.

(c) Operating metrics of the BlueCity

Set out below in the table are the figures and growth rate of certain key operating metrics of BlueCity in the past two years.

	As at/For the year ended 31 December		**Percentage of increase/ (decreased)**
	2022	**2021**	
Total number of registered users *('000)*	97,118	84,573	*14.8%*
Average monthly active users ("**MAU**") *('000)*	7,286	7,695	*(5.3)%*
Average monthly number of paying users *('000)*	1,677	1,501	*11.7%*
Average monthly revenue per paying user derived from live streaming services *(RMB)*	1,412	1,860	*(24.1)%*

As shown in the above table, the total number of registered users and the average monthly number of paying users increased by approximately 14.8% and approximately 11.7%, respectively, whereas the average MAU declined by approximately 5.3% in 2022. More importantly, the average monthly revenue per paying user derived from live streaming services decreased by approximately 24.1% for the year ended 31 December 2022 as compared to that for the year ended 31 December 2021, which resulted in the decline in the live streaming revenue of the BlueCity as discussed below.

(d) Financial information of BlueCity, the Fund and Chizicheng Strategy Investment

(i) BlueCity

(1) Financial performance

Set out below is a summary of the consolidated statements of profit or loss of BlueCity for the years ended 31 December 2020, 2021 and 2022 ("**Track Record Period**") prepared in accordance with the IFRS.

	For the year ended 31 December		
	2022	**2021**	**2020**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Revenue	921,151	1,076,591	1,031,323
Cost of sales	(576,304)	(728,638)	(713,683)
Gross profit	344,847	347,953	317,640
Selling and marketing expenses	(101,156)	(219,856)	(181,664)
Technology and development expenses	(164,554)	(223,197)	(143,142)
General and administrative expenses	(136,635)	(104,166)	(183,145)
Impairment loss on non-financial assets	–	(109,864)	–
Changes of the carrying amount of Preferred Shares	–	–	244,081
Others	22,492	(3,268)	9,378
(Loss)/profit before taxation	(35,006)	(312,398)	63,148
Income tax credit/(expenses)	973	(547)	(830)
(Loss)/profit for the year	(34,033)	(312,945)	62,318

As mentioned above, BlueCity derives revenue from, among others, (i) live streaming services; (ii) advertising; (iii) membership; and (iv) merchandise sales. The revenue increased by approximately RMB45.3 million or approximately 4.4% from approximately RMB1,031.3 million for the year ended 31 December 2020 to approximately RMB1,076.6 million for the year ended 31 December 2021, which was mainly due to (i) the increase in the number of paying users benefited from diverse membership service offerings on its apps; and (ii) the continued expansion of the health-related merchandise sales. For the year ended 31 December 2022, the revenue decreased by approximately RMB155.4 million or approximately 14.4% to approximately RMB921.2 million as compared to that for the previous year, which was mainly attributable to the divestment of the Offshore Business and a decrease in revenue from domestic live streaming services as a result of the headwinds in the talent show live streaming industry in the PRC.

The cost of sales mainly comprises revenue-sharing fee paid to talent agencies in accordance with revenue-sharing arrangements, commission fees paid to mobile app stores and third-party payment platforms, cost of merchandise and staff costs. The cost of sales increased by approximately RMB15.0 million or approximately 2.1% from approximately RMB713.7 million for the year ended 31 December 2020 to approximately RMB728.6 million for the year ended 31 December 2021. Such increase was primarily due to the cost of products in connection with the growth of "He Health" merchandise sales and the increase in staff cost, partially offset by the decreased revenue-sharing costs in line with the decreased revenue from live streaming services. The cost of sales for the year ended 31 December 2022 decreased by approximately RMB152.3 million or 20.9% to approximately RMB576.3 million as compared to that for the previous year. Such decrease was in line with the decreased revenue from live streaming services.

The selling and marketing expenses for the year ended 31 December 2021 were approximately RMB219.9 million, representing a year-on-year increase of approximately 21.0%. The increase was mainly due to the increase in (i) staff costs for sales and marketing personnel; and (ii) advertising expenses primarily in relation to the advertising efforts in the PRC market. For the year ended 31 December 2022, the selling and marketing expenses decreased to approximately RMB101.2 million, representing a year-on-year decrease of approximately 54.0%, which was primarily due to the decreases in advertising expenses in the global market of approximately RMB85.0 million and staff costs for sales and marketing personnel of approximately RMB31.0 million as a result of its cost reduction efforts after the Privatisation.

The technology and development expenses were approximately RMB223.2 million for the year ended 31 December 2021, representing a year-on-year increase of approximately 55.9%, as compared to those for the previous year. The increase was mainly due to (i) the increased in the headcount of technology and development staff; and (ii) an increase in content, server and bandwidth costs associated with technology and development activities. For the year ended 31 December 2022, the technology and development expenses decreased to approximately RMB164.6 million, representing a year-on-year decrease of approximately 26.3%, which was primarily due to the decreases in servers, bandwidth and cloud infrastructure costs of approximately RMB35.3 million and technology and development staff costs of approximately RMB19.4 million as a result of its cost reduction efforts after the Privatisation and the divestment of the Offshore Business.

The general and administration expenses were approximately RMB104.2 million for the year ended 31 December 2021, representing a year-on-year decrease of approximately 43.1%, as compared to those for the previous year. The decrease was mainly due to the decrease in share-based compensation expenses, of which has been partially offset by the increased staff cost. For 31 December 2022, the general and administration expenses increased to approximately RMB136.6 million, representing a year-on-year increase of approximately 31.1%, which was primarily due to the increase in professional fees in relation to the going-private transaction.

BlueCity recorded an impairment loss on non-financial assets of approximately RMB109.9 million for the year ended 31 December 2021. It was one-off in nature and primarily due to more intensive competition in its mobile platform operations, which brought adverse impact on the BlueCity's ability to generate revenue and net income from its mobile platform operations. No impairment loss on non-financial assets was provided for the year ended 31 December 2022.

BlueCity recorded changes in the carrying amount of preferred shares of approximately RMB244.1 million for the year ended 31 December 2020. Such preferred shares were converted into ordinary shares of BlueCity upon its listing on the Nasdaq in July 2020.

Others of approximately RMB22.5 million for the year ended 31 December 2022 mainly represented a one-off gain on divestment of the Offshore Business of approximately RMB19.2 million, which was the difference between the net deficit in the equity of the disposed subsidiaries and the consideration for the disposal.

For the year ended 31 December 2021, BlueCity recorded loss before and after tax of approximately RMB312.4 million and RMB312.9 million, respectively, which changed from profit before and after tax of approximately RMB63.1 million and RMB62.3 million, respectively, for the year ended 31 December 2020. Excluding the one-off impairment loss on non-financial assets of approximately RMB109.9 million, the adjusted net loss after tax for the year ended 31 December 2021 was approximately RMB203.0 million. The losses before and after tax for the year ended 31 December 2022 diminished by approximately 88.8% and 89.1% to approximately RMB35.0 million and RMB34.0 million, respectively, as compared to those for previous year. The improved financial result was mainly attributable to (i) the absence of one-off impairment loss on non-financial assets (the impairment loss on non-financial assets was approximately RMB109.9 million for the year ended 31 December 2021); (ii) the decreases in advertising expenses of approximately RMB85.0 million, servers, bandwidth and cloud infrastructure costs of approximately RMB35.3 million and staff costs of sales and marketing personnel and technology and development staff of approximately RMB50.4 million as a result of its cost reduction efforts after the Privatisation; and (iii) the gain on divestment of the Offshore Business of approximately RMB19.2 million. Excluding the aforesaid one-off gain on divestment of the Offshore Business, the adjusted net loss after tax for the year ended 31 December 2022 was approximately RMB53.2 million.

(2) Financial position

Set out below is a summary of the consolidated statements of financial position BlueCity as at 31 December 2020, 2021 and 2022 prepared in accordance with the IFRS.

	As at 31 December		
	2022	**2021**	**2020**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
ASSETS			
Non-current assets			
Property and equipment	8,531	27,868	31,464
Intangible assets	36,608	44,003	52,289
Goodwill	81,752	81,752	196,003
Others	50	3,179	2,475
	126,941	156,802	282,231

	As at 31 December		
	2022	**2021**	**2020**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
Current assets			
Prepayments, deposits and other receivables	40,129	87,872	46,935
Amounts due from related parties	72,209	–	–
Term deposits	–	–	172,257
Cash and cash equivalents	117,385	360,832	449,489
Others	34,601	20,209	12,376
	264,324	468,913	681,057
Total assets	391,265	625,715	963,288
LIABILITIES			
Current liabilities			
Accounts payable	38,853	28,507	20,373
Accrued expenses and other payables	69,820	82,963	118,958
Amounts due to related parties	49,023	–	–
Contract liabilities	34,061	35,796	35,226
Others	7,078	16,222	11,815
	198,835	163,488	186,372
Net current assets	65,489	305,425	494,685
Non-current liabilities			
Deferred tax liabilities	8,215	9,758	12,199
Others	2,366	6,279	9,101
	10,581	16,037	21,300
NET ASSETS	181,849	446,190	755,616

Total assets amounted to approximately RMB963.3 million, RMB625.7 million and RMB391.3 million as at 31 December 2020, 2021 and 2022, respectively. The assets mainly comprised (i) cash and bank deposits; (ii) goodwill; (iii) amounts due from related parties; (iv) prepayments, deposits and other receivables; and (v) intangible assets. Cash and bank deposits (including term deposits) decreased from approximately RMB621.7 million as at 31 December 2020 to approximately RMB360.8 million as at 31 December 2021, and further decreased to RMB117.4 million as at 31 December 2022. The decrease in cash and bank deposits was mainly due to the operating loss and distribution of dividends. Impairment loss on goodwill of approximately RMB106.9 million and related foreign currency translation adjustment of approximately RMB7.3 million were provided for the year ended 31 December 2021, which reduced the goodwill of BlueCity from approximately RMB196.0 million as at 31 December 2020 to approximately RMB81.8 million as at 31 December 2021, and the goodwill was remain stable as at 31 December 2022. Amounts due from related parties was approximately RMB72.2 million as at 31 December 2022, which was arising from related party transactions with Land of Glory and its subsidiaries, such as intercompany borrowing and payment of fees on behalf of Land of Glory. As at 31 December 2020, 2021 and 2022, prepayments, deposits and other receivables amounted to approximately RMB46.9 million, RMB87.9 million and RMB40.1 million, respectively, which mainly consisted of receivable from third party payment platform, such as Apple Pay and Google. Growths of prepayments, deposits and other receivables as at 31 December 2021 was mainly due to the increase in receivable from third party payment platform as a result of business growth after the acquisition of Finka and LESDO and the decline in the balance as at 31 December 2022 was mainly due to the exclusion of receivables from third party payment platform of the Offshore Business after the divestment of the Offshore Business. Intangible assets amounted to approximately RMB52.3 million, RMB44.0 million and RMB36.6 million as at 31 December 2020, 2021 and 2022, respectively, and brand names were the major intangible assets, representing over 70% of total intangible assets as at 31 December 2020, 2021 and 2022. The decrease in intangible assets was mainly attributable to the amortisation and impairment.

BlueCity did not have any borrowings. Accrued expenses and other payables accounted for the majority of the liabilities of BlueCity during the Track Record Period. Working capital position had been deteriorated during the Track Record Period, which had decreased from net current assets of approximately RMB494.7 million as at 31 December 2020 to approximately RMB305.4 million as at 31 December 2021, and had further reduced to approximately RMB65.5 million as at 31 December 2022, mainly as a result of the depleting cash balance.

The operations of BlueCity were largely financed by the shareholders' equity. As BlueCity incurred losses for both the years ended 31 December 2021 and 2022, the net assets of BlueCity had deteriorated and decreased by approximately 41.0% from approximately RMB755.6 million as at 31 December 2020 to approximately RMB446.2 million as at 31 December 2021, and further decreased by approximately 59.3% to approximately RMB181.8 million as at 31 December 2022. The distribution of dividend for the year ended 31 December 2022 further reduced the net assets by approximately RMB245.1 million.

(ii) The Fund

(1) Financial performance

Set out below is a summary of the financial information of the Fund for the period from 20 January 2022 (date of incorporation) to 31 December 2022 ("**Review Period**") prepared in accordance with the IFRS.

	For the period from 20 January 2022 (date of incorporation) to 31 December 2022 *(RMB'000)*
Revenue	403,694
Cost of sales	(240,761)
Gross profit	162,933
Selling and marketing expenses	(35,671)
Research and development expenses	(62,505)
General and administrative expenses	(20,132)
Others gain	137
Profit before taxation	44,762
Income tax benefits	1,715
Profit for the period	46,477

Given both the Fund and Multelements are investment holding companies and have not had any operation or investment other than their interest in BlueCity upon completion of the Privatisation of BlueCity in August 2022, the operating performance of the Fund was substantially related to that of BlueCity. During the Review Period, the revenue of the Fund was approximately RMB403.7 million, mainly generated from live streaming services, advertising, membership, merchandise sales and other services of BlueCity. We note that such revenue of the Fund for the Review Period, which effectively represented the consolidated revenue of BlueCity for the period from August to December 2022, was higher than the consolidated revenue of BlueCity for the corresponding period in 2021 based on our review of unaudited consolidated financial information of BlueCity. This indicates a potential turnaround of the operating and financial performances of BlueCity and the Offshore Business after the Privatisation.

The cost of sales of the Fund was approximately RMB240.8 million, mainly related to the daily operations of BlueCity. The Fund recorded a gross profit of approximately RMB162.9 million for the Review Period.

During the Review Period, selling and marketing expenses, research and development expenses, and general and administrative expenses were approximately RMB35.7 million, RMB62.5 million and RMB20.1 million, respectively, and the nature of such costs are the same as the those of BlueCity as mentioned above.

For the Review Period, the profit from operations was approximately RMB44.8 million and the profit was approximately RMB46.5 million. The Fund recorded a profit for the Review Period attributable to partners of the Fund of approximately RMB32.2 million, which was mainly attributable to the cost reduction efforts, including the decreases in advertising expenses, staff costs, servers, bandwidth and cloud infrastructure costs, implemented after completion of the Privatisation in August 2022.

(2) Financial position

Set out below is a summary of the consolidated statement of financial position of the Fund as at 31 December 2022 prepared in accordance with the IFRS.

	As at 31 December 2022 *(RMB'000)*
ASSETS	
Non-current assets	
Property and equipment	8,531
Intangible assets	100,109
Goodwill	46,276
Others	50
	154,966
Current assets	
Prepayments, deposits and other receivables	63,089
Cash and cash equivalents	143,550
Others	34,601
	241,240
Total assets	396,206

	As at 31 December 2022 (RMB'000)
LIABILITIES	
Current liabilities	
Accrued expenses and other payables	136,267
Others	81,561
	217,828
Net current assets	23,412
Non-current liabilities	
Deferred tax liabilities	24,091
Others	2,366
	26,457
Total liabilities	**244,285**
EQUITY	**151,921**

As at 31 December 2022, the current assets mainly comprised cash and cash equivalents of approximately RMB143.6 million and the non-current assets mainly comprised intangible assets of approximately RMB100.1 million and the goodwill of approximately RMB46.3 million. The intangible assets included licenses, user bases, brand names, technologies and software, of which, brand names accounted the majority of approximately RMB72.6 million. The goodwill was generated from the acquisition of the shares and voting interests in BlueCity, through Multelements Limited.

As at 31 December 2022, the Fund had current liabilities of approximately RMB217.8 million comprising mainly accrued expenses and other payables.

The net current assets were approximately RMB23.4 million and the total equity was approximately RMB151.9 million as at 31 December 2022.

(iii) Chizicheng Strategy Investment

(1) Financial performance

Set out below is a summary of the financial information of Chizicheng Strategy Investment for the period from 11 January 2022 (date of incorporation) to 31 December 2022 prepared in accordance with the IFRS.

	From 11 January 2022 (date of incorporation) to 31 December 2022 *(RMB'000)*
Revenue	1,278
Gross profit	1,278
Profit before taxation	1,278
Income tax	–
Profit for the period	1,278

The revenue, being mainly the management fee of the Fund, was approximately RMB1.3 million for the period ended 31 December 2022. There was no expense and thus the profit for the period was approximately RMB1.3 million.

(2) Financial position

	As at 31 December 2022 *(RMB'000)*
ASSETS	
Current assets	
Accounts receivables	1,268
	1,268
Total assets	1,268
Equity	1,268

The only asset was the receivable relating to the management fee of the Fund amounted to approximately RMB1.3 million as at 31 December 2022.

8. The Contractual Arrangements

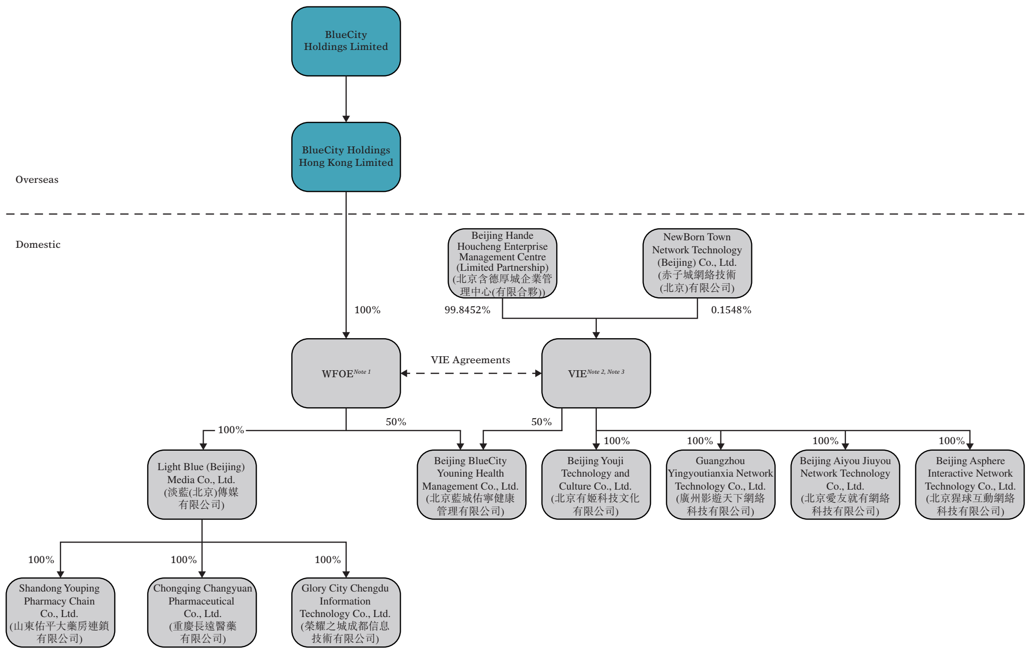
As stated in the letter from the Board contained in the Circular, BlueCity and its Affiliates adopt contractual arrangements to operate their businesses in the PRC as certain onshore entities operate in sectors that are subject to foreign investment restriction or prohibition under the applicable PRC laws and regulations ("**Contractual Arrangements**"), namely, the provision of internet and social networking and related services by Beijing BlueCity Culture and Media Co., Ltd. and its wholly-owned subsidiaries ("**Internet and Social Networking Business**").

According to the legal opinion issued by Jingtian & Gongcheng ("**PRC Legal Advisers**"), the PRC legal advisers of the Company in relation to the Acquisition ("**Legal Opinion**"), the Internet and Social Networking Business involves the provision of internet information service, a subcategory (B25 Information Service) of value-added telecommunications service within the Catalogue of Classification of Telecommunications Services (《電信業務分類目錄》). As advised by the PRC Legal Advisers, value-added telecommunications business (except for e-commerce, domestic multi-party communications, storage-forwarding, and call centers) is categorised as "restricted" by the Special Administrative Measures for Foreign Investment Access (Negative List) (Edition 2021) (《外商投資准入特別管理措施(負面清單)(2021年版)》) ("**Negative List**"), and thus the proportion of foreign investments in such entity shall not exceed 50%.

The PRC Legal Advisers are also of the view that the operating through apps of live broadcast platforms which allows app users to engage in online performance activities falls within the activities related to "internet cultural products" as governed by the Interim Administrative Provisions on Internet Culture (《互聯網文化管理暫行規定》) issued by the Ministry of Culture of the PRC, and as such requires the obtaining of the Internet Cultural Operation License (網絡文化經營許可證) from the applicable provincial level counterpart of the Ministry of Culture and Tourism of the PRC.

Further, pursuant to the Negative List, investment in internet news information services, internet publication services, internet video and audio program services, internet cultural business (except music) shall be prohibited. The PRC Legal Advisers consider that the operation of apps that provide video uploading services for its users, would constitute the engagement in internet audio and video dissemination business as is prohibited thereunder.

The following diagram illustrates the contractual arrangements of BlueCity and its Affiliates after the reorganisation and restructuring (immediately upon Completion):



Notes:

1. Beijing BlueCity Information & Technology Co., Ltd. (北京藍城兄弟信息技術有限公司)

2. Beijing BlueCity Culture and Media Co., Ltd. (北京藍城兄弟文化傳媒有限公司)

3. The PRC Equity Holders, being the registered shareholders of the VIE are Hande Houcheng (a limited partnership established under the laws of the PRC on 25 August 2014 by LIU Chunhe and LI Ping, being founders of the Group and executive Directors of the Company) and Newborn Town Network Technology (a company incorporated under the laws of the PRC with limited liability on 28 February 2014 and a direct wholly-owned subsidiary of NewBorn Town Mobile Technology which by virtue of the Company's existing contractual arrangements, accounted for as the Company's subsidiary) holding approximately 99.85% and approximately 0.15% interest in the VIE, respectively.

The PRC Legal Advisers are of the opinion that the Contractual Arrangements are legal, binding on and enforceable against all the parties thereto. The Contractual Arrangements do not violate the PRC Laws, rules and regulations applicable to Beijing BlueCity Information & Technology Co., Ltd ("**WFOE**"), Beijing BlueCity Culture and Media Co., Ltd. ("**VIE**"), and the PRC subsidiaries and their respective businesses, and that the Contractual Arrangements would not be deemed as "concealing illegal intention with a lawful form" under the PRC Civil Code (《中華人民共和國民法典》) and void thereunder.

As advised by the PRC Legal Advisers, in light of the above restrictions or prohibitions on foreign investment, the establishment of the Contractual Arrangements between the WFOE, the VIE and the registered shareholders of the VIE, namely Hande Houcheng and Newborn Town Network Technology (collectively, "**PRC Equity Holders**") are necessary for the Group to proceed with the Acquisition.

Thus the WFOE, the VIE and the PRC Equity Holders entered into the VIE Agreements prior to Completion to enable the financial results, the entire economic benefits and risks of the businesses of the VIE (including that of the entities controlled by the VIE that operate in the restricted or prohibited sectors) to flow into the WFOE and enable the WFOE to gain control over the VIE.

As at the Latest Practicable Date, the Group and the Target Group had not encountered any interference of encumbrance from any PRC governing bodies in operating its businesses through the VIE under the Contractual Arrangements.

For further details of, among others, principal terms of the VIE Agreements, loss sharing, risks and compliance regarding the Contractual Arrangements, please refer to the section headed "Contractual arrangements of BlueCity and its Affiliates" in the letter from the Board contained in the Circular.

Given (i) the Internet and Social Networking Business is highly compatible in terms of business model with the Group which would facilitate the continuous development of business in social networking sector by the Group; (ii) it is necessary to conduct the reorganisation and restructuring as the Internet and Social Networking Business is categorised as "restricted" by the Negative List and the proportion of foreign investments in such entity shall not exceed 50%; (iii) the VIE Agreements will provide a mechanism that enables the WFOE to exercise effective control over the VIE to the extent permitted under the relevant PRC laws and regulations as advised by the PRC Legal Advisers; and (iv) the entire financial results of the VIE including revenue and operating costs as well as taxation would be consolidated into the financial results of the Group under the Contractual Arrangements, we are of the view that entering into of the Contractual Arrangements is fair and reasonable so far as the Independent Shareholders are concerned.

Based on the above, we concur with the Directors that (i) the Contractual Arrangements enable the Group to enjoy the entire economic interests and benefits generated by the VIE; (ii) the use of the Contractual Arrangements is in compliance with the relevant PRC laws and regulations currently in effect and is legal binding and enforceable; and (iii) entering into of the Contractual Arrangements is in the interests of the Company and the Shareholders as a whole.

9. Waiver from strict compliance with Chapter 14A of the Listing Rules in relation to the Contractual Arrangements

(a) Waiver application and the relevant requirements under Chapter 14A of the Listing Rules

As disclosed in the letter form the Board contained in the Circular, the Company has applied for, and the Stock Exchange has granted, a waiver ("**Waiver**") from strict compliance with (i) the requirement of limiting the term of the Contractual Arrangements to three years or less pursuant to Rule 14A.52 of the Listing Rules; and (ii) the requirement of setting an annual cap for the transactions under the Contractual Arrangements pursuant to Rule 14A.53 of the Listing Rules, for so long as the Shares of the Company are listed on the Stock Exchange.

(b) Term of the Contractual Arrangements

Rule 14A.52 of the Listing Rules requires that the period for a connected transaction agreement must be fixed and reflect normal commercial terms or better. It must not exceed three years except in special circumstances where the nature of the transaction requires a longer period. In this case, the listed issuer must appoint an independent financial adviser to explain why the agreement requires a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration.

Given that (i) the Group is ineligible to operate the VIE in the PRC in view of the foreign ownership restriction under the PRC laws and regulations; (ii) the Group is able to continue to exercise effective control over the licensed business and operation and to safeguard the assets of the VIE through the Contractual Arrangements; and (iii) a comparatively long duration of the Contractual Arrangements without a fixed term will provide stability to the Group's operations and extend the period of income to be derived from the VIE, it is commercially desirable and essential for the Group to have the Contractual Arrangements without a fixed term.

(c) Annual cap of the Contractual Arrangements

Rule 14A.53 of the Listing Rules requires the listed issuer to set an annual cap for the continuing connected transactions. The annual cap must be (i) expressed in monetary terms; (ii) determined by reference to the previous transactions and figures in the published information of the listed issuer's group. If there were no previous transactions, the annual cap must be set based on reasonable assumptions; and (iii) approved by shareholders if the transaction requires shareholders' approval.

As stated in the letter from the Board contained in the Circular, the Contractual Arrangements allow the Group, through the WFOE, to enjoy the entire economic interests and benefits generated by the VIE. As a result, setting annual cap for such service fees would limit the ability of the Group to operate the business and enjoy economic interests and benefits generated by the VIE, which is not in the interests of the Company and the Shareholders as a whole.

Based on the above, we consider that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole to enter into the Contractual Arrangements without (i) a fixed term; and (ii) an annual cap for the service fees payable by the VIE to the Group.

(d) Analysis on the Comparable Contractual Arrangements

To assess the terms of the Contractual Arrangements, we have, on a best effort basis, researched and identified an exhaustive list of comparable transactions ("**Comparable Contractual Arrangements**") that (i) involving contractual arrangements with nature similar to those under the Contractual Arrangements operating in the "e-commerce and internet services" industry in the PRC entered into by companies listed on the Stock Exchange ("**Comparable Companies**"); and (ii) constituted continuing connected transactions under the respective contractual arrangements pursuant to the Listing Rules with details published in the respective prospectuses or announcements of the Comparable Companies during the period from 1 January 2021 to the Latest Practicable Date ("**Comparable Contractual Arrangements Review Period**"). The Comparable Contractual Arrangements Review Period, which covers a period of around 30 months, is considered to represent a sufficient period of time to provide a general overview of the recent market practices on contractual arrangements for the purpose of this analysis.

Based on the aforesaid criteria, we have identified six Comparable Contractual Arrangements. We consider that the Comparable Contractual Arrangements represent fair and representative samples given (i) the Comparable Contractual Arrangements are the contractual arrangements operating in the "e-commerce and internet services" industry in the PRC and are similar to the Contractual Arrangements; (ii) the Comparable Contractual Arrangements identified during the Comparable Contractual Arrangements Review Period represent recent structures of obtaining control over PRC companies operating in industries subject to the foreign ownership restriction; and (iii) the sufficient number (i.e., size of six) of the Comparable Contractual Arrangements.

Details of the Comparable Contractual Arrangements are set out as below:

Company name (stock code)	Date of prospectus/ announcement	Principal business of the Comparable Companies	Date of agreement(s)	Restrictions	Basis of the service fee	Duration of agreement(s) *(Note 1)*	Waiver from strict compliance with Rule 14A.52 of the Listing Rules obtained	Waiver from strict compliance with Rule 14A.53 of the Listing Rules obtained
Huafang Group Inc. (3611)	30 Nov 2022	Operating online social entertainment live streaming platforms and social networking services	18 Oct 2021 and 8 Sep 2022	Foreign investors are prohibited from holding equity interest in an entity engaging in the "internet cultural business (excluding music)" and transmission of audio-visual programs, and are restricted from holding more than 50% of the equity interests in an entity conducting value-added telecommunications service business.	Total consolidated profit after offsetting the prior-year loss (if any), operating costs, expenses, taxes and other statutory contributions	Indefinite	Yes	Yes
Weibo Corporation (9898)	29 Nov 2021	Social media advertising business	11 Oct 2010, 19 Jan 2018 and 17 Feb 2020	The ultimate foreign equity ownership of a value-added telecommunications service (other than e-commerce, domestic multi-party communications, storage-forwarding and call centers) provider in the PRC may not exceed 50%.	The technical complexity of the services, the actual cost that may be incurred for providing such services, the operations, applicable tax rates, planned capital expenditure and business strategies	One year to indefinite	Not applicable *(Note 2)*	Not applicable *(Note 2)*

Company name (stock code)	Date of prospectus/ announcement	Principal business of the Comparable Companies	Date of agreement(s)	Restrictions	Basis of the service fee	Duration of agreement(s) *(Note 1)*	Waiver from strict compliance with Rule 14A.52 of the Listing Rules obtained	Waiver from strict compliance with Rule 14A.53 of the Listing Rules obtained
NNK Group Limited (3773)	26 Nov 2021	Provision of mobile top-up services and data usage top-up services	15 Nov 2021	Domestic telecommunication service providers are prohibited from leasing, transferring or selling telecommunications business operating licenses to any foreign investor in any form, or providing any resources, sites or facilities to any foreign investor for their illegal operation of a telecommunications business in the PRC.	100% of the annual revenue after deducting (i) costs and expenses (except the service fee) incurred during the course of management and operation; (ii) taxes; (iii) the prior-year loss (if any); and (iv) contribution of social insurance and housing provident fund in any given year	10 years to indefinite	Yes	Yes
Meitu, Inc. (1357)	17 Mar 2021	Provision of online advertising and other Internet value-added services by offering a portfolio of innovative photo and community apps and the smart hardware business	16 Mar 2021	The proportion of foreign investment in the business of providing value-added telecommunications services (excluding e-commerce, domestic multi-party conferencing, store-and-forward, and call center services) cannot exceed 50%.	All of the net profit	10 years to indefinite	Yes	Yes

Company name (stock code)	Date of prospectus/ announcement	Principal business of the Comparable Companies	Date of agreement(s)	Restrictions	Basis of the service fee	Duration of agreement(s) *(Note 1)*	Waiver from strict compliance with Rule 14A.52 of the Listing Rules obtained	Waiver from strict compliance with Rule 14A.53 of the Listing Rules obtained
Baidu, Inc. (9888)	12 Mar 2021	Provides search-based, feed-based and other online marketing services, as well as products and services from its new artificial intelligence initiatives. Offers original, professionally produced and partner-generated content on its platform	23 Nov 2011	Prohibits domestic telecommunication service providers from leasing, transferring or selling telecommunication business operating licenses to any foreign investor in any form, or providing any resources, sites or facilities to any foreign investor for their illegal operation of a telecommunication business in the PRC.	Up to 100% of the earnings of the variable interest entity	Five years to indefinite	Not applicable *(Note 2)*	Not applicable *(Note 2)*
Autohome Inc. (2518)	4 Mar 2021	Provision of media services, leads generation services and online marketplace and others	Feb 2021	Foreign investors are not allowed to own more than 50% of the equity interests in any entity conducting value-added telecommunication service provider (other than e-commerce, domestic multiparty communications, store-and-forward and call center).	Variable interest entity's revenues reduced by its tax, operating expenses and an appropriate amount of retained profit that is determined pursuant to tax planning strategies and relevant tax laws	30 years to indefinite	Not applicable *(Note 2)*	Not applicable *(Note 2)*

Company name (stock code)	Date of prospectus/ announcement	Principal business of the Comparable Companies	Date of agreement(s)	Restrictions	Basis of the service fee	Duration of agreement(s) *(Note 1)*	Waiver from strict compliance with Rule 14A.52 of the Listing Rules obtained	Waiver from strict compliance with Rule 14A.53 of the Listing Rules obtained
The Company (9911)	26 Jun 2023	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	20 Mar 2023 and 24 Jun 2023	The proportion of foreign investments in entity in value-added telecommunications business (except for e-commerce, domestic multi-party communications, storage-forwarding, and call centers) shall not exceed 50%.	All such total consolidated profit before tax (after deduction of any losses (where necessary) incurred in preceding financial year(s), operating costs, expenses, taxes and other statutory contributions) of the VIE and its subsidiaries.	Indefinite	Yes	Yes

Notes:

1. The duration of agreement(s) represents the range of the duration of the relevant agreements under the respective contractual arrangements.

2. They are not applicable since the relevant Comparable Companies are listed on the Stock Exchange by way of secondary listing and are exempt from the requirements under Chapter 14A of the Listing Rules.

Source: Website of the Stock Exchange

As shown in the above table, each of the Comparable Companies entered into contractual arrangements so that it can effectively consolidate the financial results of the relevant operating entities into its consolidated financial statements under contractual arrangements.

Five out of all six Comparable Contractual Arrangements have duration ranging from five years to an indefinite term. Except for the three Comparable Companies with secondary listing, which are exempt from the requirements under Chapter 14A of the Listing Rules, all remaining three Comparable Companies have applied for and been granted by the Stock Exchange a waiver from strict compliance with Rule 14A.52 of the Listing Rules. Accordingly, we consider that it is a normal business practice for the terms of contractual arrangements similar to the Contractual Arrangements to exceed three years.

In respect of setting annual caps for contractual arrangements, it is noted that all of the Comparable Companies (excluding those with secondary listing and therefore are exempt from the requirements under Chapter 14A of the Listing Rules) have applied for and been granted by the Stock Exchange a waiver from strict compliance with Rule 14A.53 of the Listing Rules. Accordingly, we consider that it is a normal business practice for not setting annual caps for contractual arrangements similar to the Contractual Arrangements.

Having considered the above, we consider the absence of a fixed term and annual caps for the Contractual Arrangements is a normal business practice.

In respect of the basis of the service fee, pursuant to the Exclusive Consulting and Services Agreement, the service fee shall be an amount equal to all such total consolidated profit after tax (after deduction of any losses (where necessary) incurred in preceding financial year(s), operating costs, expenses, taxes and other statutory contributions) of the VIE and its subsidiaries. Given that the WFOE shall ultimately receive a service fee at all of the consolidated profit of VIE and its subsidiaries under the Contractual Arrangements, which is generally similar to those under the Comparable Contractual Arrangements, we consider the basis of the service fee under the Contractual Arrangements is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

10. Financial effects of the Acquisition (including entering into the Contractual Arrangements) and entering into the Deeds of Amendment on the Group

i. Under the scenario where the Acquisition (including entering into the Contractual Arrangements) and entering into the Deeds of Amendment have been approved and with Completion having proceeded accordingly

(a) Earnings

Prior to Completion, the Company, as the Limited Partner, does not control the Fund and the Fund is accounted for as a joint venture using the equity method. Therefore, the financial results of the Fund are accounted for by equity accounting in the consolidated statement of comprehensive income of the Group.

Upon Completion, the Company will hold the entire issued share capital of Chizicheng Strategy Investment, the General Partner, directly and the Company will control the Fund through the control of the General Partner and the interests held by the Company in the Fund and will consolidate the financial statements of the Fund and the companies held by the Fund, including Multelements, Land of Glory and BlueCity. Multelements is held as to 78.9% by the Fund. Multelements holds 100% interest in BlueCity.

On the assumption that the Acquisition had taken place on 12 August 2022, which was the completion date of the Privatisation, the consolidated net profit of the Group for the year ended 31 December 2022 would have (i) reduced by the share of net gain of associates and joint ventures accounted for using the equity method on the Group's existing investment in the Fund of approximately RMB29.9 million; but (ii) increased by the consolidation of the Fund and its profit for the period from 12 August 2022 to 31 December 2022 of approximately RMB46.5 million. As a result, the net profit of the Group for the year ended 31 December 2022 would have increased from approximately RMB287.3 million to approximately RMB303.9 million. Despite the net profit of the Group would have increased due to the change in the accounting treatment of the Fund held by the Group, given the attributable interest in the Fund held by the Group would have remain unchanged, the amount of the net profit of the Group attributable to the Shareholders would have been the same of approximately RMB130.1 million.

*(b) Net asset value (“**NAV**”)*

Upon Completion, the Fund will become a subsidiary of the Company. Accordingly, the assets and liabilities of the Fund will be consolidated into the consolidated balance sheet of the Group.

As set out in the unaudited pro forma financial information of the Enlarged Group in appendix III to the Circular (“**Unaudited Pro Forma Financial Information**”), on the assumption that Completion had taken place on 31 December 2022, the Group's total assets would have increased from approximately RMB1,720.2 million by approximately RMB519.2 million or approximately 30.2% to approximately RMB2,239.4 million. The increase would have been mainly attributable to (i) consolidation of the intangible assets (i.e., user base, technology and brand name) of the Fund of approximately RMB100.1 million; (ii) goodwill generated from the consolidation of the Target Group of approximately RMB254.1 million; and (iii) the consolidation of the cash and cash equivalents of the Fund of approximately RMB143.6 million. On the same basis, the Group's total liabilities would have increased from approximately RMB482.2 million by approximately RMB253.0 million or approximately 52.5% to approximately RMB735.2 million. The increase would have been primarily attributable to the consolidation of (i) other payable of the Fund of approximately RMB136.3 million; (ii) contract liabilities from customers' prepayments of the Fund of approximately RMB35.6 million; and

(iii) accounts payable of the Fund of approximately RMB38.9 million. As a result, the NAV of the Group (inclusive of non-controlling interests) would have increased from approximately RMB1,238.0 million by approximately RMB266.1 million or approximately 21.5%, to approximately RMB1,504.1 million. The aforesaid increase in the NAV would have been largely attributable to the Shareholders and accordingly, there would have been an increase in the NAV of the Group attributable to the Shareholders as a result of Completion.

Shareholders are reminded that the pro forma financial information set out above is for illustrative purposes only. The actual impact of the NAV on the Group shall be determined by reference to the valuation of the assets and liabilities of the Fund as at Completion.

(c) Gearing

As at 31 December 2022, the Group's gearing ratio, calculated as total liabilities divided by total assets was approximately 28.0%. As set out in the Unaudited Pro Forma Financial Information, on the assumption that Completion had taken place on 31 December 2022, the Group's gearing ratio would have increased to approximately 32.8%, which would have been mainly due to the consolidation of liabilities of the Fund including (i) other payable of approximately RMB136.3 million; (ii) contract liabilities from customers' prepayments of approximately RMB35.6 million; and (iii) accounts payable of approximately RMB38.9 million.

(d) Liquidity

As at 31 December 2022, the Group had cash and cash equivalents of approximately RMB596.7 million, net current assets (i.e., total current assets less total current liabilities) of approximately RMB627.5 million and a current ratio (i.e., total current assets divided by total current liabilities) of approximately 2.8 times.

As set out in the Unaudited Pro Forma Financial Information, on the assumption that Completion had taken place on 31 December 2022, the Group's net current assets would have increased by approximately RMB19.8 million or approximately 3.2% to approximately RMB647.3 million, which would have been mainly due to the net effect of (i) the current assets would have increased by approximately RMB241.3 million from approximately RMB976.6 million to approximately RMB1,217.9 million; and (ii) the current liabilities would have increased by approximately RMB221.5 million from approximately RMB349.1 million to approximately RMB570.6 million. The current ratio would have decreased to approximately 2.1 times, which would have been mainly due to the consolidation of other payable of the Fund of approximately RMB136.3 million.

ii. Under the scenario where only the Acquisition (including entering into the Contractual Arrangements) has been approved and with the transactions thereunder having proceeded accordingly

Under the scenario where only the Acquisition (including entering into the Contractual Arrangements) but not entering into the Deeds of Amendment has been approved and with the transactions thereunder having proceeded accordingly, the Company will hold the entire issued share capital of Chizicheng Strategy Investment directly and will control the Fund through its control of Chizicheng Strategy Investment and the interests held by the Company in the Fund. In addition, given the net proceeds in respect of each Portfolio Investment held by the Fund shall be distributable to the Limited Partners in proportionate to their respective actual Contribution, there would be no change in terms of the Company's and Spriver's actual Contributions in the Portfolio Investment of BlueCity, as well as their respective entitlement to the net proceeds, regardless of whether the Deeds of Amendment are approved or not. Accordingly, when consolidating the Fund's financial statements for the purpose of the Unaudited Pro Forma Financial Information, the Company's beneficial interest in the Fund's Portfolio Investment of BlueCity remains at 92.94% regardless of whether the Deeds of Amendment are approved or not. Therefore, under this scenario, the financial effects will be the same of that under the scenario as discussed in the sub-section (i) headed "Under the scenario where the Acquisition (including entering into the Contractual Arrangements) and entering into the Deeds of Amendment has been approved and with Completion having proceeded accordingly" above.

iii. Under the scenario where only entering into the Deeds of Amendment has been approved and the amendments therein having taken effect accordingly

Under the scenario where only entering into the Deeds of Amendment (but not the Acquisition (including entering into the Contractual Arrangements)) has been approved and the amendments therein having taken effect accordingly, the Company, as mere Limited Partner (and with the Fund being exclusively managed by the General Partner which it has no control over), will be unable to exert control over the Fund's management and operations, and hence being unable to consolidate the financial results of the Fund into that of the Group. The Company will, however, continue to account for its investment in the Fund as a joint venture using the equity method. Accordingly, there will be no financial effects on the Group and the Company's consolidated financial statements will be the same as those set out in its published annual report for the year ended 31 December 2022.

DISCUSSION AND ANALYSIS

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.

The Fund was established jointly by the Company, Spriver and Chizicheng Strategy Investment in the first half of 2022 with main purposes to participate in the Privatisation and invest primarily in, among other things, companies in telecommunication, media and technology sectors. The Privatisation was completed in August 2022 and the Fund had not made any other investment. Currently, the principal investment of the Fund is its approximately 78.9% indirect interest in BlueCity (including its Offshore Business).

BlueCity is an online LGBTQ community. We are of the view that the increasing social acceptance of the LGBTQ community is driving the growth in the LGBTQ's population, particularly among younger generations, and is presenting opportunities for businesses to address to their needs and preferences. The pink economy, which is based on the culture and needs of the LGBTQ community, is a fast-growing market that is expected to continue to expand, particularly in the online social and entertainment sectors, the population and the economy of which have demonstrated exciting growth in recent years. BlueCity is principally engaged in providing live streaming, advertising, membership, merchandise sales and other services in both the PRC and overseas. The Acquisition represents a direct involvement and expansion of the Group in the LGBTQ social networking sector, which also aligns the business strategies and plans of the Group.

The Sale and Purchase Agreement

Upon Completion, the Company will be empowered to exercise the management authority as conferred on the General Partner and can thereby directly engage in business collaboration with BlueCity. By leveraging the experience of the Group in the social networking sector, the Group could apply towards accelerating the overseas business development and improving the profitability of BlueCity and hence the Group.

Independent Shareholders should note that the Group's interest in BlueCity has already been effectively acquired by the Group through the Fund since the last year, and the Fund is classified as a non-current asset of the Group and is included in the investments accounted for using the equity method as at year ended 31 December 2022. The Acquisition therefore is in substance not an acquisition of the interest in the Fund or BlueCity but a step merely allowing the Group to control and consolidate the Fund and BlueCity by acquiring the General Partner of the Fund at a nominal consideration.

Pursuant to the Sale and Purchase Agreement, the Company will acquire the entire issued share capital of Chizicheng Strategy Investment, the General Partner of the Fund, at a nominal consideration of US$1.0. As Chizicheng Strategy Investment has a total equity of approximately RMB1.3 million and has no material outstanding liability or commitment and the Company will be able to exercise the management authority of the Fund, the consideration for the Acquisition under the Sale and Purchase Agreement is considered reasonable for the Company.

The Deeds of Amendment

Since the Partners have no intention to make other investment by the Fund after completion of the Privatisation and BlueCity is not expected to require financing from its shareholders, it is reasonable to revise the capital commitments of the Partners to the Fund and the percentage of the interest in the Fund held by the Partners based on the actual amount paid up by the Partners to reflect the actual contributions of each of the Partners to the Fund. Therefore, it is considered reasonable to adjust the amount of capital commitments of the Partners to the amount of capital paid up by the Partners to the Fund so far under the First Deed of the Amendment.

Furthermore, as the Company will exercise the management control of the Fund through the General Partner upon Completion and the Company has contributed over 90% of the paid-up capital of the Fund, the Fund will be effectively operated as a subsidiary of the Company, as opposed to a typical investment fund. Accordingly, the revision of the term of the Fund from a maximum of 10 years to an indefinite period under the Second Deed of Amendment will remove the restriction of a fixed operating period of the Fund and provide flexibility to the Group in operating the Fund.

Financial performance of BlueCity

The financial performance of BlueCity was summarised above in this letter. While the revenue for the latest financial year has dropped, the net loss (after excluding the one-off items, mainly comprising impairment loss on non-financial assets and the gain on divestment of the Offshore Business) has narrowed during the period under review. In fact, as shown in the financial statements of the Fund which predominantly reflect the results of BlueCity and the Offshore Business, a net profit of approximately RMB46.5 million was recorded in the last five months in 2022, which was mainly attributable to (i) an increase in revenue for the period from August to December 2022 as compared to that for the corresponding period in 2021, despite the downward trend of the yearly revenue; and (ii) the cost reduction efforts after the Privatisation including the decreases in advertising expenses, staff costs, servers, bandwidth and cloud infrastructure costs. This is an impressive performance given the loss-making history of BlueCity and the Offshore Business and this indicates a potential turnaround of the operating and financial performances of BlueCity and the Offshore Business.

Financial effects of the Acquisition (including entering into the Contractual Arrangements) and entering into the Deeds of Amendment

The financial effects of the Acquisition (including entering into the Contractual Arrangements) and entering into the Deeds of Amendment are generally positive. On the assumption that Completion had taken place on 12 August 2022, given the attributable interest in the Fund held by the Group would have remain unchanged upon Completion, the net profit or loss of the Fund attributable to the Shareholders would not change. Having said the above, the entire financial results of the Fund including revenue and operating costs as well as taxation would have been consolidated into the financial results of the Group. On the assumption that

Completion had taken place on 31 December 2022, the NAV of the Group attributable to the Shareholders would have increased due to, among other things, the goodwill generated upon consolidation of the Target Group and the consolidation of intangible assets and cash balance of the Fund. Gearing would have edged up and liquidity would have declined but both would have remain stayed at healthy levels.

OPINION AND RECOMMENDATION

Having considered the above principal factors and reasons, we consider that (i) the Acquisition, 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 Sale and Purchase Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; (ii) entering into the Deeds of Amendment, 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 Deeds of Amendment are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; and (iii) entering into the Contractual Arrangements, 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 Contractual Arrangements are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and the absence of a fixed term and annual caps under the Contractual Arrangements is normal business practice. 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. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for each of the three years ended 31 December 2020, 2021 and 2022 are disclosed in the following documents which have been published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.newborntown.com:

(i) Annual report of the Company for the year ended 31 December 2020 published on 14 April 2021 (pages 80 to 180)
https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0414/2021041400325.pdf

(ii) Annual report of the Company for the year ended 31 December 2021 published on 26 April 2022 (pages 96 to 196)
https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0426/2022042601030.pdf

(iii) Annual report of the Company for the year ended 31 December 2022 published on 27 April 2023 (pages 71 to 171)
https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0427/2023042704402.pdf

2. INDEBTEDNESS

Borrowings

As of 31 May 2023, the Enlarged Group did not have any bank overdrafts, bank borrowings or bank facilities, whether guaranteed or secured.

Lease liabilities

The Enlarged Group's lease liabilities represent the obligation to make future payments in relation to the lease of our office building. Lease contracts are typically made for fixed periods with fixed lease payments. Lease terms are negotiated on an individual basis and do not impose any covenants, while leased assets may not be used as security for borrowing purposes. As of 31 May 2023, the Enlarged Group recorded lease liabilities of RMB111.3 million. None of the lease liabilities of the Enlarged Group is secured or guaranteed.

The following tables set forth a breakdown of the Enlarged Group's lease liabilities by current and non-current portions as of 31 May 2023:

	As of 31 May 2023 *(RMB'000)*
Current	31,417
Non-current	79,852
Total	111,269

Contingent liabilities

As of 31 May 2023, the Enlarged Group did not have any contingent liabilities or guarantees.

Off-balance Sheet commitments and arrangements

As of 31 May 2023, the Enlarged Group did not have any off-balance sheet commitments or arrangements.

Save as disclosed, the Enlarged Group did not have any bank loans or other borrowings, or any loan capital issued and outstanding or agreed to be issued, borrowings or similar indebtedness, liabilities under acceptance or acceptance credits, debentures, mortgages, charges, hire purchases or finance lease commitments, guarantees or other contingent liabilities as of 31 May 2023, being the latest practicable date for our statement of indebtedness.

3. WORKING CAPITAL

The Directors are of the opinion that taking into account the cash flows generated from the operating activities, the financial resources available to the Enlarged Group including internally generated funds, the effect of the Acquisition, the working capital available to the Enlarged Group is sufficient for the Enlarged Group's requirements for at least 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED 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 the Middle East, North America, Southeast Asia and South Asia.

BlueCity is a world-leading online LGBTQ community which provides a comprehensive suite of services that fosters connections and enhance the well-being of the LGBTQ community. Boasting of social networking products tailored for a demographic rife with disposable income, BlueCity fulfills both the daily and lifelong needs of its members through a wide range of targeted and tailored services, including social networking, live-streaming and health-related services. With its 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.

With the General Partner of the Fund taking the lead, the Company, as the Limited Partner, participated in the privatisation of BlueCity, which in turn fosters a deeper mutual understanding and tighter collaborative relationship at business level as among the two companies. Throughout the process, both parties have their sights set on great collaborative opportunities in overseas market development and localised operations. Priming its focus on overseas social channels, the Company has successfully incubated and rolled out a number of distinguished products, and thereby having accumulated extensive experience in global market development and localised operations in different countries. The aforementioned experience can be replicated and applied towards accelerating the development of BlueCity's overseas business development and improving its profitability.

The integration of BlueCity's operations (and hence its extensive user base, its latest technology and established brand name) can enable the Company to effectively extend its reach to that of the LGBTQ community. Upon Completion, the results of the Fund and the companies held by the Fund (including Multelements, Land of Glory and BlueCity) will be consolidated into the consolidated financial statements of the Group. Therefore, assuming, for illustrative purposes, the Acquisition had taken place upon completion of the going-private transaction of BlueCity (i.e. on 12 August 2022), the consolidated net profit of the Enlarged Group for the year ended 31 December 2022 would have been (i) reduced by the share of net gain of associates and joint ventures accounted for using the equity method on the Group's existing investment in the Fund of approximately RMB29.9 million; but (ii) increased by the consolidation of the Fund and its profit for the period from 12 August 2022 to 31 December 2022 of approximately RMB46.5 million. As a result, the net profit of the Group for the year ended 31 December 2022 would have increased from approximately RMB287.3 million to approximately RMB303.9 million. Despite the net profit of the Enlarged Group having increased due to the change in the accounting treatment of the Fund held by the Group, given the attributable interest in the Fund held by the Group would have remain unchanged, the amount of the net profit of the Enlarged Group attributable to the Shareholders would have been the same, at approximately RMB130.1 million.

On the other hand, for illustrative purposes, shall the Acquisition and the Deeds of Amendment of the Partnership Agreement of the Fund having taken effect on 31 December 2022, the Enlarged Group's total assets would have increased from approximately RMB1,720.2 million by approximately RMB519.2 million or approximately 30.2% to approximately RMB2,239.4 million. The increase would have been mainly attributable to (i) consolidation of the intangible assets (i.e. user base, technology and brand name) of the Fund of approximately RMB100.1 million; (ii) goodwill generated from the consolidation of the Target Group of approximately RMB254.1 million; and (iii) the consolidation of the cash and cash equivalents of the Fund of approximately RMB143.6 million. On the same basis, the Enlarged Group's total liabilities would have increased from approximately RMB482.2 million by approximately RMB253.0 million or approximately 52.5% to approximately RMB735.2 million. The increase would have been primarily attributable to the consolidation of (i) other payables of the Fund of approximately RMB136.3 million; (ii) contract liabilities from customers' prepayments of the Fund of approximately RMB35.6 million; and (iii) accounts payable of the Fund of approximately RMB38.9 million. As a result, the net asset value of the Enlarged Group (inclusive of non-controlling interests) would have increased from approximately RMB1,238.0 million by approximately RMB266.1 million or approximately 21.5%, to approximately RMB1,504.1 million. The aforesaid increase in the NAV would be largely attributable to the Shareholders and accordingly, there will be an increase in the NAV of the Group attributable to the Shareholders as a result of Completion.

The Company believes that by drawing on BlueCity's unique appeal to the LGBTQ community, which would otherwise be hard or costly to reach, the Enlarged Group would reap the potential benefits of enhanced brand influence, awareness and recognition whilst achieving growth through the expansion and diversification of user base, thereby leading to a wider scope of service offerings and a surge in business opportunities which could fuel future growth in market share and profitability, thereby creating value for its Shareholders as a whole.

The following is the text of a report set out on pages 106 to 107, received from the Target Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF CHIZICHENG STRATEGY INVESTMENT LIMITED TO THE DIRECTORS OF NEWBORN TOWN INC.

Introduction

We report on the historical financial information of Chizicheng Strategy Investment Limited (the "Target Company") set out on pages 108 to 116, which comprises the balance sheet of the Target Company as at 31 December 2022 and the statement of comprehensive income and the statement of changes in equity, for the period from 11 January 2022 (date of incorporation) to 31 December 2022 (the "Relevant Period"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages 108 to 116 forms an integral part of this report, which has been prepared for inclusion in the circular of Newborn Town Inc. (the "Company") dated 30 June 2023 (the "Circular") in connection with the proposed purchase of 100% issued share capital of the Target Company.

Director's responsibility for Historical Financial Information

The directors of the Company is responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

The Underlying Financial Statements of the Target Company as defined on page 108, on which the Historical Financial Information is based, were prepared by the director of the Target Company. The director of the Target Company is responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB"), and for such internal control as the director of the Target Company determines is necessary to enable the preparation of the Underlying Financial Statements that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical

Financial Information in Investment Circulars" issued by the HKICPA. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Company's financial position as at 31 December 2022 and of the Target Company's financial performance for the Relevant Period in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page 108 have been made.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
30 June 2023

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Company for the Relevant Period, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "Underlying Financial Statements").

STATEMENT OF COMPREHENSIVE INCOME

For the period from 11 January 2022 to 31 December 2022
(Expressed in Renminbi ("RMB"))

	Note	**For the period from 11 January 2022 to 31 December 2022** *RMB'000*
Revenue	*4*	1,278
Gross profit		1,278
Profit from operations		1,278
Income tax expenses		–
Profit for the period		1,278
Other comprehensive loss for the period (after tax and reclassification adjustments)		
Item that will not be reclassified subsequently to profit or loss:		
Currency translation differences		(10)
Total comprehensive income		1,268

The accompanying notes form part of the Historical Financial Information.

BALANCE SHEET
(Expressed in RMB)

	Note	**At 31 December 2022**
		RMB'000
Current assets		
Accounts receivable	*5*	1,268
Total assets		1,268
Capital and reserves		
Share capital	*6*	–*
Reserves		1,268
Total shareholder's equity		1,268

* amount of less than RMB500.

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Expressed in RMB)

	Note	**Share capital**	**Other reserve**	**Retained earnings**	**Total shareholder's equity**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 11 January 2022					
Profit for the period		–	–	1,278	1,278
Other comprehensive income		–	(10)	–	(10)
Total comprehensive income		–	(10)	1,278	1,268
Capital contribution	*6*	–*	–	–	–
Balance at 31 December 2022		–*	(10)	1,278	1,268

* amount of less than RMB500.

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in RMB)

1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

Chizicheng Strategy Investment Limited (the "Target Company") was incorporated in the Cayman Islands on 11 January 2022, as an exempted company with limited liability under the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The principal business of the Target Company is being the general partner of Metaclass Management ELP (the "Fund"). The Target Company is a wholly-owned subsidiary of Spriver Tech Limited, a British Virgin Islands company wholly owned by Mr. Chunhe Liu. Spriver Tech Limited does not produce financial statements available for public use.

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB"). Further details of the significant accounting policies adopted are set out in Note 2.

The IASB has issued a number of new and revised IFRSs. The revised and new accounting standards and interpretations issued but not yet effective during the period from 11 January 2022 to 31 December 2022 and not yet adopted by the Target Company are set out in Note 10.

No cash flow statement is prepared by the Target Company because the Target Company did not have any cash flows during the period from 11 January 2022 to 31 December 2022 nor did it have any cash or cash equivalents at any point throughout the Relevant Period.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of measurement

The Target Company's functional currency is USD. The Historical Financial Information is presented in RMB to conform with the reporting currency of Newborn Town Inc. All amounts have been rounded to the nearest thousand.

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis.

(b) Use of estimates and judgments

The preparation of Historical Financial Information in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Translation of foreign currencies

Foreign currency transactions during the period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Target Company initially recognises such non-monetary assets or liabilities.

The financial statements of the Target Company are translated from US$ into RMB. The results of operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated in equity.

(d) Accounts receivable

A receivable is recognised when the Target Company has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit. The Target Company's exposure to credit risk arising from accounts receivable is limited because the counterparties are the Fund that the Target Company managed.

(e) Provisions and contingent liabilities

Provisions are recognised when the Target Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

(f) Revenue

Income is classified by the Target Company as revenue when it arises from the provision of services in the ordinary course of the Target Company's business.

The Target Company, as the general partner, will receive a management fee, out of the assets of the Fund, equivalent to one per cent per annum of the aggregate amount of contributions made by each limited partner in respect of portfolio investments, less the contributions made by each limited partner in respect of portfolio investments that have been realised, disposed of or written off as at the relevant date.

(g) Related parties

(a) A person, or a close member of that person's family, is related to the Target Company if that person:

(i) has control or joint control over the Target Company;

(ii) has significant influence over the Target Company; or

(iii) is a member of the key management personnel of the Target Company or the Target Company's parent.

(b) An entity is related to the Target Company if any of the following conditions applies:

(i) The entity and the Target Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Company or to the Target Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 ACCOUNTING JUDGMENT AND ESTIMATES

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Target Company makes estimates and assumptions concerning the future. The resulting accounting estimates may not be equal to the related actual results.

4 REVENUE

Revenue from contracts with customers

	For the period from 11 January 2022 to 31 December 2022 *RMB'000*
Portfolio management service	1,278

5 ACCOUNTS RECEIVABLE

	At 31 December 2022
	RMB'000
Accounts receivable	1,268
Less: loss allowance	–
	1,268

Ageing analysis

As of 31 December 2022, the ageing analysis of accounts receivable, based on the invoice date and net of loss allowance, of the Target Company are as follows:

	At 31 December 2022
	RMB'000
Within 6 months	1,268

6 SHARE CAPITAL

(a) Share capital

Upon incorporation on 11 January 2022 and at 31 December 2022, the Target Company's authorised ordinary shares were 5,000,000 shares with a nominal value of US$0.01 per share. The number of ordinary shares issued was 1,000,000, among which 1 share was paid, as at 31 December 2022.

(b) Capital management

The Target Company's primary objectives when managing capital are to safeguard the Target Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

Neither the Target Company nor any of its subsidiaries are subject to externally imposed capital requirements.

7 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company is not exposed to significant credit, liquidity, interest rate and currency risk.

All financial instruments are carries at amounts not materiality different from their fair value at the end of the reporting period.

8 MATERIAL RELATED PARTY TRANSACTION

The Target Company will receive a Management Fee, out of the assets of the Metaclass Management ELP (the "Fund"), equivalent to one percent per annum of the aggregate amount of contributions made by each Limited Partner in respect of Portfolio Investments, less the contributions made by each Limited Partner in respect of Portfolio Investments that have been realised, disposed of or written off as at the relevant date.

	At 31 December 2022 Amount owed to the Target Company by a related party *RMB'000*
Management fee due from the Fund (i)	1,268

Notes:

(i) The outstanding balance represents the management fee due from the Fund which included in accounts receivable. The Target Company receives a management fee, out of the assets of the Fund, equivalent to one percent per annum of the aggregate amount of contributions made by each Limited Partner in respect of Portfolio Investments, less the contributions made by each Limited Partner in respect of Portfolio Investments that have been realised, disposed of or written off as at the relevant date. The management fee will be receivable from the Fund in US Dollars annually in arrears on each 31 December, and any payment for a period of less than one year shall be adjusted on a pro rata basis according to the actual number of days during the period.

9 SUBSEQUENT EVENTS

Subsequent to the end of the reporting period, Metaclass Management ELP (the "Fund") and the Target Company entered into the First Deed of Amendment. Pursuant to the First Deed of Amendment, the aggregate Commitments to the Fund and capital commitments to any of the parallel funds (if any) of the Target Company, as the General Partner, shall as of the Final Closing equal to US$1.00, whereas the Commitment of Spriver, as the Limited Partner, shall be reduced from US$49,900,000 to US$3,800,000 from the date of the First Deed of Amendment, and the Commitment of Newborn Town Inc., as the Limited Partner, shall remain the same, representing 7.06% and 92.94% interest, respectively, in the Fund.

10 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIOD

Up to the date of issue of this report, the IASB has issued a number of amendments, and a new standard which are not yet effective for the Relevant Period and which have not been adopted in the Historical Financial Information as follows:

	Effective for accounting year beginning on or after
IFRS 17, *Insurance contracts and related amendments*	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2, *Disclosure of Accounting Policies*	1 January 2023
Amendments to IAS 8, *Definition of Accounting Estimates*	1 January 2023
Amendments to IAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023
Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2024
Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	To be determined

The Target Company is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far, The Target Company has concluded that the adoption of them is unlikely to have a significant impact on The Target Company's results of operations and financial position.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company in respect of any period subsequent to 31 December 2022.

The following is the text of a report set out on pages 117 to 118, received from the Fund's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF METACLASS MANAGEMENT ELP TO THE DIRECTORS OF NEWBORN TOWN INC.

Introduction

We report on the historical financial information of Metaclass Management ELP (the "Fund) and its subsidiaries (together, the "Fund Group") set out on pages 119 to 154, which comprises the consolidated balance sheet as at 31 December 2022 and the consolidated statement of comprehensive income, the consolidated statement of changes in net assets and the consolidated statement of cash flows, for the period from 20 January 2022 (date of incorporation) to 31 December 2022 (the "Relevant Period"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages 119 to 154 forms an integral part of this report, which has been prepared for inclusion in the circular of Newborn Town Inc. (the "Company") dated 30 June 2023 (the "Circular") in connection with the proposed purchase of 100% issued share capital of Chizicheng Strategy Investment (the "Target Company").

Director's/general partner's responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

The Underlying Financial Statements of the Fund Group as defined on page 119, on which the Historical Financial Information is based, were prepared by the general partner of the Fund. The general partner of the Fund is responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB"), and for such internal control as the general partner of the Fund determines is necessary to enable the preparation of the Underlying Financial Statements that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the HKICPA. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Fund Group's financial position as at 31 December 2022 and of the Fund Group's financial performance and cash flows for the Relevant Period in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page 119 have been made.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
30 June 2023

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Fund Group for the Relevant Period, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "Underlying Financial Statements").

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Expressed in Renminbi ("RMB"))

	Note	**For the period from 20 January 2022 to 31 December 2022** *RMB'000*
Revenues	*4*	403,694
Cost of revenues		(240,761)
Gross profit		162,933
Other income, net		221
Selling and marketing expenses		(35,671)
Technology and development expenses		(62,505)
General and administrative expenses		(20,132)
Impairment loss on financial assets		(58)
Profit from operations	*5*	44,788
Finance income		219
Finance cost	*5(a)*	(245)
Profit before income tax		44,762
Income tax benefits	*6*	1,715
Profit for the period		46,477
Other comprehensive income for the period (after tax and reclassification adjustments)		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of foreign operations		11,427
Total comprehensive income for the period		57,904
Profit for the period attributable to:		
Partners of the Fund		32,221
Non-controlling interests		14,256
		46,477
Total comprehensive income for the period attributable to:		
Partners of the Fund		43,018
Non-controlling interests		14,886
		57,904

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED BALANCE SHEET

(Expressed in RMB)

	Note	At 31 December 2022 RMB'000
Non-current assets		
Property and equipment	*7*	8,531
Intangible assets	*8*	100,109
Goodwill	*9*	46,276
Other non-current assets		50
Total non-current assets		154,966
Current assets		
Inventories	*12*	11,567
Accounts receivable	*13*	23,034
Prepayments, deposits and other receivables	*14*	63,089
Cash and cash equivalents	*15*	143,550
Total current assets		241,240
Total assets		396,206
Current liabilities		
Accounts payable	*16*	38,875
Accrued expenses and other payables	*17*	136,267
Lease liabilities	*18*	3,314
Contract liabilities	*19*	35,608
Current taxation		3,764
		217,828
Non-current liabilities		
Lease liabilities	*18*	666
Deferred tax liabilities	*6(c)*	24,091
Other non-current liabilities		1,700
Total non-current liabilities		26,457
Total liabilities		244,285
Net assets		
Net assets attributable to Partners of the Fund	*20*	123,568
Non-controlling interests		28,353
Total net assets		151,921

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(Expressed in RMB)

		Net assets attributable to Partners of the Fund				Non-controlling interests	Total net assets
	Note	Contribution	Other reserve	Retained earnings	Sub-total		
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 20 January 2022							
Profit for the period		–	–	32,221	32,221	14,256	46,477
Other comprehensive income		–	10,797	–	10,797	630	11,427
Total comprehensive income		–	10,797	32,221	43,018	14,886	57,904
Capital contribution from a limited partner	20	338,424	–	–	338,424	–	338,424
Acquisition of a subsidiary with non-controlling shareholders	10(c)	–	–	–	–	115,840	115,840
Transaction with non-controlling equity owners of the subsidiary	11	–	(257,874)	–	(257,874)	(50,567)	(308,441)
Dividend declared to non-controlling equity owners of the subsidiary	20(c)	–	–	–	–	(51,806)	(51,806)
Balance at 31 December 2022		338,424	(247,077)	32,221	123,568	28,353	151,921

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in RMB)

	Note	**For the period from 20 January 2022 to 31 December 2022** *RMB'000*
Operating activities		
Cash used in operations	*15(b)*	(9,504)
Income tax paid		(2,221)
Net cash used in operating activities		(11,725)
Investing activities		
Purchase of property, equipment and intangible assets		(473)
Acquisition of a subsidiary, net of cash acquired	*10*	110,295
Net cash generated from investing activities		109,822
Financing activities		
Capital contribution from a limited partnership	*20*	338,424
Acquisition of non-controlling interests	*11*	(244,096)
Dividends paid to non-controlling shareholders	*20(c)*	(51,806)
Capital element of lease rentals paid	*15(c)*	(3,796)
Interest element of lease rentals paid	*15(c)*	(245)
Net cash generated from financing activities		38,481
Net increase in cash and cash equivalents		136,578
Cash and cash equivalents at the 20 January 2022		–
Effect of foreign currency exchange rate changes		6,972
Cash and cash equivalents at 31 December 2022		143,550

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in RMB)

1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION AND BACKGROUND INFORMATION

(a) Basis of preparation and presentation of Historical Financial Information

Metaclass Management ELP (the "Fund") is a Cayman Islands Exempted Limited Partnership formed under an initial exempted limited partnership agreement dated on 20 January 2022 (the "Original Agreement") and registered as an exempted limited partnership under the Exempted Limited Partnership Act on 20 January 2022. The Partnership Agreement was amended and restated with effect from 4 July 2022 (the "Agreement").

The objective of the Fund is (a) to participate in the going-private transaction of BlueCity Holdings Limited (NASDAQ: BLCT, "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 Holdings Limited 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 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 this 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 Fund 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 Fund exterior to the Cayman Islands).

The Fund has its registered office located at 4th Floor, Harbour Place, 103 South Church Street, PO Box 10240, Grand Cayman KY1-1002, Cayman Islands.

To comply with the relevant PRC laws and regulations, the Fund Group conducts its foreign investment-restricted business in PRC primarily through Beijing BlueCity Culture and Media Co., Ltd. ("BlueCity Culture and Media") based on a series of contractual arrangements, including Powers of Attorney, Exclusive Consulting and Service Agreement, Equity Interest Pledge Agreement and Exclusive Option Agreement (the "Contractual Arrangements") by and among Beijing BlueCity Information & Technology Co., Ltd. ("BlueCity Information Technology"), BlueCity Culture and Media and its nominee equity holders.

The general partner of the Fund, based on the advice from its legal counsel, consider that the Contractual Arrangements among BlueCity Information Technology, BlueCity Culture and Media and its nominee equity holders are in compliance with the relevant PRC laws and regulations currently in effect and are legally binding and enforceable. The Contractual Arrangements enable the Fund to exercise power over BlueCity Culture and Media, receive variable returns from its involvement in BlueCity Culture and Media and have the ability to affect those returns through its power over BlueCity Culture and Media. Therefore, the Fund controls BlueCity Culture and Media and regards BlueCity Culture and Media and its subsidiaries as controlled structured entities.

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB"). Further details of the significant accounting policies adopted are set out in Note 2.

The IASB has issued a number of new and revised IFRSs. The revised and new accounting standards and interpretations issued but not yet effective during the period from 20 January 2022 to 31 December 2022 and not yet adopted by the Fund Group are set out in Note 24.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

As at the date of this report, the Fund has direct or indirect interests in the following subsidiaries, all of which are private companies.

Company Name	Place of incorporation and business and date of incorporation/ establishment	Particulars of issued shares or paid-up capital	Proportion of ownership Held by the Fund	Held by the subsidiaries	Principal activities
Directly held					
Multelements Limited (iii)	Cayman Islands 27 April 2022	Number of shares: 18,538,363	78.9%	–	Investment holding
Land of Glory Ltd. (iii)	Cayman Islands 29 May 2019	Number of shares: 1	78.9%	–	Investment holding
Indirectly held					
BlueCity Holdings Limited	Cayman Island 17 December 2013	Number of share: 1	–	78.9%	Investment holding
BlueCity Holdings Hong Kong Limited	Hong Kong 13 March 2014	Number of shares: 10,000	–	78.9%	Carrying out overseas operations
BlueCity Holdings Global Limited	Hong Kong 14 August 2017	Number of share: 1	–	78.9%	Investment holding
Bluebaby Global Limited	Hong Kong 3 December 2018	Number of share: 1	–	78.9%	Carrying out consulting for assisted reproductive services
Beijing BlueCity Information & Technology Co., Ltd. (北京藍城兄弟信息技術有限公司) (i) (iii)	PRC 19 August 2014	Issued and paid-up: USD61,680,000	–	78.9%	Application development and technology supporting
Blue Baby, LLC (iii)	United States 22 May 2017	Issued: USD10,000 Paid-up: nil	–	78.9%	Carrying out consulting for assisted reproductive services
BlueCity Vietnam Company Limited (iii)	Vietnam 26 July 2019	Issued and paid-up: VND 690,000,000	–	78.9%	Carrying out supporting operations of overseas live streaming service in Vietnam
Blued Japan Co., Ltd. (Blued Japan 株式會社) (iii)(iv)	Japan 26 November 2019	Number of share: 100	–	78.9%	Carrying out overseas live streaming service
Fleeper Holdings Limited (iii)	Hong Kong 10 July 2019	Number of share: 1	–	78.9%	Investment holding
Catchme LLC (iii)	United States 29 August 2019	Number of shares: 1	–	78.9%	Investment holding
iRainbow Hong Kong Limited (iii)	Hong Kong 24 October 2014	Number of shares: 1	–	78.9%	Carrying out overseas live streaming service
Beijing Aloha Technology Co, Ltd. (北京阿羅哈科技有限公司) (i) (iii)	PRC 20 March 2015	Issued and paid-up: USD1,700,000	–	78.9%	Carrying out support of overseas business
Structured entities (ii)					
Beijing BlueCity Culture and Media Co., Ltd. (北京藍城兄弟文化傳媒有限公司) (i) (iii)	PRC 7 September 2011	Issued and paid-up: RMB3,035,294	–	78.9%	Carrying out live streaming, advertising business, etc.
Guangzhou Yingyou Tianxia Network Technology Co., Ltd. (廣州影遊天下網絡科技有限公司) (i) (iii)	PRC 22 December 2017	Issued: RMB1,000,000 paid-up: nil	–	78.9%	Carrying out live streaming, advertising business, etc.

Company Name	Place of incorporation and business and date of incorporation/ establishment	Particulars of issued shares or paid-up capital	Proportion of ownership Held by the Fund	Held by the subsidiaries	Principal activities
City of Glory Chengdu Information Technology Co., Ltd. (榮耀之城成都信息技術有限公司) (i)(iii)	PRC 6 September 2019	Issued and paid-up: RMB1,000,000	–	78.9%	Providing IT support to the BlueCity Holdings Limited and its subsidiaries
Beijing Asphere Interactive Network Technology Co.,Ltd. (北京猩球互動網絡科技有限公司) (i) (iii)	PRC 24 October 2019	Issued: RMB10,000,000 paid-up: nil	–	78.9%	Carrying out live streaming, advertising business, etc.
Danlan (Beijing) Media Co., Ltd. (淡藍(北京)傳媒有限公司) (i) (iii)	PRC 17 May 2016	Issued: RMB1,000,000 paid-up: nil	–	78.9%	Carrying out consulting business for health organization
Beijing BlueCity Youning Health Management Co., Ltd. (北京藍城佑寧健康管理有限公司) (i) (iii)	PRC 1 November 2018	Issued and paid-up: RMB3,000,000	–	78.9%	Carrying out online out-patient service
Shandong Youping Pharmacy Chain Co., Ltd. (山東佑平大藥房連鎖有限公司) (i) (iii)	PRC 15 November 2019	Issued: RMB3,500,000 Paid-up: RMB3,000,000	–	78.9%	Carrying out online out-patient service
Chongqing Changyuan Pharmaceutical Co., Ltd. (重慶長遠醫藥有限公司) (i) (iii)	PRC 22 June 2020	Issued: RMB10,000,000 Paid-up: RMB4,729,000	–	78.9%	Carrying out pharmaceuticals wholesale service
Shandong Heer Internet Hospital Co., Ltd. (山東荷爾互聯網醫院有限公司) (i) (iii)	PRC 30 October 2020	Issued: RMB3,000,000 paid-up: nil	–	78.9%	No main operation now
Beijing Youji Technology and Culture Co., Ltd. (北京有姬科技文化有限公司) (i)(iii)	PRC 9 April 2021	Issued and paid-up: RMB1,000,000	–	78.9%	No main operation now
Beijing Aiyou Jiuyou Network Technology Co., Ltd. (北京愛友就有網絡科技有限公司) (i) (iii)	PRC 6 May 2021	Issued: RMB1,000,000 Paid-up: RMB500,000	–	78.9%	No main operation now

Notes:

(i) The official names of these entities are in Chinese. The English translation of the names is for identification purpose only.

(ii) The Fund does not have direct or indirect legal ownership in equity of the structured entities. Nevertheless, under the Contractual Arrangements entered into with the structured entities and their shareholders, the Fund and its other legally owned subsidiaries have rights to exercise power over the structured entities, receive variable returns from their involvement in the structured entities, and have the ability to affect those returns through their power over these structured entities. As a result, these entities are presented as structured entities of the Fund Group.

(iii) No audited statutory financial statements for 2022 were issued for this entity.

(iv) The official name is in Japanese. The English translation of the name is for identification purpose only.

All companies comprising the Fund Group have adopted 31 December, as their financial year end date.

(b) Background information

Going-private transaction of BlueCity Holdings Limited

On 18 April 2022, the Fund, together with Mr. Ma Baoli, the founder of BlueCity ("Initial Buyer Group") submitted a non-binding Proposal to BlueCity with respect to the proposed going-private transaction wherein the Initial Buyer Group proposed to acquire all of the outstanding ordinary shares of BlueCity that are not already beneficially owned by the Initial Buyer Group. An institute investor was admitted to the Buyer Group later and they are collectively referred as "Buyer Group".

On 30 April 2022, BlueCity announced the Agreement and Plan of Merger (the "Merger Agreement") signed by the Fund, Diversefuture Limited (the "Merger Sub"), a wholly-owned subsidiary of Multelements Limited (the "Parent") and BlueCity. Pursuant to the Merger Agreement, the Merger Sub will be merged with and into BlueCity (the "Merger"), each share issued and outstanding immediately prior to the effective time of the Merger will be cancelled and cease to exist in exchange for the right to receive US$3.2 in cash without interest, and each outstanding American depositary share of BlueCity (each two of which representing one Class A ordinary share of BlueCity) will be cancelled in exchange for the right to receive US$1.60, except for certain shares which will be rolled over in the transaction and the dissenting shares.

On 12 August 2022, BlueCity announced the completion of the Merger. As a result of the Merger, BlueCity became a wholly owned subsidiary of Multelements Limited and ceased to be a publicly traded company. Each share of BlueCity issued and outstanding immediately prior to the effective time of the merger were cancelled and cease to exist. The Fund acquired 64.7% voting interests of Multelements Limited and it became a subsidiary of the Fund since 12 August 2022.

Reorganisation of offshore business

In order to facilitate the offshore business, the Fund effected a reorganisation after the privatization. After the reorganisation, Land of Glory Ltd. became a direct subsidiary of the Fund from an indirect subsidiary controlled by BlueCity before the reorganisation. Several subsidiaries which were controlled by BlueCity before the reorganisation became subsidiaries of Land of Glory Ltd. after the reorganisation. The offshore business that were historically owned and operated by BlueCity, through its operating and holding entities, were then transferred to Land of Glory Ltd. As of 31 December 2022, the Fund held 78.9% interest in Multelements Limited and 78.9% interest in Land of Glory Ltd., respectively.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of measurement

The Historical Financial Information is presented in RMB and rounds to the nearest thousand.

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis.

The Fund and certain subsidiaries of the Fund incorporated in Hong Kong S.A.R. and the other overseas countries have its functional currency in local currency. Certain subsidiaries of the Fund incorporated in PRC considered Renminbi ("RMB") as their functional currency. As the operations of the Fund Group are mainly within the PRC, the Fund Group determined to present this Historical Financial Information in RMB, unless otherwise stated.

(b) Use of estimates and judgments

The preparation of Historical Financial Information in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Basis of consolidation

The Historical Financial Information includes the financial statements of the Fund and its subsidiaries for the Relevant Period. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Fund. Control is achieved when the Fund Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Fund Group the current ability to direct the relevant activities of the investee).

When the Fund Group has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Fund Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(i) The contractual arrangement with the other vote holders of the investee;

(ii) Rights arising from other contractual arrangements; and

(iii) The Fund Group's voting rights and potential voting rights.

The results of subsidiaries are consolidated from the date on which the Fund Group obtains control, and continues to be consolidated until the date that such control ceases. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Fund Group are eliminated in full on consolidation. Unrealised losses resulting from intra-group transactions are eliminated in the same way as Unrealised gains but only to the extent that there is no evidence of impairment.

The Fund Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Fund Group loses control over a subsidiary, it derecognises (i) the assets and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest in the subsidiary and (iii) the cumulative translation differences in relation to the subsidiary recorded in net assets; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Fund Group's share of components previously recognised in other comprehensive income in relation to the subsidiary is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Fund Group had directly disposed of the related assets or liabilities.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Fund, and in respect of which the Fund Group has not agreed any additional terms with the holders of those interests which would result in the Fund Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Fund Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within net assets, separately from net assets attributable to partners of the Fund. Non-controlling interests in the results of the Fund Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the partners of the Fund.

(d) Business combinations

The Fund Group accounts for business combinations using the acquisition method when control is transferred to the Fund Group (see Note 2(c)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see Note 2(e)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within net assets. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(e) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Fund Group's previously held equity interests in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses (see Note 2(j)(ii)). Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(j)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in debt and equity securities

The Fund Group's policies for investments in debt and equity securities, other than investments in subsidiaries, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Fund Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVTPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Fund Group determines fair value of financial instruments, see Note 21(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

Non-equity investments held by the Fund Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (See Note 2(r)(ii)).

- fair value through other comprehensive income ("FVOCI")-recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

- fair value through profit or loss ("FVTPL") if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(ii) Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Fund Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVOCI, are recognised in profit or loss as other income.

(g) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(j)(ii)).

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

• Motor vehicles, office and electronic equipment	3 years
• Leasehold improvements	Shorter of 3 years or lease term
• Right-of-use assets	Over the term of lease

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Fund Group has sufficient resources and the intention to complete development. Other development expenditure is recognised as an expense in the period in which it is incurred.

Intangible assets that are acquired by the Fund Group are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see Note 2(j)(ii)). Intangible assets acquired through business acquisitions are recognised as assets separate from goodwill if they are capable of being separated or arise from contractual or other legal rights.

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

• Licenses	5 years
• User bases	3-4 years
• Brand names	10 years
• Technologies	3 years
• Software	3 years

Both the period and method of amortization are reviewed annually.

(i) Leased assets

At inception of a contract, the Fund Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

At the lease commencement date, the Fund Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Fund Group enters into a lease in respect of a low-value asset, the Fund Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(g) and 2(j)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Fund Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Fund Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of IFRS 16 Leases. In such cases, the Fund Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

(j) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Fund Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents, term deposit, accounts receivable and other receivables).

Other financial assets measured at fair value are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Fund Group in accordance with the contract and the cash flows that the Fund Group expects to receive).

The expected cash shortfalls of term deposit, account and other receivables are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Fund Group is exposed to credit risk.

In measuring ECLs, the Fund Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for accounts receivable are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Fund Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Fund Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Fund Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Fund Group considers that a default event occurs when the financial assets is 90 days past due. The Fund Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;

- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

- an actual or expected significant deterioration in the operating results of the debtor; and

- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Fund Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Fund Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(r)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Fund Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Fund Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property and equipment including right-of-use assets;
- intangible assets; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(k) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Fund Group recognises the related revenue (see Note 2(r)). A contract liability would also be recognised if the Fund Group has an unconditional right to receive non-refundable consideration before the Fund Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

(l) Accounts and other receivable

A receivable is recognised when the Fund Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(j)(i)).

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and other financial institutions, and term deposits, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(j)(i).

(n) Inventories

Inventories are assets which are held for sale in the ordinary course of business. Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(o) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Fund Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in net assets, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in net assets, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Fund Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Fund or the Fund Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Fund Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised when the Fund Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

(r) Revenue and other income

Income is classified by the Fund Group as revenue when it arises from the provision of services in the ordinary course of the Fund Group's business.

Further details of the Fund Group's revenue and other income recognition policies are as follows:

(i) Revenue from contracts with customers

Revenue is recognised when control over a service is transferred to the customer, at the amount of promised consideration to which the Fund Group is expected to be entitled, excluding those amounts collected on behalf of third parties such as value added tax or other sales taxes.

Live streaming service

The Fund Group operates integrated platforms, Blued and Finka, consisting of IT infrastructure, mobile applications and its proprietary algorithm, to offer live and interactive streaming services to individual viewers as its customers. The Fund Group engages broadcasters to perform on the Fund Group's platform, which through its proprietary algorithm, enables individual viewers to discover live streaming channels and broadcasters they may find interesting and provide more personal experience.

Individual viewer can purchase virtual gifts on the Fund Group's platform, and simultaneously present to broadcasters during their live streaming performance to show their support for their favourite broadcasters. The Fund Group has sole discretion in designing and establishing pricing of virtual gifts. Individual viewer purchases virtual gifts using the Fund Group's virtual currency which is in turn acquired through online third-party payment platforms. Virtual currency is non-refundable and does not have expiration date. It is often consumed soon after it is purchased.

The Fund Group considers live streaming service as one performance obligation to its customers. The consideration received from individual viewers varies at viewers' discretion, as they purchase and present variable quantity or value of virtual gifts to broadcasters during a performance. The recognition of such variable consideration is constrained until the amount is known, which is when an individual viewer purchases virtual gifts and simultaneously presents them to broadcasters during their live streaming performance. Accordingly, revenue is recognised when virtual gifts are consumed as they are presented to broadcasters. Unconsumed virtual currency is recorded as contract liabilities.

The Fund Group evaluates and determines individual viewers as its customers and the Fund Group is the principal in providing live streaming services to them, and hence reports live streaming revenues on a gross basis. Accordingly, the amounts billed to viewers are recorded as revenues and revenue sharing fee paid to broadcasters through talent agencies are recorded as cost of revenues. The Fund Group controls the integrated live streaming services, which is evidenced by its contractual relationship with individual viewers and primary responsibility for fulfilling the promise to provide the live streaming services, including operating the self-developed live streaming platform and maintaining the operation of the platform, engaging broadcasters through talent agencies to perform on its platform, investing in and using its algorithm to optimise individual viewers' live streaming experience, enabling individual viewers to discover the broadcasters and shows they may be interested in, developing new features in the platform, promoting activities including the general promotion of the platform and the promotion of popular broadcasters and offering the virtual items to viewers to be purchased and used in the platform. Its control is also evidenced by its sole ability to monetise the live streaming services and the level of discretion in establishing pricing. The Fund Group also has latitude in establishing the amount of compensation that broadcasters and talent agencies receive as a percentage of revenues generated from virtual gift sales. Such percentage is subject to the achievement of broadcasters and talent agencies on the Key Performance Indicators set by the Fund Group.

Advertising

The Fund Group offers marketing services on the Fund Group's mobile app, primarily through banner advertisements. Marketing services allow customers to place advertisements on particular areas of the Fund Group's mobile app, in particular formats and over particular periods of time. The marketing services typically last from several days to one year. The Fund Group determines that the customer simultaneously receives and consumes benefits provided by the Fund Group's performance as the Fund Group performs during the term of the contract. Revenues from marketing services are recognised, net of sales incentives, if any, ratably over the service period.

The Fund Group provides sales incentives in the forms of discounts and rebates to customers based on purchase volume. Sales incentives are estimated and recorded at the time of revenue recognition based on the contracted rebate rates and estimated sales volume based on historical experience.

Membership

Membership revenues include subscription-based membership services and Pay-Per-Use Services. Subscription-based membership services enable individual users to enjoy additional functions and privileges over a period of time ranging from one month to one year. Pay-Per-Use services enable individual users to better promote themselves and raise their profile through advanced enhancement functions on a pay per service basis. The Fund Group collects non-refundable membership service fee in advance and records it as contract liabilities. Subscription-based membership revenue is recognised on a straight-line basis over the membership period. Pay-Per-Use revenue is recognised at the point in time when control of promised service is transferred to the users.

Merchandise sales

The Fund Group generates revenues from merchandise sales to customers through the Fund Group's own and third-parties' platforms. The Fund Group controls the specified good before that good is transferred to a customer, which is evidenced by the primary responsibility for fulfilling the promise to provide the specified good, including responsible for the acceptability of the specified good; having inventory risk before the specified good has been transferred to a customer; and having discretion in establishing the price for the specified good. Accordingly, the Fund Group concludes that it is principal in merchandise sales and reports revenue from merchandise sales on a gross basis. Revenues are measured as the amount of consideration the Fund Group expects to receive in exchange for transferring the specified good to customers.

Others

Other revenue mainly consists of service fee from the provision of consulting service to healthcare and medical institutions and marketplace service revenues. Revenue is recognised when control of promised service is transferred to the customers in an amount of consideration to which the Fund Group expects to be entitled to in exchange for those services.

(ii) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Fund Group will comply with the conditions attaching to them. Grants that compensate the Fund Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Fund Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(s) Translation of foreign currencies

Foreign currency transactions during the period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Fund Group initially recognises such non-monetary assets or liabilities.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in net assets in other reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from net assets to profit or loss when the profit or loss on disposal is recognised.

(t) Related parties

(a) A person, or a close member of that person's family, is related to the Fund Group if that person:

(i) has control or joint control over the Fund Group;

(ii) has significant influence over the Fund Group; or

(iii) is a member of the key management personnel of the Fund Group or the Fund Group's parent.

(b) An entity is related to the Fund Group if any of the following conditions applies:

(i) The entity and the Fund Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Fund Group or an entity related to the Fund Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Fund Group or to the Fund Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 ACCOUNTING JUDGMENT AND ESTIMATES

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Fund Group makes estimates and assumptions concerning the future. The resulting accounting estimates may not be equal to the related actual results. Significant sources of estimation uncertainty are as follows:

(i) Current and deferred income tax

The Fund Group is subject to income taxes in different areas. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(ii) Business combinations

Business combinations except for business combination under common control are accounted for under acquisition method. The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed are based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. The Fund Group determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected lives of assets, the forecasted life cycles and forecasted cash flows over that period. Although the Fund Group believes that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

(iii) Impairment of goodwill

The Fund Group performs the impairment test for goodwill on an annual basis, by comparing the recoverable amount to the carrying amount. The recoverable amount is determined based on the value-in-use calculations by using the discounted cash flow method, which requires significant estimates and judgments relating to the growth rate and the discount rate. Additional information for the impairment assessment of goodwill is disclosed in Note 10.

4 REVENUE

The Fund Group is principally engaged in providing live streaming, advertising and membership, merchandise sales and other services. Disaggregation of revenue from contracts with customers by major service lines is as follows:

	For the period from 20 January 2022 to 31 December 2022
	RMB'000
Revenue from contracts with customers within the scope of IFRS 15	
Live streaming	258,836
Membership	81,094
Merchandise sales	37,852
Advertising	24,020
Others *(i)*	1,892
Total revenues	403,694

(i) Other revenue mainly consists of service fee from the provision of consulting service to healthcare and medical institutions and marketplace service revenues.

The Fund Group recognised live streaming revenue, pay-per-use service and merchandise sales at a point in time and recognised revenue from subscription-based membership, advertising and others over time.

The Fund Group generally enters into service contracts with customers for a contract term less than one year. Therefore the Fund Group has applied the practical expedient permitted under IFRS 15 not to disclose the transaction price allocated to the unsatisfied performance obligations.

The Fund Group's customer base is diversified, and none of the customers with whom transactions have exceeded 10% of the Fund Group's revenues. The Fund Group's revenue was primarily derived from the mainland of PRC.

5 LOSS BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance cost

	For the period from 20 January 2022 to 31 December 2022 *RMB'000*
Interest on lease liabilities	245

(b) Staff costs

	For the period from 20 January 2022 to 31 December 2022 *RMB'000*
Contributions to defined contribution retirement plan	7,021
Salaries, wages and other benefits	71,555
Total employee benefit expense	78,576

The employees of subsidiaries of the Fund Group established in the PRC (excluding Hong Kong) participate in defined contribution retirement schemes managed by the local government authorities, whereby the Fund Group is required to contribute to the schemes based on certain percentages of the employees' salaries. Contributions to the retirement schemes vest immediately, there is no forfeited contributions that may be used by the Fund Group to reduce the existing level of contribution.

The Fund Group has no further material obligation for payment of other retirement benefits beyond the above contributions.

(c) Other items

	For the period from 20 January 2022 to 31 December 2022 *RMB'000*
Revenue sharing fee paid to broadcasters	159,299
Commission fees paid to mobile application stores and third party payment platforms	28,600
Servers, bandwidth and cloud infrastructure costs	23,397
Depreciation and amortisation	15,259
Advertising costs	9,020

6 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statements of profit or loss and other comprehensive income represents:

	For the period from 20 January 2022 to 31 December 2022 *RMB'000*
Current taxation	
– Provision for corporate income tax in respective jurisdictions	33
Deferred taxation	
– Origination and reversal of temporary differences	(1,748)
	(1,715)

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	Note	For the period from 20 January 2022 to 31 December 2022 *RMB'000*
Profit before income tax		44,762
Tax at the PRC statutory tax rate of 25%	*(i)*	11,191
Tax effect of different tax rates in other jurisdictions	*(ii)*	(97)
Tax effect of preferential tax rates	*(iii)*	(1,458)
Tax effect of super deduction of research and development expenses	*(iv)*	(5,930)
Tax effect of non-taxable of income		(3,471)
Tax effect of non-deductible expenses		135
Tax effect of utilisation of previously unrecognised deductible tax losses		(2,085)
Income tax benefits		(1,715)

(i) The Fund Group's subsidiaries established in the Mainland of China, including structured entities, are subject to PRC Enterprise Income Tax rate of 25%.

(ii) Pursuant to the current rules and regulations of the Cayman Islands, the Fund and its subsidiaries in Cayman is not subject to income tax in Cayman Islands.

The Fund's subsidiaries incorporated in Hong Kong are subject to Hong Kong Profits Tax at 16.5% of the estimated assessable profit. No provision for Hong Kong Profits Tax has been made, as the subsidiaries of the Fund Group incorporated in Hong Kong did not have assessable profits which were subject to Hong Kong Profits Tax during the Relevant Period.

(iii) BlueCity Information Technology fulfilled the criteria required for preferential income tax rate granted to "high-and-new technology enterprises" ("HNTE") in the PRC, which entitled it to the preferential income tax rate of 15%.

(iv) According to the relevant tax rules in the PRC, qualified research and development expenses are allowed for additional deduction based on 75% of such qualified expenses incurred from the taxable income during the Relevant Period.

(c) Deferred tax liabilities recognised

Movements of each component of deferred tax liabilities

		Fair value adjustments on intangible assets and related amortisation
		RMB'000
Deferred tax liabilities arising from:		
At 11 January 2022		–
Business combination	*10(a)*	(25,839)
Credited to profit or loss	*6(a)*	1,748
At 31 December 2022		(24,091)

(d) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(p), the Fund Group has not recognised deferred tax assets in respect of cumulative tax losses, as it is not probable that future taxable profits against which the cumulative tax losses and deductible temporary differences can be utilised will be available in the relevant tax jurisdiction and entity.

7 PROPERTY AND EQUIPMENT

(a) Reconciliation of carrying amount

	Note	Motor vehicles, office and electronic equipment	Leasehold improvement	Right-of-use assets	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:					
At 20 January 2022		–	–	–	–
Acquisition through a business combination	*10*	1,968	5,619	8,217	15,804
Additions		97	–	–	97
Disposals		(116)	–	(5,331)	(5,447)
At 31 December 2022		1,949	5,619	2,886	10,454
Accumulated depreciation:					
At 20 January 2022		–	–	–	–
Charge for the period		(1,413)	(1,494)	(4,370)	(7,277)
Disposals		24	–	5,330	5,354
At 31 December 2022		(1,389)	(1,494)	960	(1,923)
Net book value:					
At 20 January 2022		–	–	–	–
At 31 December 2022		560	4,125	3,846	8,531

(b) Right-of-use assets

The Fund Group's leased offices expire from 1 to 5 years. None of the leases includes an option to purchase the leased assets at the end of the lease term.

The analysis of expenses items in relation to leases recognised in the Fund Group's profit or loss are as follows:

	For the period from 20 January 2022 to 31 December 2022 *RMB'000*
Depreciation charge of leasehold properties	4,370
Interest on lease liabilities	245
Expense relating to short-term leases	743

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Note 15(d) and 18, respectively.

8 INTANGIBLE ASSETS

	Note	**Licenses** *RMB'000*	**User bases** *RMB'000*	**Brand names** *RMB'000*	**Technologies** *RMB'000*	**Software** *RMB'000*	**Total** *RMB'000*
Cost:							
At 20 January 2022		–	–	–	–	–	–
Acquisition through a business combination	*10*	2,554	16,000	76,000	12,000	1,161	107,715
Additions in the period		–	–	–	–	376	376
At 31 December 2022		2,554	16,000	76,000	12,000	1,537	108,091
Accumulated amortization:							
At 20 January 2022		–	–	–	–	–	–
Charge for the period		(434)	(2,383)	(3,419)	(1,243)	(503)	(7,982)
At 31 December 2022		(434)	(2,383)	(3,419)	(1,243)	(503)	(7,982)
Net book value:							
At 20 January 2022		–	–	–	–	–	–
At 31 December 2022		2,120	13,617	72,581	10,757	1,034	100,109

The amortisation charge for the period is included in "cost of revenues", "selling and marketing expenses", "technology and development expenses" and "general and administrative expenses" in the consolidated statement of comprehensive income.

9 GOODWILL

	At 31 December 2022 *RMB'000*
Balance at 20 January 2022	–
Additions	46,276
Balance at 31 December 2022	46,276

The goodwill of the Fund Group was generated from the business combinations as described in Note 10. The Fund Group has one cash generating unit which is mobile platform operations. The Fund Group performs impairment test annually by comparing the recoverable amount to the carrying amount.

The recoverable amount of the CGU is determined based on value-in-use calculations by using the discounted cash flow method. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 2.5% for the period. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 18% for the period.

The Fund Group did not record impairment charges of goodwill for the period. Reasonable possible changes in key assumptions would not lead to impairment of the goodwill as at 31 December 2022.

10 BUSINESS COMBINATION

On 12 August 2022, the Fund acquired 64.7% voting interests in Multelements Limited. Details of the transactions were described in Note 1.

Included in the identifiable assets and liabilities acquired at the date of acquisition of BlueCity are inputs (network equipment, the website, user base, brand name, technologies and ICP licenses), production processes and an organised workforce. The Group has concluded that the acquired set is a business.

For the period from acquisition date to 31 December 2022, Multelements Limited, through its investment in BlueCity, contributed revenue of RMB403,694,000 and profit of RMB46,477,000 to the Fund Group's results. If the acquisition had occurred on 20 January 2022, the inception date of the Fund, management estimates that consolidated revenue would have been RMB953,596,000, and consolidated loss for the period would have been RMB58,745,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition have occurred on 20 January 2022.

(a) Identifiable assets acquired and liabilities assumed

The identifiable assets acquired and liabilities assumed in the business combination were recorded at their fair values on the acquisition date. The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	Note	*RMB'000*
Cash and cash equivalents		369,168
Accounts receivable		16,839
Prepayments, deposits and other receivables		97,016
Inventories		10,082
Property and equipment	*7*	15,804
Intangible assets	*8*	107,715
Other non-current assets		1,198
Accounts payable		(46,505)
Current taxation		(5,848)
Lease liabilities		(5,969)
Contract liabilities		(49,097)
Accrued expenses and other payables		(152,370)
Deferred tax liabilities	*6(c)*	(25,839)
Lease liabilities-non current		(1,807)
Other non-current liabilities		(1,950)
Total identifiable net assets acquired		328,437

(b) Measurement of fair values

Assets acquired	**Valuation technique**
Intangible assets	Discounted cash flows: The valuation model considers the present value of net cash flows expected to be generated by the customer relationships/user base and by using the related technologies, discounted using a risk-adjusted discount rate.

(c) Goodwill

	RMB'000
Consideration transferred	258,873
Non-controlling interest, based on their proportionate interest in the recognised amounts of the assets and liabilities	115,840
Fair value of identifiable net assets	(328,437)
Goodwill	46,276

The goodwill is attributable mainly to technical talent of the acquirees and the synergies expected to be achieved.

(d) Net cash inflow from acquisition of a subsidiary

	For the period from 20 January 2022 to 31 December 2022
	RMB'000
Purchase consideration settled in cash	(258,873)
Less: cash and cash equivalents in the subsidiary acquired	369,168
Net cash inflow from acquisition of the subsidiary, net of cash acquired	**110,295**

11 ACQUISITION OF NCI

On 1 November 2022, the Fund acquired an additional 14.2% voting interests in Multelements Limited from a non-controlling equity holder, with the cash consideration in an amount of US$42,978,000 (equivalent to RMB308,441,000). The carrying amount of NCI acquired was RMB50,567,000. Thus a decrease in net assets attributable to the Partners of the Fund were RMB257,874,000.

12 INVENTORIES

	At 31 December 2022
	RMB'000
Merchandise	11,567

13 ACCOUNTS RECEIVABLE

	At 31 December 2022
	RMB'000
Accounts receivable	23,207
Less: loss allowance *(Note 21(a))*	(173)
	23,034

All of the accounts receivable are expected to be recovered within one year.

(a) Aging analysis

As at 31 December 2022, the aging analysis of accounts receivable, based on the invoice date and net of loss allowance, of the Fund Group are as follows:

	At 31 December 2022
	RMB'000
Within 6 month	21,754
6 to 12 months	499
1 year to 2 years	781
	23,034

Further details on the Fund Group's credit policy and credit risk are set out in Note 21(a).

14 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December 2022 *RMB'000*
Receivable from third party payment platform	32,905
Prepaid expenses	7,641
Deferred payment platforms commission fee	4,329
Deposits	3,957
Deductible input VAT	225
Others	14,032
	63,089

Others mainly include advances to suppliers and employees and other receivables.

All of the prepayments, deposits and other receivables are expected to be recovered or recognised as expenses within one year.

15 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	At 31 December 2022 *RMB'000*
Cash at bank and on hand	134,061
Cash equivalents	9,489
	143,550

(b) Reconciliation of profit before taxation to cash used in operations

	For the period from 20 January 2022 to 31 December 2022 *RMB'000*
Profit before income tax	44,762
Adjustments for:	
Impairment losses on financial assets	58
Finance income	(219)
Finance cost	245
Depreciation and amortization	15,259
Loss on disposal of long-term assets	89
Changes in working capital:	
Increase in accounts receivable	(6,213)
Increase in inventories	(1,485)
Decrease in prepayments, deposits and other receivables	34,148
Decrease in other non-current assets	1,148
Decrease in accounts payable	(8,369)
Decrease in contract liabilities	(13,536)
Decrease in accrued expenses and other payables	(75,141)
Decrease in other non-current liabilities	(250)
Cash used in operations	(9,504)

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Fund Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Fund Group's consolidated cash flow statement as cash flows from financing activities.

	Lease liabilities
	RMB'000
At 20 January 2022	
Changes from financing cash flows:	
Capital element of lease rentals paid	(3,796)
Interest element of lease rentals paid	(245)
Total changes from financing cash flows	(4,041)
Other changes:	
Acquisition through a business combination	7,776
Interest expenses	245
Total other changes	8,021
At 31 December 2022	3,980

(d) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

	For the period from 20 January 2022 to 31 December 2022
	RMB'000
Within operating cash flows	743
Within financing cash flows	4,041
Total lease rentals paid	4,784

16 ACCOUNTS PAYABLE

As at 31 December 2022, the ageing analysis of account payable based on the invoice date, is as follows:

	At 31 December 2022
	RMB'000
Within 3 months	7,558
3 months to 6 months	15,168
6 months to 12 months	12,156
1 year to 2 years	3,993
Total	38,875

17 ACCRUED EXPENSES AND OTHER PAYABLES

	At 31 December 2022 *RMB'000*
Consideration due to a non-controlling equity holder	57,458
Accrued payroll and welfare	23,740
Other tax payable	17,445
Technology supporting fee payables	12,555
Advertising and marketing fees payable	6,568
Professional fee payable	5,272
Payable to advertising agencies	2,115
Management fee due to the general partner	1,268
Others	9,846
Total	136,267

All of the other payables and accrued expenses are expected to be settled within one year or are repayable on demand.

18 LEASE LIABILITIES

At the 31 December 2022, the lease liabilities were repayable as follows:

	At 31 December 2022 *RMB'000*
Within 1 year	3,314
After 1 year but within 2 years	666
Lease liabilities	3,980

19 CONTRACT LIABILITIES

	At 31 December 2022 *RMB'000*
Contract liabilities	35,608

The Fund Group normally requires its customers to prepay consideration before the promised services rendered. The balance as at 31 December 2022 are expected to be recognised as revenue within one year.

20 NET ASSETS ATTRIBUTABLE TO PARTNERS OF THE FUND

According to Agreement, 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 amounts and order of priority as defined in the Agreement.

As at 31 December 2022, the investment in BlueCity Holdings Limited through Multelements Limited is the only portfolio of the Fund.

(a) Contribution

The following table presents the changes in the contribution as of 31 December 2022:

	At 31 December 2022	
	Limited Partners	General Partner
	US$'000	*US$'000*
Contributed by partners	50,000	–
Committed by partners	99,900	100
Percentage of contribution contributed over total committed by partners	50%	0%

(b) Other reserve

Other reserve comprises:

– all foreign exchange differences arising from the translation of the financial statements of foreign operations of the Fund and certain subsidiaries within the Fund Group. The reserve is dealt with in accordance with the accounting policy set out in Note 2(s).

– Difference between the consideration for an non-controlling interest transaction and the carrying amount of the non-controlling interest.

(c) Dividend

On 18 August 2022, BlueCity Holdings Limited, declared to pay a dividend on its shares in favor of its sole shareholder, Multelements Limited, in an aggregate amount of US$35,000,000 (equivalent to RMB245,084,000). On the same date, Multelements Limited, declared to pay the dividend in fair of its shareholders on a pro rata basis based on the number of shares held by each such shareholder in an aggregate amount of US$35,000,000 (equivalent to RMB245,084,000), of which a portion in an amount of USD7,398,000 (equivalent to RMB51,806,000) was paid to non-controlling interests.

The resolutions were approved by the directors of BlueCity Holdings Limited and Multelements Limited, respectively.

21 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Fund Group's business.

The Fund Group's exposure to these risks mainly arising from its subsidiaries and the financial risk management policies and practices used by the Fund Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Fund Group. The Fund Group's credit risk is primarily attributable to accounts receivable. The Fund Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with good credit standing, for which the Fund Group considers to have low credit risk. Other receivables mainly included receivable from third-party payment platforms, which represented amounts due from reputable online payment platforms. Based on the historical settlement records and the cooperation history with the online payment platforms, the Fund Group considers its exposure to credit risk arising from receivable from third-party payment platforms is low.

The Fund Group has established a credit risk management policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. These take into account the customer's past payment history, financial position and other factors. Accounts receivable are generally due within 30 to 180 days from the date of billing. Normally, the Fund Group does not obtain collateral from customers.

The Fund Group measures loss allowances for accounts receivable at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Fund Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on the aging is not further distinguished between the Fund Group's different customer bases.

The following table provides information about the Fund Group's exposure to credit risk and ECLs for accounts receivable:

	At 31 December 2022		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Within 6 months	0.55%	21,874	(120)
6 months to 12 months	1.35%	506	(7)
1 year to 2 years	5.55%	827	(46)
Total		23,207	(173)

Expected loss rates are based on actual loss experience over the past 12 months. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Fund Group's view of economic conditions over the expected lives of the receivables.

(b) Liquidity risk

The Fund Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash and cash equivalents and retains adequate financing arrangements with investors to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of each reporting year of the Fund Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of each reporting year) and the earliest date the Fund Group can be required to pay:

	Contractual undiscounted cash outflow At 31 December 2022				
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**Total**	**Carrying amount**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Accounts payable	38,875	–	–	38,875	38,875
Accrued expenses and other payables (excluding salary and welfare payables and other taxes payable)	95,082	–	–	95,082	95,082
Lease liabilities	3,507	481	246	4,234	3,980
	137,464	481	246	138,191	137,937

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund Group is primarily exposed to fair value interest rate risk in relation to lease liabilities. The Fund Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The general partner of the Fund consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant because the current market interest rates are relatively low and stable.

(d) Currency risk

Currency risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the Fund Group's functional currency. The Fund Group manages its currency risk by minimizing non-functional currency transactions, wherever possible.

The Fund Group operates mainly in the PRC with most of the transactions settled in RMB. Management considers that the business is not exposed to significant foreign exchange risk as there are no significant financial assets or liabilities of the Fund Group denominated in currencies other than the respective functional currencies of the Fund Group's subsidiaries and structured entities.

(e) Fair value measurement

(i) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Fund Group's financial instruments carried at cost were not materially different from their fair values as at 31 December 2022.

22 MATERIAL RELATED PARTY TRANSACTION

The General Partner will receive a Management Fee, out of the assets of the Fund, equivalent to one percent per annum of the aggregate amount of contributions made by each Limited Partner in respect of Portfolio Investments, less the contributions made by each Limited Partner in respect of Portfolio Investments that have been realised, disposed of or written off as at the relevant date.

	At 31 December 2022 Amount owed by the Fund to a related party *RMB'000*
Management fee due to the general partner *(i)*	1,268

Note:

(i) The outstanding balance represents the management fee due to the general partner which included in accrued expenses and other current liabilities. The general partner will receive a management fee, out of the assets of the Fund, equivalent to one percent per annum of the aggregate amount of contributions made by each Limited Partner in respect of Portfolio Investments, less the contributions made by each Limited Partner in respect of Portfolio Investments that have been realised, disposed of or written off as at the relevant date. The management fee will be payable to the general partner in US Dollars annually in arrears on each 31 December, and any payment for a period of less than one year shall be adjusted on a pro rata basis according to the actual number of days during the period.

23 SUBSEQUENT EVENTS

Subsequent to the end of the reporting period, the Fund and the general partner and limited partners of the Fund entered into the First Deed of Amendment. Pursuant to the First Deed of Amendment, the aggregate Commitments to the Fund and capital commitments to any of the parallel funds (if any) of Chizicheng Strategy Investment, as the General Partner, shall as of the Final Closing equal to US$1.00, whereas the Commitment of Spriver, as the Limited Partner, shall be reduced from US$49,900,000 to US$3,800,000 from the date of the First Deed of Amendment, and the Commitment of Newborn Town Inc., as the Limited Partner, shall remain the same, representing 7.06% and 92.94% interest, respectively, in the Fund.

At the same date, the general partner and all of the limited partners of the Fund agreed that the termination term of the Partnership Agreement amended as the determination by the General Partner in its sole discretion at any time that such dissolution and termination would be in the best interests of the Limited Partners instead of the expiry of the term of the Partnership, being the 10th 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.

24 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIOD

Up to the date of issue of this report, the IASB has issued a number of amendments, and a new standard which are not yet effective for the Relevant Period and which have not been adopted in the Historical Financial Information as follows:

	Effective for accounting year beginning on or after
IFRS 17, *Insurance contracts and related amendments*	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2, *Disclosure of Accounting Policies*	1 January 2023
Amendments to IAS 8, *Definition of Accounting Estimates*	1 January 2023
Amendments to IAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023
Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2024
Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	To be determined

The Fund Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far, the Fund Group has concluded that the adoption of them is unlikely to have a significant impact on the Fund Group's results of operations and financial position.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Fund Group or any of its subsidiaries in respect of any period subsequent to 31 December 2022.

The following is the text of a report set out on pages 155 to 157, received from the Target Business Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF BLUECITY HOLDINGS LIMITED TO THE DIRECTORS OF NEWBORN TOWN INC.

Introduction

We report on the historical financial information of BlueCity Holdings Limited (the "Target Business Company") and its subsidiaries (together, the "Target Business Group") set out on pages 158 to 206, which comprises the consolidated balance sheet of the Target Business Group as at 31 December 2020, 2021 and 2022, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows, for each of the years ended 31 December 2020, 2021 and 2022 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages 158 to 206 forms an integral part of this report, which has been prepared for inclusion in the circular of Newborn Town Inc. (the "Company") dated 30 June 2023 (the "Circular") in connection with the proposed purchase of 100% issued share capital of Chizicheng Strategy Investment (the "Target Company").

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

The Underlying Financial Statements of the Target Business Group as defined on page 158, on which the Historical Financial Information is based, were prepared by the directors of the Target Business Company. The directors of the Target Business Company are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB"), and for such internal control as the directors of the Target Business Company determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Target Business Group's financial position as at 31 December 2020, 2021 and 2022, and of the Target Business Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page 158 have been made.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 June 2023

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Target Business Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the "Underlying Financial Statements").

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Expressed in Renminbi ("RMB"))

	Note	Year ended 31 December 2020 *RMB'000*	2021 *RMB'000*	2022 *RMB'000*
Revenue	*4*	1,031,323	1,076,591	921,151
Cost of revenues		(713,683)	(728,638)	(576,304)
Gross profit		**317,640**	**347,953**	**344,847**
Other income/(loss), net	*5*	4,637	(3,549)	21,937
Selling and marketing expenses		(181,664)	(219,856)	(101,156)
Technology and development expenses		(143,142)	(223,197)	(164,554)
General and administrative expenses		(183,145)	(104,166)	(136,635)
Impairment loss on financial assets		(328)	(77)	(321)
Impairment loss on non-financial assets		–	(109,864)	–
Loss from operations	*6*	**(186,002)**	**(312,756)**	**(35,882)**
Finance income	*6(a)*	6,519	1,890	1,799
Finance cost	*6(a)*	(1,450)	(1,532)	(923)
Changes of the carrying amount of Preferred Shares	*20*	244,081	–	–
Profit/(loss) before taxation		**63,148**	**(312,398)**	**(35,006)**
Income tax (expenses)/benefits	*7*	(830)	(547)	973
Profit/(loss) for the year attributable to equity holders of Target Business Company		**62,318**	**(312,945)**	**(34,033)**
Other comprehensive income for the year (after tax and reclassification adjustments)				
Item that may be reclassified subsequently to profit or loss:				
– Debt investments at FVOCI – net movement in fair value		1,456	–	–
– Debt investments at FVOCI – reclassified to profit or loss		(4,863)	–	–
– Exchange differences on translation of financial statements of foreign operations		(63,006)	(17,599)	24,259
Other comprehensive income for the year		**(66,413)**	**(17,599)**	**24,259**
Total comprehensive income for the year attributable to equity holders of the Target Business Company		**(4,095)**	**(330,544)**	**(9,774)**

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED BALANCE SHEETS
(Expressed in RMB)

	Note	At 31 December 2020 *RMB'000*	2021 *RMB'000*	2022 *RMB'000*
Non-current assets				
Property and equipment	*8*	31,464	27,868	8,531
Intangible assets	*9*	52,289	44,003	36,608
Goodwill	*10*	196,003	81,752	81,752
Other non-current assets		2,475	3,179	50
Total non-current assets		**282,231**	**156,802**	**126,941**
Current assets				
Inventories	*12*	6,853	7,402	11,567
Accounts receivable	*13*	5,523	12,807	23,034
Prepayments, deposits and other receivables	*14*	46,935	87,872	40,129
Amounts due from related parties	*24(b)*	–	–	72,209
Term deposits	*15(a)*	172,257	–	–
Cash and cash equivalents	*15(a)*	449,489	360,832	117,385
Total current assets		**681,057**	**468,913**	**264,324**
Total assets		**963,288**	**625,715**	**391,265**
Current liabilities				
Accounts payables	*16*	20,373	28,507	38,853
Accrued expenses and other payables	*17*	118,958	82,963	69,820
Amounts due to related parties	*24(b)*	–	–	49,023
Lease liabilities	*18*	9,692	11,175	3,314
Contract liabilities	*19*	35,226	35,796	34,061
Current taxation		2,123	5,047	3,764
Total current liabilities		**186,372**	**163,488**	**198,835**
Net current assets		**494,685**	**305,425**	**65,489**
Total assets less current liabilities		**776,916**	**462,227**	**192,430**
Non-current liabilities				
Lease liabilities	*18*	9,101	3,979	666
Deferred tax liabilities	*7(c)*	12,199	9,758	8,215
Other non-current liabilities		–	2,300	1,700
Total non-current liabilities		**21,300**	**16,037**	**10,581**
Capital and reserves				
Share capital	*22*	12	13	–*
Reserves	*22*	755,604	446,177	181,849
Total equity attributable to equity shareholders of the Target Business Company		**755,616**	**446,190**	**181,849**
Total liabilities and equity		**963,288**	**625,715**	**391,265**

* amount of less than RMB500.

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in RMB)

	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated loss RMB'000	Total equity RMB'000
Balance at 1 January 2020		3	–	19,568	(1,404,417)	(1,384,846)
Changes in equity for 2020:						
Profit for the year		–	–	–	62,318	62,318
Other comprehensive loss for the year		–	–	(66,413)	–	(66,413)
Total comprehensive income		–	–	(66,413)	62,318	(4,095)
Shares issued upon initial public offering ("IPO"), net of issuance cost		2	501,225	–	–	501,227
Conversion of preferred shares to ordinary shares	*20*	7	1,500,742	–	–	1,500,749
Equity-settled share-based transaction	*21*	–	–	142,581	–	142,581
Balance at 31 December 2020 and 1 January 2021		**12**	**2,001,967**	**95,736**	**(1,342,099)**	**755,616**
Changes in equity for 2021:						
Loss for the year		–	–	–	(312,945)	(312,945)
Other comprehensive loss for the year		–	–	(17,599)	–	(17,599)
Total comprehensive income		–	–	(17,599)	(312,945)	(330,544)
Share options exercised		1	63	–	–	64
Equity-settled share-based transaction	*21*	–	–	21,054	–	21,054
Balance at 31 December 2021 and 1 January 2022		**13**	**2,002,030**	**99,191**	**(1,655,044)**	**446,190**
Changes in equity for 2022:						
Loss for the year		–	–	–	(34,033)	(34,033)
Other comprehensive income for the year		–	–	24,259	–	24,259
Total comprehensive income		–	–	24,259	(34,033)	(9,774)
Equity-settled share-based transaction	*21*	–	–	19,264	–	19,264
Modification of share-based transaction		–	–	(22,534)	–	(22,534)
Settlement with dissenting shareholders in Privatization		(1)	(6,212)	–	–	(6,213)
Dividends distribution	*22(d)*	–	(245,084)	–	–	(245,084)
Cancellation of shares		(12)	12	–	–	–
Balance at 31 December 2022		**–***	**1,750,746**	**120,180**	**(1,689,077)**	**181,849**

* amount of less than RMB500.

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in RMB)

	Note	Year ended 31 December 2020 RMB'000	2021 RMB'000	2022 RMB'000
Operating activities				
Cash generated from operations	*15(b)*	(24,809)	(197,451)	(25,202)
Income tax paid		–	–	(2,221)
Net cash used in operating activities		(24,809)	(197,451)	(27,423)
Investing activities				
Payments for purchase of property and equipment		(6,323)	(5,013)	(468)
Payments for purchase of intangible assets		(1,148)	(1,950)	(1,124)
Proceeds from disposal of property and equipment		100	127	210
Purchase of term deposits		(841,183)	–	–
Proceeds from maturity of term deposits		741,125	170,858	–
Payments for asset acquisitions		(3,250)	(2,550)	–
Acquisition of a subsidiary, net of cash acquired	*11*	(203,082)	(24,492)	–
Issuance of interest free loans to employee		–	(1,600)	–
Disposal of a subsidiary, net of cash received	*15(e)*	–	(4,985)	(9,349)
Proceeds from disposal of financial instrument		25,023	–	–
Net cash (used in)/generated from investing activities		(288,738)	130,396	(10,731)
Financing activities				
Proceeds from shares issued upon IPO		548,766	–	–
Payments for IPO costs	*15(c)*	(45,286)	–	–
Proceeds from exercise of share options		–	64	–
Payments made on behalf of Mr. Ma Baoli	*24(b)*	(4,723)	–	–
Proceeds from repayment made by Mr. Ma Baoli	*24(b)*	4,723	–	–
Payments to dissenting shareholders in Privatisation		–	–	(6,213)
Dividends paid		–	–	(214,091)
Capital element of lease rentals paid	*15(c)*	(11,302)	(12,311)	(11,185)
Interest element of lease rentals paid	*15(c)*	(1,095)	(133)	(912)
Net cash generated from/(used in) financing activities		491,083	(12,380)	(232,401)
Net increase/(decrease) in cash and cash equivalents		177,536	(79,435)	(270,555)
Cash and cash equivalents at the beginning of the year		302,734	449,489	360,832
Effect of foreign currency exchange rate changes		(30,781)	(9,222)	27,108
Cash and cash equivalents at the end of the year		449,489	360,832	117,385

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in RMB)

1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION AND BACKGROUND INFORMATION

(a) Basis of preparation and presentation of Historical Financial Information

BlueCity Holdings Limited ("the Target Business Company", "BlueCity") was incorporated in the Cayman Islands in December 2013, as an exempted company with limited liability under the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

BlueCity Holdings Limited is an investment holding company. The Target Business Company, its subsidiaries, consolidated variable interest entity ("VIE") and VIE's subsidiaries (collectively, the "Target Business Group") are principally engaged in the operation of mobile-based social and entertainment services which includes live streaming, advertising, membership, merchandise sales and other services. The Target Business Company is a wholly-owned subsidiary of Multelements Limited, a Cayman Island company owned by Metaclass Management ELP.

To comply with the relevant PRC laws and regulations, the Target Business Group conducts its foreign investment-restricted business in PRC primarily through Beijing BlueCity Culture and Media Co., Ltd. ("BlueCity Culture and Media") based on a series of contractual arrangements, including Powers of Attorney, Exclusive Consulting and Service Agreement, Equity Interest Pledge Agreement and Exclusive Option Agreement (the "Contractual Arrangements") by and among Beijing BlueCity Information & Technology Co., Ltd. ("BlueCity Information Technology"), BlueCity Culture and Media and its nominee equity holders. Details of the Contractual Arrangements are set out in the section headed "Contractual Arrangements" in the circular.

The directors of the Target Business Company, based on the advice from its legal counsel, consider that the Contractual Arrangements among BlueCity Information Technology, BlueCity Culture and Media and its nominee equity holders are in compliance with the relevant PRC laws and regulations currently in effect and are legally binding and enforceable. The Contractual Arrangements enable the Target Business Group to exercise power over BlueCity Culture and Media, receive variable returns from its involvement in BlueCity Culture and Media and have the ability to affect those returns through its power over BlueCity Culture and Media. Therefore, the Target Business Group controls BlueCity Culture and Media and regards BlueCity Culture and Media and its subsidiaries as controlled structured entities.

The Historical Financial Information has been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (the "IASB"). Further details of the significant accounting policies adopted are set out in Note 2.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Historical Financial Information, the Target Business Group has adopted all applicable new and revised IFRSs throughout the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period beginning on 1 January 2022. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning on 1 January 2022 are set out in Note 26.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

As at the date of this report, the Target Business Company has direct or indirect interests in the following subsidiaries, all of which are private companies.

Company Name	Place of incorporation and business and date of incorporation/ establishment	Particulars of issued shares or paid-up capital	Proportion of ownership interest Held by the Target Business Company	Held by the subsidiaries	Principal activities
Directly held					
BlueCity Holdings Hong Kong Limited	Hong Kong 13 March 2014	Number of shares: 10,000	100%	–	Carrying out overseas operations
BlueCity Holdings Global Limited	Hong Kong 14 August 2017	Number of share: 1	100%	–	Investment holdings
Bluebaby Global Limited	Hong Kong 3 December 2018	Number of share: 1	100%	–	carrying out consulting for assisted reproductive services
Indirectly held					
Beijing BlueCity Information & Technology Co., Ltd. (北京藍城兄弟信息技術有限公司) (i) (iii)	PRC 19 August 2014	Issued and paid-up: USD61,680,000	–	100%	Application development and technology supporting
Blue Baby, LLC (iv)	United States 22 May 2017	Issued: USD10,000 Paid-up: nil	–	100%	Carrying out consulting for assisted reproductive services
BlueCity Vietnam Company Limited (iv)	Vietnam 26 July 2019	Issued and paid-up: VND 690,000,000	–	100%	Carrying out supporting operations of overseas live streaming service in Vietnam
Structured entities (ii)					
Beijing BlueCity Culture and Media Co., Ltd. (北京藍城兄弟文化傳媒有限公司) (i) (iii)	PRC 7 September 2011	Issued and paid-up: RMB3,035,294	–	100%	Carrying out live streaming, advertising business, etc.
Guangzhou Yingyou Tianxia Network Technology Co., Ltd. (廣州影遊天下網絡科技有限公司) (i) (iii)	PRC 22 December 2017	Issued: RMB1,000,000 paid-up: nil	–	100%	Carrying out live streaming, advertising business, etc.
City of Glory Chengdu Information Technology Co., Ltd. (榮耀之城成都信息技術有限公司) (i)(iii)	PRC 6 September 2019	Issued and paid-up: RMB1,000,000	–	100%	Providing IT support to the Target Business Group
Beijing Asphere Interactive Network Technology Co.,Ltd. (北京猩球互動網絡科技有限公司) (i) (iii)	PRC 24 October 2019	Issued: RMB10,000,000 paid-up: nil	–	100%	Carrying out live streaming, advertising business, etc.

Company Name	Place of incorporation and business and date of incorporation/ establishment	Particulars of issued shares or paid-up capital	Proportion of ownership interest Held by the Target Business Company	Held by the subsidiaries	Principal activities
Danlan (Beijing) Media Co., Ltd. (淡藍(北京)傳媒有限公司) (i) (iii)	PRC 17 May 2016	Issued: RMB1,000,000 paid-up: nil	–	100%	Carrying out consulting business for health organization
Beijing BlueCity Youning Health Management Co., Ltd. (北京藍城佑寧健康管理有限公司) (i) (iii)	PRC 1 November 2018	Issued and paid-up: RMB3,000,000	–	100%	Carrying out online out-patient service
Shandong Youping Pharmacy Chain Co., Ltd. (山東佑平大藥房連鎖有限公司) (i) (iii)	PRC 15 November 2019	Issued: RMB3,500,000 Paid-up: RMB3,000,000	–	100%	Carrying out online out-patient service
Chongqing Changyuan Pharmaceutical Co., Ltd. (重慶長遠醫藥有限公司) (i) (iii)	PRC 22 June 2020	Issued: RMB10,000,000 Paid-up: RMB4,729,000	–	100%	Carrying out pharmaceuticals wholesale service
Shandong Heer Internet Hospital Co., Ltd. (山東荷爾互聯網醫院有限公司) (i) (iv)	PRC 30 October 2020	Issued: RMB3,000,000 paid-up: nil	–	100%	No main operation now
Beijing Youji Technology and Culture Co., Ltd. (北京有姬科技文化有限公司) (i)(iii)	PRC 9 April 2021	Issued and paid-up: RMB1,000,000	–	100%	No main operation now
Beijing Aiyou Jiuyou Network Technology Co., Ltd. (北京愛友就有網絡科技有限公司) (i) (iii)	PRC 6 May 2021	Issued: RMB1,000,000 Paid-up: RMB500,000	–	100%	No main operation now

Notes:

(i) The official names of these entities are in Chinese. The English translation of the names is for identification purpose only.

(ii) The Target Business Company does not have direct or indirect legal ownership in equity of the structured entities. Nevertheless, under the Contractual Arrangements entered into with the structured entities and their shareholders, the Target Business Company and its other legally owned subsidiaries have rights to exercise power over the structured entities, receive variable returns from their involvement in the structured entities, and have the ability to affect those returns through their power over these structured entities. As a result, these entities are presented as consolidated entities of the Target Business Group.

(iii) The statutory financial statements of these PRC entities for each of the year ended 31 December 2020 and 2021 were audited by Beijing Dongshendingli International Certified Public Accountants Co. Ltd. (北京東審鼎立國際會計師事務所有限責任公司). As of the date of this Historical Financial Information, the audited statutory financial statements of these PRC entities for the year ended 31 December 2022 have not been issued yet.

(iv) No audited statutory financial statements were issued for these entities for the Relevant Periods.

All companies comprising the Target Business Group have adopted 31 December as their financial year end date.

(b) Background information

Going-private transaction of BlueCity Holdings Limited

The Target Business Company had been a public company, which was listed on the Nasdaq in United States on 7 July 2020. On 2 January 2022, the Target Business Company received a Preliminary Non-Binding Proposal, and subsequently on 18 April 2022, an Updated Preliminary Non-binding Proposal, from Mr. Ma Baoli, the founder of the Target Business Company, and Metaclass Management ELP (the "Fund") (collectively referred as the "Initial Buyer Group"), with respect to the proposed going-private transaction wherein the Initial Buyer Group proposes to acquire all of the outstanding ordinary shares of the Target Business Company that are not already beneficially owned by the Initial Buyer Group in a going private transaction. An institute investor was admitted to the Buyer Group later and they are collectively referred as "Buyer Group".

On 30 April 2022, the Target Business Company announced the Agreement and Plan of Merger (the "Merger Agreement) signed by the Target Business Company, Metaclass, Diversefuture Limited (the "Merger Sub"), a wholly-owned subsidiary of Multelements Limited. Pursuant to the Merger Agreement, the Merger Sub will be merged with and into BlueCity (the "Merger"), each share issued and outstanding immediately prior to the effective time of the merger will be cancelled and cease to exist in exchange for the right to receive US$3.2 in cash without interest, and each outstanding American depositary share of the Target Business Company (each two of which representing one Class A ordinary share of the Target Business Company) will be cancelled in exchange for the right to receive US$1.60, except for certain rolled over shares and the dissenting shares in the transaction.

The Merger agreement was approved by an extraordinary general meeting of the Target Business Company's shareholders on 29 July 2022. On 12 August 2022, the Target Business Company announced the completion of the Merger. As a result of the Merger, the Target Business Company became a wholly owned subsidiary of Multelements Limited and ceased to be a publicly traded company.

Reorganisation of offshore business

In order to facilitate the offshore business, Metaclass Management ELP effected a reorganisation after the privatization. After the reorganisation, Land of Glory Ltd. became a direct subsidiary of the Fund from an indirect subsidiary controlled by BlueCity before the reorganisation. Several subsidiaries which were controlled by BlueCity before the reorganisation became subsidiaries of Land of Glory Ltd. after the reorganisation. The offshore business that were historically owned and operated by Target Business Company, through its operating and holding entities, were then transferred to Land of Glory Ltd.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of measurement

The Historical Financial Information is presented in RMB and rounds to the nearest thousand.

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis except those financial assets at FVTPL is stated at its fair value as explained in the accounting policies.

The Target Business Company and subsidiaries of the Target Business Company incorporated in Hong Kong S.A.R. and the other overseas countries have its functional currency in local currency. Subsidiaries of the Target Business Company incorporated in PRC considered Renminbi ("RMB") as their functional currency. As the operations of the Target Business Group are mainly within the PRC, the Target Business Group determined to present this Historical Financial Information in RMB, unless otherwise stated.

(b) Use of estimates and judgments

The preparation of Historical Financial Information in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Basis of consolidation

The Historical Financial Information includes the financial statements of the Target Business Company and its subsidiaries for the Relevant Periods. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Target Business Company. Control is achieved when the Target Business Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Target Business Group the current ability to direct the relevant activities of the investee).

When the Target Business Group has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Target Business Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(i) The contractual arrangement with the other vote holders of the investee;

(ii) Rights arising from other contractual arrangements; and

(iii) The Target Business Group's voting rights and potential voting rights.

The results of subsidiaries are consolidated from the date on which the Target Business Group obtains control, and continues to be consolidated until the date that such control ceases. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Target Business Group are eliminated in full on consolidation. Unrealised losses resulting from intra-group transactions are eliminated in the same way as Unrealised gains but only to the extent that there is no evidence of impairment.

The Target Business Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Target Business Group loses control over a subsidiary, it derecognises (i) the assets and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest in the subsidiary and (iii) the cumulative translation differences in relation to the subsidiary recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Target Business Group's share of components previously recognised in other comprehensive income in relation to the subsidiary is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Target Business Group had directly disposed of the related assets or liabilities.

(d) Business combinations

The Target Business Group accounts for business combinations using the acquisition method when control is transferred to the Target Business Group (see Note 2(c)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see Note 2(e)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(e) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Target Business Group's previously held equity interests in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses (see Note 2(j)(ii)). Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(j)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in debt and equity securities

The Target Business Group's policies for investments in debt and equity securities, other than investments in subsidiaries, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Target Business Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVTPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Target Business Group determines fair value of financial instruments, see Note 23(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

Non-equity investments held by the Target Business Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (See Note 2(s)(ii)).

- fair value through other comprehensive income ("FVOCI")-recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

- fair value through profit or loss ("FVTPL") if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(ii) Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Target Business Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVOCI, are recognised in profit or loss as other income.

(g) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(j)(ii)).

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

• Motor vehicles, office and electronic equipment	3 years
• Leasehold improvements	Shorter of 3 years or lease term
• Right-of- use assets	Over the term of lease

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Target Business Group has sufficient resources and the intention to complete development. Other development expenditure is recognised as an expense in the period in which it is incurred.

Intangible assets that are acquired by the Target Business Group are stated at cost less accumulated amortization (where the estimated useful life is finite) and impairment losses (see Note 2(j)(ii)). Intangible assets acquired through business acquisitions are recognised as assets separate from goodwill if they are capable of being separated or arise from contractual or other legal rights.

Amortization of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

• Licenses	5 years
• User bases	3-4 years
• Brand names	10 years
• Technologies	3 years
• Software	3 years

Both the period and method of amortization are reviewed annually.

(i) Leased assets

At inception of a contract, the Target Business Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

At the lease commencement date, the Target Business Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Target Business Group enters into a lease in respect of a low-value asset, the Target Business Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(g) and 2(j)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Target Business Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Target Business Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of IFRS 16 Leases. In such cases, the Target Business Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

(j) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Target Business Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents, term deposit, accounts receivable and other receivables).

Other financial assets measured at fair value are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Target Business Group in accordance with the contract and the cash flows that the Target Business Group expects to receive).

The expected cash shortfalls of term deposit, accounts receivable and other receivables are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Target Business Group is exposed to credit risk.

In measuring ECLs, the Target Business Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for accounts receivable are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Target Business Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Target Business Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Target Business Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Target Business Group considers that a default event occurs when the financial assets is 90 days past due. The Target Business Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Target Business Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Target Business Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(s)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Target Business Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Target Business Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property and equipment including right-of-use assets;
- intangible assets; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(k) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Target Business Group recognises the related revenue (see Note 2(s)). A contract liability would also be recognised if the Target Business Group has an unconditional right to receive non-refundable consideration before the Target Business Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

(l) Accounts and other receivable

A receivable is recognised when the Target Business Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(j)(i)).

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and other financial institutions, and term deposits, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(j)(i).

(n) Inventories

Inventories are assets which are held for sale in the ordinary course of business. Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(o) Preferred shares

The Target Business Company issued several series of preferred shares to investors. The preferred shares holders have the right to require the Target Business Company to redeem some or all of the shares held by the holders upon certain redemption events, which are not all within the control of the Target Business Company.

The preferred shares are initially recognised as financial liabilities at the fair value and subsequently measured at fair value at each period end. The changes in the carrying amount of the preferred shares were recognised in profit or loss as "changes in the carrying amount of Preferred Shares".

(p) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

A share-based payment is classified as either an equity-settled share-based payment or a cash-settled share-based payment. The term "equity-settled share-based payment" refers to a transaction in which the Target Business Group grants share options, or other equity instruments as a consideration in return for services rendered or a transaction in which the Target Business Group receives services but has no obligation to settle the transaction.

The grant-date fair value of equity-settled share-based payments granted to employees is recognised as an employee cost with a corresponding increase in other reserve within equity. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the equity instruments, the total estimated fair value of the equity instruments is spread over the vesting period, taking into account the probability that the equity instruments will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the other reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of equity instruments that vest (with a corresponding adjustment to other reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Target Business Company's shares.

Modifications of an equity-settled share-based payment arrangement are accounted for only if they are beneficial to the employee. If the Target Business Group modifies the terms or conditions of the equity instruments granted in a manner that reduces the fair value of the equity instruments granted, or is not otherwise beneficial to the employee, the Target Business Group continues to recognise the services received measured at the grant date fair value of the equity instruments granted, unless those equity instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date.

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Target Business Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Target Business Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Target Business Company or the Target Business Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Target Business Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognised when the Target Business Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

(s) Revenue and other income

Income is classified by the Target Business Group as revenue when it arises from the provision of services in the ordinary course of the Target Business Group's business.

Further details of the Target Business Group's revenue and other income recognition policies are as follows:

(i) Revenue from contracts with customers

Revenue is recognised when control over a service is transferred to the customer, at the amount of promised consideration to which the Target Business Group is expected to be entitled, excluding those amounts collected on behalf of third parties such as value added tax or other sales taxes.

Live streaming service

The Target Business Group operates integrated platforms, Blued, Finka and LESDO, consisting of IT infrastructure, mobile applications and its proprietary algorithm, to offer live and interactive streaming services to individual viewers as its customers. The Target Business Group engages broadcasters to perform on the Target Business Group's platform, which through its proprietary algorithm, enables individual viewers to discover live streaming channels and broadcasters they may find interesting and provide more personal experience.

Individual viewer can purchase virtual gifts on the Target Business Group's platform, and simultaneously present to broadcasters during their live streaming performance to show their support for their favourite broadcasters. The Target Business Group has sole discretion in designing and establishing pricing of virtual gifts. Individual viewer purchases virtual gifts using the Target Business Group's virtual currency which is in turn acquired through online third-party payment platforms. Virtual currency is non-refundable and does not have expiration date. It is often consumed soon after it is purchased.

The Target Business Group considers live streaming service as one performance obligation to its customers. The consideration received from individual viewers varies at viewers' discretion, as they purchase and present variable quantity or value of virtual gifts to broadcasters during a performance. The recognition of such variable consideration is constrained until the amount is known, which is when an individual viewer purchases virtual gifts and simultaneously presents them to broadcasters during their live streaming performance. Accordingly, revenue is recognised when virtual gifts are consumed as they are presented to broadcasters. Unconsumed virtual currency is recorded as contract liabilities.

The Target Business Group evaluates and determines individual viewers as its customers and the Target Business Group is the principal in providing live streaming services to them, and hence reports live streaming revenues on a gross basis. Accordingly, the amounts billed to viewers are recorded as revenues and revenue sharing fee paid to broadcasters through talent agencies are recorded as cost of revenues. The Target Business Group controls the integrated live streaming services, which is evidenced by its contractual relationship with individual viewers and primary responsibility for fulfilling the promise to provide the live streaming services, including operating the self-developed live streaming platform and maintaining the operation of the platform, engaging broadcasters through talent agencies to perform on its platform, investing in and using its algorithm to optimise individual viewers' live streaming experience, enabling individual viewers to discover the broadcasters and shows they may be interested in, developing new features in the platform, promoting activities including the general promotion of the platform and the promotion of popular broadcasters and offering the virtual items to viewers to be purchased and used in the platform. Its control is also evidenced by its sole ability to monetise the live streaming services and the level of discretion in establishing pricing. The Target Business Group also has latitude in establishing the amount of compensation that broadcasters and talent agencies receive as a percentage of revenues generated from virtual gift sales. Such percentage is subject to the achievement of broadcasters and talent agencies on the Key Performance Indicators set by the Target Business Group.

Advertising

The Target Business Group offers marketing services on the Target Business Group's mobile app, primarily through banner advertisements. Marketing services allow customers to place advertisements on particular areas of the Target Business Group's mobile app, in particular formats and over particular periods of time. The marketing services typically last from several days to one year. The Target Business Group determines that the customer simultaneously receives and consumes benefits provided by the Target Business Group's performance as the Target Business Group performs during the term of the contract. Revenues from marketing services are recognised, net of sales incentives, if any, ratably over the service period.

The Target Business Group provides sales incentives in the forms of discounts and rebates to customers based on purchase volume. Sales incentives are estimated and recorded at the time of revenue recognition based on the contracted rebate rates and estimated sales volume based on historical experience.

Membership

Membership revenues include subscription-based membership services and Pay-Per-Use Services. Subscription-based membership services enable individual users to enjoy additional functions and privileges over a period of time ranging from one month to one year. Pay-Per-Use services enable individual users to better promote themselves and raise their profile through advanced enhancement functions on a pay per service basis. The Target Business Group collects non-refundable membership service fee in advance and records it as contract liabilities. Subscription-based membership revenue is recognised on a straight-line basis over the membership period. Pay-Per-Use revenue is recognised at the point in time when control of promised service is transferred to the users.

Merchandise sales

The Target Business Group generates revenues from merchandise sales to customers through the Target Business Group's own and third-parties' platforms. The Target Business Group controls the specified good before that good is transferred to a customer, which is evidenced by the primary responsibility for fulfilling the promise to provide the specified good, including responsible for the acceptability of the specified good; having inventory risk before the specified good has been transferred to a customer; and having discretion in establishing the price for the specified good. Accordingly, the Target Business Group concludes that it is principal in merchandise sales and reports revenue from merchandise sales on a gross basis. Revenues are measured as the amount of consideration the Target Business Group expects to receive in exchange for transferring the specified good to customers.

Others

Other revenue mainly consists of family planning service revenues, service fee from the provision of consulting service to healthcare and medical institutions and marketplace service revenues. Revenue is recognised when control of promised service is transferred to the customers in an amount of consideration to which the Target Business Group expects to be entitled to in exchange for those services.

(ii) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Target Business Group will comply with the conditions attaching to them. Grants that compensate the Target Business Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Target Business Group for the cost of an asset are included non-current liabilities as deferred income and are recognised in profit or loss over the useful life of the asset.

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Target Business Group initially recognises such non-monetary assets or liabilities.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in other reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Asset acquisition

Groups of assets acquired and liabilities assumed are assessed to determine if they are business or asset acquisitions. On an acquisition-by-acquisition basis, the Target Business Group chooses to apply a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

When a group of assets acquired and liabilities assumed do not constitute a business, the overall acquisition cost is allocated to the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. An exception is when the sum of the individual fair values of the identifiable assets and liabilities differs from the overall acquisition cost. In such case, any identifiable assets and liabilities that are initially measured at an amount other than cost in accordance with the Target Business group's policies are measured accordingly, and the residual acquisition cost is allocated to the remaining identifiable assets and liabilities based on their relative fair values at the date of acquisition.

(v) Related parties

(a) A person, or a close member of that person's family, is related to the Target Business Group if that person:

(i) has control or joint control over the Target Business Group;

(ii) has significant influence over the Target Business Group; or

(iii) is a member of the key management personnel of the Target Business Group or the Target Business Group's parent.

(b) An entity is related to the Target Business Group if any of the following conditions applies:

(i) The entity and the Target Business Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Business Group or an entity related to the Target Business Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Business Group or to the Target Business Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 ACCOUNTING JUDGMENT AND ESTIMATES

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Target Business Group makes estimates and assumptions concerning the future. The resulting accounting estimates may not be equal to the related actual results. Significant sources of estimation uncertainty are as follows:

(i) Current and deferred income tax

The Target Business Group is subject to income taxes in different areas. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed.

(ii) Business combinations

Business combinations except for business combination under common control are accounted for under acquisition method. The determination and allocation of fair values to the identifiable assets acquired and liabilities assumed are based on various assumptions and valuation methodologies requiring considerable management judgment. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. The Target Business Group determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected lives of assets, the forecasted life cycles and forecasted cash flows over that period. Although the Target Business Group believes that the assumptions applied in the determination are reasonable based on information available at the date of acquisition, actual results may differ from the forecasted amounts and the difference could be material.

(iii) Impairment of goodwill

The Target Business Group performs the impairment test for goodwill on an annual basis, by comparing the recoverable amount to the carrying amount. The recoverable amount is determined based on the value-in-use calculations by using the discounted cash flow method, which requires significant estimates and judgments relating to the growth rate and the discount rate. Additional information for the impairment assessment of goodwill is disclosed in Note 10.

4 REVENUE

The Target Business Group is principally engaged in providing live streaming, advertising, membership, merchandise sales and other services. Disaggregation of revenue from contracts with customers by major service lines is as follows:

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15			
Live streaming	868,946	820,826	607,562
Membership	71,227	128,809	173,068
Merchandise sales	28,674	64,209	87,709
Advertising	45,453	53,881	46,270
Others *(Note 1)*	17,023	8,866	6,542
Total revenues	**1,031,323**	**1,076,591**	**921,151**

Note 1: Other revenue mainly consists of family planning service revenues, service fee from the provision of consulting service to healthcare and medical institutions and marketplace service revenues.

The Target Business Group recognised live streaming revenue, pay-per-use service and merchandise sales at a point in time and recognised revenue from subscription-based membership, advertising and others over time.

The Target Business Group generally enters into service contracts with customers for a contract term less than one year. Therefore the Target Business Group has applied the practical expedient permitted under IFRS 15 not to disclose the transaction price allocated to the unsatisfied performance obligations.

The Target Business Group's customer base is diversified and none of the customers with whom transactions have exceeded 10% of the Target Business Group's revenues. The Target Business Group's revenue was primarily derived from the mainland of PRC.

5 OTHER INCOME/(LOSS), NET

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Government grants	4,413	7,533	3,061
Gain/(loss) on disposal of investment securities	4,863	(50)	–
(Loss)/gain on disposal of subsidiaries *(i)*	–	(917)	19,166
Net foreign exchange differences	(3,287)	(1,319)	1,417
Donation	(1,703)	(622)	(288)
Others	351	(8,174)	(1,419)
Total	**4,637**	**(3,549)**	**21,937**

(i) As described in Note 1, the Target Business Group disposed its subsidiaries which operate the Target Business Group's offshore business to the Fund. The difference between the net deficit of these subsidiaries and the consideration is recognised as a gain on disposal of subsidiaries in profit or loss.

6 PROFIT/(LOSS) BEFORE TAXATION

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

(a) Finance income, net

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Interest income	(6,519)	(1,890)	(1,799)
Interest on lease liabilities	1,450	1,532	923
	(5,069)	(358)	(876)

(b) Staff costs

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Contributions to defined contribution retirement plan	8,260	22,802	19,955
Share-based compensation expenses	142,581	21,054	19,264
Salaries, wages and other benefits	161,610	258,273	207,773
	312,451	302,129	246,992

The employees of subsidiaries of the Target Business Group established in the PRC (excluding Hong Kong) participate in defined contribution retirement schemes managed by the local government authorities, whereby the Target Business Group is required to contribute to the schemes based on certain percentages of the employees' salaries.

According to <The notification about progressively relief corporate social insurance> (Department of human resource and social security [2020]11) and <The notification about extension of implementation period for about progressively relief corporate social insurance> (Department of human resource and social security [2020]49), certain subsidiaries in the Target Business Group are entitled to relief of social insurance contribution from February 2020 to December 2020.

The Target Business Group has no further material obligation for payment of other retirement benefits beyond the above contributions. Contributions to the retirement plan vested immediately, there is no forfeited contributions that may be used by the Target Business Group to reduce the existing level of contribution.

(c) Other items

	Note	Year ended 31 December 2020 RMB'000	2021 RMB'000	2022 RMB'000
Revenue sharing fee paid to broadcasters		589,056	551,904	392,408
Advertising costs		80,712	110,979	25,960
Cost of merchandise		24,933	56,965	72,217
Commission fees paid to mobile application stores and third party payment platforms		49,785	61,205	56,629
Servers, bandwidth and cloud infrastructure costs		62,665	93,566	58,248
Professional fees		31,212	32,620	72,178
Depreciation and amortisation		16,713	26,901	25,364
– Property and equipment	*8*	14,740	17,282	16,845
– Intangible assets	*9*	1,973	9,619	8,519
Impairment losses on non-financial assets		–	109,864	–
– Goodwill	*10*	–	106,949	–
– Intangible assets	*9*	–	2,915	–
Auditor's remuneration		13,767	9,950	4,958
– Audit and audit related services		13,682	8,913	4,854
– Non-audit services		85	1,037	104

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) Taxation in the consolidated statements of profit or loss and other comprehensive income represents:

	Year ended 31 December 2020 RMB'000	2021 RMB'000	2022 RMB'000
Current taxation			
– Provision for corporate income tax in respective jurisdictions	1,054	2,988	570
Deferred taxation			
– Origination and reversal of temporary differences	(224)	(2,441)	(1,543)
	830	547	(973)

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	Note	Year ended 31 December 2020 *RMB'000*	2021 *RMB'000*	2022 *RMB'000*
Profit/(loss) before taxation		63,148	(312,398)	(35,006)
Tax at the PRC statutory tax rate of 25%	*(i)*	15,787	(78,100)	(8,752)
Tax effect of different tax rates in other jurisdictions	*(ii)*	(57,061)	8,818	14,566
Tax effect of preferential tax rates	*(iii)*	(5,768)	22,685	1,739
Tax effect of super deduction of research and development expenses	*(iv)*	(8,795)	(21,153)	(17,795)
Tax effect of non-taxable of income		(1,208)	(410)	(5,191)
Tax effect of non-deductible expenses	*(v)*	38,580	40,159	5,861
Tax effect of utilisation of previously unrecognised deductible tax losses		(8,885)	(9,303)	(4,863)
Tax effect of unused tax losses and temporary differences not recognised		28,180	37,851	13,462
Income tax expenses/(benefits)		830	547	(973)

(i) The Target Business Group's subsidiaries established in the Mainland of China, including structured entities, are subject to PRC Enterprise Income Tax rate of 25%.

(ii) Pursuant to the current rules and regulations of the Cayman Islands, the Target Business Company is not subject to income tax in Cayman Islands.

The Target Business Company's subsidiaries incorporated in Hong Kong are subject to Hong Kong Profits Tax at 16.5% of the estimated assessable profit. No provision for Hong Kong Profits Tax has been made, as the subsidiaries of the Target Business Group incorporated in Hong Kong did not have assessable profits which were subject to Hong Kong Profits Tax during the Relevant Periods.

(iii) Since 2017, BlueCity Information Technology fulfilled the criteria required for preferential income tax rate granted to "high-and-new technology enterprises" ("HNTE") in the PRC, which entitled it to the preferential income tax rate of 15% effective retroactively from 1 January 2017 to 31 December 2019. In 2020, BlueCity Information Technology completed the renewal of HNTE certificate. The renewed certificate entitled BlueCity Information Technology to the preferential income tax rate of 15% effective retroactively from 1 January 2020 to 31 December 2022, if all the criteria for HNTE status could be satisfied in the relevant year.

(iv) According to the relevant tax rules in the PRC, qualified research and development expenses are allowed for additional deduction based on 75% of such qualified expenses incurred from the taxable income during the Relevant Periods.

(v) Non-deductible expenses mainly represent impairment for non-financial assets and share-based payments expenses during the Relevant Periods.

(c) Deferred tax liabilities recognised

Movements of each component of deferred tax liabilities

	Fair value adjustments on intangible assets and related amortisation *RMB'000*
Deferred tax liabilities arising from:	
At 1 January 2020	–
Business combination	(12,423)
Credited to profit or loss	224
At 31 December 2020 and 1 January 2021	(12,199)
Credited to profit or loss	2,441
At 31 December 2021 and 1 January 2022	(9,758)
Credited to profit or loss	1,543
At 31 December 2022	(8,215)

(d) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(q), the Target Business Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB215,925,000, RMB387,547,000, and RMB458,644,000 as at 31 December 2020, 2021 and 2022, respectively, as it is not probable that future taxable profits against which the cumulative tax losses and deductible temporary differences can be utilised will be available in the relevant tax jurisdiction and entity.

The cumulative tax losses will be carried forward and expire in years as follows:

	At 31 December		
	2020 *RMB'000*	**2021** *RMB'000*	**2022** *RMB'000*
2022	3,196	–	–
2023	4,370	192	192
2024	7,794	1,374	1,374
2025	64,695	11,703	11,322
2026	–	12,386	11,392
2027 and thereafter	135,870	361,892	434,364
	215,925	387,547	458,644

8 PROPERTY AND EQUIPMENT

(a) Reconciliation of carrying amount

	Motor vehicles, office and electronic equipment	Leasehold improvements	Right-of-use asset	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
At 1 January 2020	7,299	8,156	20,515	35,970
Additions	3,439	2,884	17,259	23,582
Disposals	(1,160)	–	(7,339)	(8,499)
At 31 December 2020	9,578	11,040	30,435	51,053
At 1 January 2021	9,578	11,040	30,435	51,053
Additions	2,367	2,646	9,042	14,055
Disposals	(739)	–	–	(739)
At 31 December 2021	11,206	13,686	39,477	64,369
At 1 January 2022	11,206	13,686	39,477	64,369
Additions	149	319	–	468
Disposals	(1,625)	–	(10,325)	(11,950)
At 31 December 2022	9,730	14,005	29,152	52,887
Accumulated depreciation:				
At 1 January 2020	(3,615)	(4,238)	(5,429)	(13,282)
Charge for the year	(1,966)	(1,474)	(11,300)	(14,740)
Disposals	1,095	–	7,338	8,433
At 31 December 2020	(4,486)	(5,712)	(9,391)	(19,589)
At 1 January 2021	(4,486)	(5,712)	(9,391)	(19,589)
Charge for the year	(3,703)	(1,266)	(12,313)	(17,282)
Disposals	370	–	–	370
At 31 December 2021	(7,819)	(6,978)	(21,704)	(36,501)
At 1 January 2022	(7,819)	(6,978)	(21,704)	(36,501)
Charge for the year	(2,698)	(2,965)	(11,182)	(16,845)
Disposals	1,410	–	7,580	8,990
At 31 December 2022	(9,107)	(9,943)	(25,306)	(44,356)
Net book value:				
At 31 December 2020	5,092	5,328	21,044	31,464
At 31 December 2021	3,387	6,708	17,773	27,868
At 31 December 2022	623	4,062	3,846	8,531

(b) Right-of-use assets

The Target Business Group's leased offices expire from 1 to 5 years. None of the leases includes an option to purchase the leased assets at the end of the lease term.

The analysis of expenses items in relation to leases recognised in the Target Business Group's profit or loss are as follows:

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB	*RMB*	*RMB*
Depreciation charge of leasehold properties	11,300	12,313	11,182
Interest on lease liabilities expense (included in finance cost)	1,450	1,532	923
Expense relating to short-term leases	664	1,158	1,206

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Notes 15(c) and 18, respectively.

9 INTANGIBLE ASSETS

	Note	Licenses	User bases	Brand names	Technologies	Software	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:							
At 1 January 2020		–	–	–	–	475	475
Additions		3,084	–	–	–	1,147	4,231
Acquisition through business combinations	*11*	–	7,730	38,500	3,460	–	49,690
At 31 December 2020		3,084	7,730	38,500	3,460	1,622	54,396
At 1 January 2021		3,084	7,730	38,500	3,460	1,622	54,396
Additions		2,445	–	–	–	1,950	4,395
Disposals		–	–	–	–	(846)	(846)
At 31 December 2021		5,529	7,730	38,500	3,460	2,726	57,945
At 1 January 2022		5,529	7,730	38,500	3,460	2,726	57,945
Additions		–	–	–	–	1,124	1,124
At 31 December 2022		5,529	7,730	38,500	3,460	3,850	59,069
Accumulated amortization:							
At 1 January 2020		–	–	–	–	(134)	(134)
Charge for the year		(617)	(287)	(391)	(216)	(462)	(1,973)
At 31 December 2020		(617)	(287)	(391)	(216)	(596)	(2,107)

	Note	Licenses	User bases	Brand names	Technologies	Software	Total
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2021		(617)	(287)	(391)	(216)	(596)	(2,107)
Charge for the year		(1,032)	(1,990)	(3,798)	(1,063)	(1,736)	(9,619)
Written back on disposals		–	–	–	–	699	699
At 31 December 2021		(1,649)	(2,277)	(4,189)	(1,279)	(1,633)	(11,027)
At 1 January 2022		(1,649)	(2,277)	(4,189)	(1,279)	(1,633)	(11,027)
Charge for the year		(1,169)	(1,733)	(3,640)	(794)	(1,183)	(8,519)
At 31 December 2022		(2,818)	(4,010)	(7,829)	(2,073)	(2,816)	(19,546)
Impairment:							
At 1 January 2021		–	–	–	–	–	–
Charge for the year		–	(400)	(1,855)	(660)	–	(2,915)
At 31 December 2021		–	(400)	(1,855)	(660)	–	(2,915)
At 31 December 2022		–	(400)	(1,855)	(660)	–	(2,915)
Net book value:							
At 31 December 2020		2,467	7,443	38,109	3,244	1,026	52,289
At 31 December 2021		3,880	5,053	32,456	1,521	1,093	44,003
At 31 December 2022		2,711	3,320	28,816	727	1,034	36,608

The amortisation charge for the years is included in "Cost of revenues", "Selling and marketing expenses", "Technology and development expenses" and "General and administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

10 GOODWILL

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Beginning balance	–	196,003	81,752
Additions *(Note 11)*	196,003	–	–
Impairment of goodwill	–	(106,949)	–
Foreign currency translation adjustment	–	(7,302)	–
Ending balance	196,003	81,752	81,752

The goodwill of the Target Business Group was mainly generated in 2020 from the business combinations as described in Note 11. The Target Business Group has one cash generating unit which is mobile platform operations. The Target Business Group performs impairment test annually by comparing the recoverable amount to the carrying amount.

The recoverable amount of the CGU is determined based on value-in-use calculations by using the discounted cash flow method. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 3.0%, 2.5%, and 2.5% for the years ended 31 December 2020, 2021 and 2022, respectively. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 18%, 18%, and 18% for the years ended 31 December 2020, 2021 and 2022, respectively.

The Target Business Group recognised impairment loss of RMB106,949,000 for goodwill for the year ended 31 December 2021, primarily due to more intensive competition on its mobile platform operations, which brought adverse impact on the Target Business Group's ability to generate revenues and net income from its mobile platform operations.

The Target Business Group did not record impairment charges of goodwill for the years ended 31 December 2020 and 2022. Reasonable possible changes in key assumptions would not lead to impairment of the goodwill as at 31 December 2020 and 2022, respectively.

11 BUSINESS COMBINATION

(i) Acquisition of Guangzhou Yingyoutianxia Networks Technology Co., Ltd ("Lesdo")

On 25 August 2020, the Target Business Group acquired 100% equity interest of Lesdo, a leading location-based social networking service provider targeting the lesbian community in China, granting it control of Lesdo. The consideration was RMB1,328,000, of which RMB805,000 and RMB523,000 were paid for the years ended 31 December 2020 and 2021, respectively.

Included in the identifiable assets and liabilities acquired at the date of acquisition of Lesdo are inputs, service processes (network equipment, the website, user base, brand name, technologies and ICP licenses) and an organised workforce. The Target Business Company has determined that together the acquired inputs and processes significantly contribute to the ability to create revenue. The Target Business Group has concluded that the acquired set is a business.

Taking control of Lesdo will enable the Target Business Group to develop it portfolio of apps and services and better serving the LGBTQ (lesbian, gay, bisexual, transgender and queer or questioning) community across geographies and demographics.

The amount of revenue and net loss of Lesdo included in the Target Business Company's consolidated statement of profit or loss and other comprehensive income from the acquisition date to 31 December 2020 were RMB62,000 and RMB1,659,000, respectively. RMB380,000 of amortization of intangible assets acquired in connection with the acquisition was included in the amount of net loss. Results of operations for this acquisition as if this acquisition had occurred on 1 January 2020 have not been presented because they were not material to the consolidated statements of profit or loss and other comprehensive income for the year ended 31 December 2020.

The identifiable assets acquired and liabilities assumed in the business combination were recorded at their fair values on the acquisition date. The following table summarises the recognised amounts of identifiable assets acquired and liabilities assumed, as well as the goodwill arising from the acquisition, at the date of acquisition.

	RMB'000
Cash and cash equivalents	–
Intangible assets	3,980
Other current liabilities	(4,712)
Deferred income tax liabilities	(995)
Goodwill	3,055
Total consideration	1,328

Goodwill, which is not tax deductible, is primarily attributable to the assembled workforce and synergies expected to be achieved from the acquisition. The synergies mainly come from the enhancement of the Target Business Company's position in the LGBTQ community.

(ii) Acquisition of iRainbow Hong Kong Limited ("Finka") and all of its subsidiaries and other entities under the control of Finka

On 1 December 2020, the Target Business Group acquired 100% equity interest of Finka, which is a leading gay social networking app in China targeting younger generations, granting it control of Finka. The consideration was USD35,998,000 (RMB237,227,000) in cash, of which USD32,286,000 (RMB212,774,000) and USD3,712,000 (RMB23,969,000) were paid for the years ended 31 December 2020 and 2021, respectively.

Included in the identifiable assets and liabilities acquired at the date of acquisition of Finka are inputs (network equipment, the website, user base, brand name, technologies and ICP licenses), service processes and an organised workforce. The Target Business Company has determined that together the acquired inputs and processes significantly contribute to the ability to create revenue. The Target Business Group has concluded that the acquired set is a business.

Taking control of Finka will enable the Target Business Group to further develop it portfolio of apps and services and better serving the LGBTQ community.

The amount of revenue and net loss of Finka included in the Target Business Company's consolidated statements of profit or loss and other comprehensive income from the acquisition date to 31 December 2020 were RMB5,364,000 and RMB2,112,000, respectively. RMB514,000 of amortization of intangible assets acquired in connection with the acquisition was included in the amount of net loss. If the acquisition had occurred on 1 January 2020, management estimates that consolidated revenue would have been RMB1,116,051,000, and consolidated loss for the year would have been RMB74,843,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition have occurred on 1 January 2020.

(a) Identifiable assets acquired and liabilities assumed

The identifiable assets acquired and liabilities assumed in the business combination were recorded at their fair values on the acquisition date. The following table summarises the recognised amounts of identifiable assets acquired and liabilities assumed at the date of acquisition.

	RMB'000
Cash and cash equivalents	10,497
Accounts receivable	1,717
Other current assets	6,323
Intangible assets	45,710
Accounts payable	(209)
Other current liabilities	(8,331)
Deferred income tax liabilities	(11,428)
Total identifiable net assets acquired	44,279

(b) Measurement of fair values

Assets acquired	**Valuation technique**
Intangible assets	Discounted cash flows: The valuation model considers the present value of net cash flows expected to be generated by the customer relationships/user base and by using the related technologies, discounted using a risk-adjusted discount rate.

(c) Goodwill

	RMB'000
Consideration transferred	237,227
Fair value of identifiable net assets	(44,279)
Goodwill	192,948

Goodwill, which is not tax deductible, is primarily attributable to the assembled workforce and synergies expected to be achieved from the acquisition. The synergies mainly come from the enhancement of the Target Business Company's position in the LGBTQ community.

(d) Net cash inflow from acquisition of a subsidiary

	RMB'000
Purchase consideration settled in cash	(237,227)
Less: cash and cash equivalents in the subsidiary acquired	10,497
Net cash outflow from acquisition of the subsidiary, net of cash acquired	(226,730)

12 INVENTORIES

		At 31 December	
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Merchandise	6,853	7,402	11,567

13 ACCOUNTS RECEIVABLE

		At 31 December	
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Accounts receivable	5,588	12,879	23,207
Less: loss allowance	(65)	(72)	(173)
Total	5,523	12,807	23,034

All of the accounts receivable are expected to be recovered within one year.

(a) Aging analysis

As of the end of each reporting period, the aging analysis of accounts receivable, based on the invoice date and net of loss allowance, of the Target Business Group are as follows:

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Within 6 months	5,523	12,775	21,754
6 months to 1 year	–	32	499
1 year to 2 years	–	–	781
Total	5,523	12,807	23,034

Further details on the Target Business Group's credit policy and credit risk are set out in Note 23(a).

14 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Receivable from third party payment platform	21,826	52,702	11,263
Prepaid expenses	13,258	14,380	4,402
Deposits	3,373	4,202	3,957
Deferred payment platforms commission fee	2,554	3,126	4,315
Interest receivable	1,461	1,261	63
Deductible input VAT	1,639	1,012	225
Others *(Note)*	2,824	11,189	15,904
Total	46,935	87,872	40,129

Note: Others mainly include advances to suppliers and employees and other receivables.

All of the prepayments, deposits and other receivables are expected to be recovered or recognised as expenses within one year.

15 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank and on hand	439,493	349,786	107,896
Cash equivalents	9,996	11,046	9,489
Total	449,489	360,832	117,385

(b) Reconciliation of profit/(loss) before taxation to cash used in operations

		Year ended 31 December		
		2020	2021	2022
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Profit/(loss) before taxation		63,148	(312,398)	(35,006)
Adjustments for:				
Impairment losses on financial assets		328	77	321
Share-based payment expenses	*6(b)*	142,581	21,054	19,264
Finance income	*6(a)*	(6,519)	(1,890)	(1,799)
Finance cost	*6(a)*	1,450	1,532	923
Depreciation and amortization	*6(c)*	16,713	26,901	25,364
Impairment of non-financial assets	*6(c)*	–	109,864	–
(Gain)/loss on disposal of investment securities	*5*	(4,863)	50	–
Gain on disposal of subsidiaries	*5*	–	(917)	(19,166)
(Gain)/loss on disposal of long-term assets		(31)	388	(315)
Exchange (gain) losses		3,114	–	–
Changes in the carrying amount of preferred shares		(244,081)	–	–
Changes in working capital:				
Decrease/(increase) in accounts receivable		(2,664)	(7,317)	(9,982)
Decrease/(increase) in inventories		(6,853)	(548)	(4,456)
Decrease/(increase) in amounts due from related parties		–	–	(65,466)
(Increase)/decrease in prepayments, deposits and other receivables		4,994	(41,214)	37,796
(Increase)/decrease in other non-current assets		(1,066)	(751)	3,129
Increase/(decrease) in accounts payable		2,380	8,491	11,681
Increase/(decrease) in amounts due to related parties		–	–	18,030
Increase/(decrease) in contract liabilities		(2,815)	4,253	(2,946)
Increase/(decrease) in accrued expenses and other payables		9,375	(7,326)	(1,964)
Increase/(decrease) in other non-current liabilities		–	2,300	(600)
Cash used in operations		(24,809)	(197,451)	(25,202)

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Target Business Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Target Business Group's consolidated cash flow statement as cash flows from financing activities.

	Issuance cost payables *(i)* *RMB'000*	Lease liabilities *RMB'000*	Total *RMB'000*
At 1 January 2020	6,227	13,456	19,683
Changes from financing cash flows:			
Payments for IPO costs	(45,286)	–	(45,286)
Capital element of lease rentals paid	–	(11,302)	(11,302)
Interest element of lease rentals paid	–	(1,095)	(1,095)
Total changes from financing cash flows	(45,286)	(12,397)	(57,683)
Other changes:			
Increase in lease liabilities from entering into new leases during the year	–	16,284	16,284
Interest expenses *(Note 6(a))*	–	1,450	1,450
Accrual of IPO costs	39,059	–	39,059
Total other changes	39,059	17,734	56,793
At 31 December 2020 and 1 January 2021	–	18,793	18,793
Changes from financing cash flows			
Capital element of lease rentals paid	–	(12,311)	(12,311)
Interest element of lease rentals paid	–	(133)	(133)
Total changes from financing cash flows	–	(12,444)	(12,444)
Other changes:			
Increase in lease liabilities from entering into new leases during the period	–	7,273	7,273
Interest expenses *(Note 6(a))*	–	1,532	1,532
Total other changes	–	8,805	8,805
At 31 December 2021 and 1 January 2022	–	15,154	15,154
Changes from financing cash flows			
Capital element of lease rentals paid	–	(11,185)	(11,185)
Interest element of lease rentals paid	–	(912)	(912)
Total changes from financing cash flows	–	(12,097)	(12,097)
Other changes:			
Interest expenses *(Note 6(a))*	–	923	923
At 31 December 2022	–	3,980	3,980

(i) Issuance cost payables was included in accrued expenses and other payables.

(d) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Within financing cash flows	12,397	12,444	12,097
Within operating cash flows	664	1,089	1,297
Total lease rentals paid	13,061	13,533	13,394

(e) Net cash outflow from disposal of subsidiaries

In August 2022, the Target Business Company disposed two subsidiaries. Cash related to the disposal including:

	RMB'000
Total consideration received	1,756
Less: cash and cash equivalents in the subsidiary disposed	(11,105)
Cash outflow from disposal of a subsidiary, net of cash received	(9,349)

(f) Term deposits

Term deposits at 31 December 2020 represent deposits at bank with original maturities more than three months but less than one year. The Target Business Group's term deposits are denominated in USD and are deposited at financial institutions in the mainland of the PRC.

16 ACCOUNTS PAYABLE

As of the end of the Relevant Periods, the ageing analysis of accounts payable based on the invoice date, is as follows:

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Within 3 months	5,828	6,095	7,556
3 months to 6 months	6,716	7,637	15,148
6 months to 1 year	4,273	9,113	12,156
1 year to 2 years	3,556	3,417	3,993
2 years to 3 years	–	2,245	–
Total	20,373	28,507	38,853

17 ACCRUED EXPENSES AND OTHER PAYABLES

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Accrued payroll and welfare	29,859	24,015	21,101
Technology supporting fee payables	9,857	20,609	10,601
Advertising and marketing fees payable	13,855	5,145	6,141
Professional fee payable	1,350	3,070	3,140
Other tax payable	9,513	15,168	17,353
Payable to advertising agencies	11,897	4,263	2,115
Deposit received from suppliers	1,120	1,170	–
Payable for business combinations	24,742	–	–
Cash collected on behalf of service providers *(i)*	10,356	–	–
Others *(ii)*	6,409	9,523	9,369
Total	118,958	82,963	69,820

(i): This is the cash the Target Business Group received on behalf of the service providers from the customers for the family planning services.

(ii): Other accrued expenses mainly represent accrued office expenses and other operating costs.

All of the accrued expenses and other payables are expected to be settled within one year or are repayable on demand.

18 LEASE LIABILITIES

At the end of each reporting period, the lease liabilities were repayable as follows:

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	9,692	11,175	3,314
After 1 year but within 2 years	7,684	3,313	666
After 2 years but within 5 years	1,417	666	–
	9,101	3,979	666
	18,793	15,154	3,980

19 CONTRACT LIABILITIES

	At 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities	35,226	35,796	34,061

The Target Business Group normally requires its customers to prepay consideration before the promised services rendered. All the balances as at 1 January 2020, 2021 and 2022 were recognised as revenue within one year.

20 PREFERRED SHARES AND CHANGES OF THE CARRYING AMOUNT OF PREFERRED SHARES

Prior to listing on Nasdaq in United States on 6 July 2020, the Target Business Company entered into several round share purchase agreements with certain institution investors, pursuant to which the Target Business Company issued six series convertible preferred shares, i.e. Series A convertible preferred shares, Series A-1, Series B, Series C, Series C-1 and Series D redeemable convertible preferred shares (collectively "Preferred Shares").

The rights, preferences and privileges of the Preferred Shares included:

Redemption rights

Shareholders of the Preferred Shares shall be entitled to request the Target Business Company to redeem in cash out of funds legally available therefor if the Target Business Company fails to complete the Qualified IPO prior to the fourth year anniversary of a specified date. The redemption price shall be the greater of (i) sum of the issue price plus all declared but unpaid dividends, and a compounded specified percent per annum return measured from the issuance date to actual payment date of the redemption; (ii) the fair market value as determined through an independent appraisal performed by a reputable appraisal firm mutually agreed upon by the Target Business Company and the majority shareholders of certain Series Preferred Shares.

Conversion rights

Each Preferred Shares shall automatically be converted into Ordinary Shares at a 1-to-1 initial conversion ratio immediately upon the closing of the Qualified IPO.

Voting Rights

Each Preferred Shares shall be entitled to that number of votes corresponding to the number of ordinary shares on an as-converted basis. The shareholders of Preferred Shares shall vote separately as a class with respect to certain specified matters. Otherwise, the shareholders of Preferred Shares and ordinary shares shall vote together as a single class.

Dividend Rights

Each holder of Preferred Shares excluding Series A Preferred Shares shall be entitled to receive dividends at the rate of eight percent (8%) per annum of the applicable issue price. Such dividends shall be payable only when, as, and if declared by the Board of Directors and shall be non-cumulative.

Liquidation Preferences

In the event of any liquidation, dissolution or winding up of the Target Business Company, or upon occurrence of a Liquidation Event as defined in the Sixth Amended And Restated Memorandum And Articles Of Association, either voluntary or involuntary, shareholders of Preferred Shares shall be entitled to receive a per share amount equal to the greater of (i) the issuance price with a certain percentage markup, plus all declared but unpaid dividends thereon or the sum of a certain percent of the issuance price, plus a specified compounded percent per annum return measured from the actual payment date of purchase price to actual payment date of liquidation amount, and (ii) the aggregate amount that each such Series Preferred Share shall be entitled to receive from the total proceeds in connection with such liquidation, dissolution, winding up, or Liquidation Event calculated on a pro rata basis and as-converted basis.

Drag-along rights

In the event that the shareholders of at least ninety-two percent (92%) of the preferred shares ("Drag-Along Shareholders", i.e. the preferred shares in the capital of the Target Business Company with a par value of US$0.0001 per share, including Series A Preferred Shares, Series A-1 Preferred Shares, Series B Preferred Shares, Series C Preferred Shares, Series C-1 Preferred Shares and Series D Preferred Shares), voting together as a single class and calculated on an as-converted basis, approve a transaction that qualifies as a Liquidation Event ("Drag-Along Sale") and the valuation of the Target Business Company immediately prior to the Drag-Along Sale reaches US$2,500,000,000 or more in the contemplated Drag-Along Sale, then, upon written notice from such Drag-Along

Shareholders requesting them to do so, each of the other shareholders of the Target Business Company (Dragged Shareholder) shall (i) vote, or give its written consent with respect to, all the Equity Securities held by them in favour of such proposed Drag-Along Sale and in opposition of any proposal that could reasonably be expected to delay or impair the consummation of any such proposed Drag-Along Sale; (ii) sell, transfer, and/or exchange, as the case may be, all of its Equity Securities in such Drag-Along Sale to such purchaser on the same terms and conditions as were agreed by the Drag-Along Shareholders; (iii) refrain from exercising any dissenters' rights or rights of appraisal under applicable law at any time with respect to or in connection with such proposed Drag-Along Sale; and (iv) take all actions reasonably necessary to consummate the proposed Drag-Along Sale, including without limitation amending the then existing Articles. If any Dragged Shareholder does not elect to vote, or give its written consent with respect to such proposed Drag-Along Sale, such Dragged Shareholder shall be obliged to purchase all the shares held by the Drag-Along Shareholders at the price. A Drag-Along Sale shall be deemed as a liquidation event.

The redemption preference, dividend rights preference from high priority to low priority is as follows in sequence: Series D Preferred Shares, Series C-1 Preferred Shares, Series C Preferred Shares, and Series B Preferred Shares together with Series A-1 Preferred Shares. For liquidation preference, Series A Preferred Shares is together with Series A-1 Preferred Shares.

All of the Preferred Shares were converted to equivalent number of Class A Ordinary Shares immediately upon the completion of the Target Business Company's initial public offering on 8 July 2020.

The Target Business Company's Preferred Shares activities for the year ended 31 December 2020 consist of the following:

	Series A Preferred Shares	Series A-1 Preferred Shares	Series B Preferred Shares	Series C Preferred Shares	Series C-1 Preferred Shares	Series D Preferred Shares	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance as of 1 January 2020	29,752	17,959	483,612	327,278	258,898	612,978	1,730,477
Changes of the carrying amount of Preferred Shares	–	708	(68,419)	(49,340)	(40,874)	(86,156)	(244,081)
Conversion to ordinary shares	(33,042)	(18,781)	(418,337)	(280,069)	(219,711)	(530,809)	(1,500,749)
Foreign currency translation adjustment	3,290	114	3,144	2,131	1,687	3,987	14,353
Balance as of 31 December 2020	–	–	–	–	–	–	–

21 SHARE-BASED PAYMENTS

On 11 March 2015, the Board of Directors of the Target Business Company approved and adopted the 2015 Stock Incentive Plan (the "2015 Plan"), under which the Target Business Company reserves 1,551,724 shares to motivate directors, employees and consultants of the Target Business Group. Stock options granted to an employee under the 2015 Plan are generally subject to a four-year service schedule, under which 25% of the option shall vest on the first anniversary of the vesting commencement date, and the remaining portion shall vest monthly over subsequent 36 months on a pro-rata basis. In addition, no options can be exercised until the Target Business Company completes an initial public offering.

On 15 June 2020, the Board of Directors of the Target Business Company approved and adopted the 2020 Share Incentive Plan (the "2020 Plan"), under which the Target Business Company reserves 758,783 shares to motivate directors, employees and consultants of the Target Business Group. Stock options granted to an employee under the 2020 Plan are generally subject to a four-year service schedule, under which 25% of the option shall vest on the first anniversary of the vesting commencement date, and the remaining portion shall vest monthly over subsequent 36 months on a pro rata basis.

On 24 August 2021, the Board of Directors of the Target Business Company approved and adopted the 2021 Share Incentive Plan (the "2021 Plan"), under which the Target Business Company reserves 833,550 shares to motivate directors, employees and consultants of the Target Business Group. Stock options granted to an employee under the 2021 Plan are generally subject to a four-year service schedule, under which 25% of the option shall vest on the first anniversary of the vesting commencement date, and the remaining portion shall vest monthly over subsequent 36 months on a pro rata basis.

In June 2020, the Target Business Company granted 303,513 share options to Mr. Ma Baoli, founder, Chairman and Chief Executive Officer of the Target Business Company, under the 2020 Plan. Such share options were vested and exercisable upon the completion of an IPO of the Target Business Company with exercise price of US$0.01 per share option. The Target Business Company recorded compensation expenses of RMB68,166,664 in general and administrative expenses for the year ended 31 December 2020 relating to these options.

The following table sets forth the stock options activity during the Relevant Periods:

	2020		2021		2022	
	Number of options	Weighted average exercise price *US$*	Number of options	Weighted average exercise price *US$*	Number of options	Weighted average exercise price *US$*
Outstanding at 1 January	1,084,545	0.01	2,005,600	0.01	1,371,264	0.01
Granted during the year	999,404	0.01	508,619	0.01	–	–
Exercised during the year	–	–	(907,779)	0.01	–	–
Expired during the year	(5,958)	0.01	(304)	0.01	(9,063)	0.01
Forfeited during the year	(72,391)	0.01	(234,872)	0.01	(143,709)	0.01
Cancelled during the year	–	–	–	–	(1,218,492)	0.01
Outstanding at 31 December	2,005,600	0.01	1,371,264	0.01	–	–

The fair value of the share options is estimated on the dates of grant using the binomial option pricing model with the following key assumptions used:

	Year ended 31 December 2020	2021
Risk-free rate of return (per annum)	0.23%-1.70%	1.61%
Volatility	50.92%-56.70%	59.23%
Expected dividend yield	0%	0%
Exercise multiple	2.2-2.8	2.2-2.8
Fair value of underlying ordinary share	US$17.11-US$37.71	US$5.96
Expected term	10 years	10 years

The expected volatility was estimated based on the historical volatility of the Target Business Company and comparable peer public companies with a time horizon close to the expected term of the Target Business Company's options. The risk-free interest rate was estimated based on the yield to maturity of U.S. treasury bonds denominated in USD for a term consistent with the expected term of the Target Business Company's options in effect at the option valuation date. The expected exercise multiple was estimated as the average ratio of the stock price to the exercise price of when employees would decide to voluntarily exercise their vested options. Expected dividend yield is zero as the Target Business Company has never declared or paid any cash dividends on its shares, and the Target Business Company does not anticipate any dividend payments in the foreseeable future.

In 2022, the Target Business Group modified the above 2015 Plan, 2020 Plan and 2021 Plan. According to the modification: 1) for the options granted pursuant to the 2020 Plan or 2021 Plan that remained unvested as of 12 August 2022, they were cancelled without the payment of consideration; 2) for options granted pursuant to the 2015

Plan whether vested or unvested, and options granted pursuant to the 2020 Plan or 2021 Plan that were vested or exercisable, a cash-settled alternative at employee's discretion was provided to the employees. The Target Business Company treated the first part as a cancelation and accounted for as accelerated vesting to recognise the remaining cost in profit or loss immediately. The Target Business Company treated the second part as a change from equity-settled to cash-settled share-based payment arising from modification and recognised a liability at the fair value of the modification date. As the fair value at the modification date is less than the amount previously recognised in equity, the liability is reclassified from equity.

Compensation costs recognised for share options for the year ended 31 December 2020, 2021 and 2022 were allocated to the following expense items:

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Cost of revenues	5,078	3,057	1,336
Selling and marketing expenses	11,235	7,071	2,979
General and administrative expenses	115,824	2,210	9,864
Technology and development expenses	10,444	8,716	5,085
Total	142,581	21,054	19,264

22 CAPITAL AND RESERVES

(a) Share capital

Upon incorporation in 2013, the Target Business Company's authorised ordinary shares were 500,000,000 shares with a par value of US$0.0001 per share. The number of ordinary shares issued and outstanding was 5,614,840 as of 31 December 2019.

Immediately prior to the completion of IPO, the Target Business Company's authorised share capital was US$500,000 divided into 5,000,000,000 shares comprising of (i) 4,600,000,000 Class A Ordinary Shares with a par value of US$0.0001 each, (ii) 200,000,000 Class B Ordinary Shares with a par value of US$0.0001 each, (iii) 200,000,000 shares with a par value of US$0.0001 each of such class or classes (however designated) as the board of directors may determine in accordance with the amended and restated memorandum of association.

Immediately prior to the completion of IPO, all outstanding Preferred Shares, including (i) 1,439,102 shares of Series A Convertible Preferred Shares with a par value of US$0.0001 each, (ii) 1,891,291 Series A-1 Redeemable Convertible Preferred Shares with a par value of US$0.0001 each, (iii) 1,862,069 Series B Redeemable Convertible Preferred Shares with a par value of US$0.0001 each, (iv) 1,246,621 Series C Redeemable Convertible Preferred Shares with a par value of US$0.0001 each, (v) 977,961 Series C-1 Redeemable Convertible Preferred Shares with a par value of US$0.0001 each, and (vi) 2,143,786 Series D Redeemable Convertible Preferred Shares with a par value of US$0.0001 each, were converted into Class A ordinary shares on a one-for-one basis. All issued and outstanding ordinary shares were re-designated as Class A ordinary shares on a one-for-one basis, except that the 5,614,840 ordinary shares held by BlueCity Media Limited were re-designated as Class B ordinary shares.

In July 2020, the Target Business Company completed its IPO of 2,650,000 newly issued Class A ordinary shares, at a public offering price of US$32.0 per share. The net proceeds after deducting underwriting commissions, discounts and underwriter's lawyer fee were approximately US$78 million (RMB549 million).

In April 2021, 500,000 Class B ordinary shares was converted into 500,000 Class A ordinary shares.

As at 31 December 2021, there were 13,618,609 Class A Ordinary Shares and 5,114,840 Class B ordinary shares issued and outstanding. Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. Each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to five votes and is convertible into one Class A ordinary share. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

On 12 August 2022, the Target Business Company completed the Merger and became a wholly owned subsidiary of Multelements Limited and ceased to be a publicly traded company. Each outstanding share or ADS was cancelled. Immediately after the closing of Merger, the Target Business Company's authorised ordinary shares were 50,000 shares with a par value of US$1 per share. The number of ordinary shares issued was 1 as of 31 December 2022, which was held by the Target Business Company's parent company, Multelements Limited.

(b) Nature and purpose of reserves

(i) Share premium

Share premium represents the excess of the total proceeds received over the par value of ordinary shares issued by the Target Business Company.

(ii) Other reserves

Other reserves comprises the following:

- contributions from equity shareholders;
- the portion of the grant date fair value of share options granted to the directors, and employees of the Target Business Group that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(p); and
- foreign exchange differences arising from the translation of the financial statements of foreign operations of the Target Business Company and certain subsidiaries within the Target Business Group. The reserve is dealt with in accordance with the accounting policy set out in Note 2(t).

(c) Capital management

The Target Business Group's primary objectives when managing capital are to safeguard the Target Business Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Target Business Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Target Business Company nor any of its subsidiaries are subject to externally imposed capital requirements.

(d) Dividend

On 18 August 2022, the Target Business Company declared to pay a dividend on its shares in favour of its sole shareholder, Multelements Limited, in an aggregate amount of US$35,000,000 (equivalent to RMB245,084,000).

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Target Business Group's business.

The Target Business Group's exposure to these risks and the financial risk management policies and practices used by the Target Business Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Target Business Group. The Target Business Group's credit risk is primarily attributable to accounts receivable. The Target Business Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with good credit standing, for which the Target Business Group considers to have low credit risk. Other receivables mainly included receivable from third-party payment platforms, which represented amounts due from reputable online payment platforms. Based on the historical settlement records and the cooperation history with the online payment platforms, the Target Business Group considers its exposure to credit risk arising from receivable from third-party payment platforms is low.

The Target Business Group has no significant concentration of credit risk arising from accounts receivable in industries in which the customers operate. Significant concentrations of credit risk primarily arise when the Target Business Group has significant exposure to individual customers. The accounts receivable from the five largest debtors at 31 December 2020, 2021 and 2022 represented 54%, 71% and 71% of the total accounts receivable respectively, while 22%, 20% and 25% of the total accounts receivable were due from the largest single debtor respectively.

The Target Business Group has established a credit risk management policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. These take into account the customer's past payment history, financial position and other factors. Accounts receivable are generally due within 30 to 180 days from the date of billing. Normally, the Target Business Group does not obtain collateral from customers.

The Target Business Group measures loss allowances for accounts receivable at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Target Business Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on the aging is not further distinguished between the Target Business Group's different customer bases.

The following tables provide information about the Target Business Group's exposure to credit risk and ECLs for receivables:

	At 31 December 2020		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Within 6 months	1.16%	5,588	(65)

	At 31 December 2021		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	*RMB'000*	*RMB'000*
Within 6 months	0.56%	12,846	(71)
6 months to 12 months	2.22%	33	(1)
		12,879	(72)

	At 31 December 2022		
	Expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
Within 6 months	0.55%	21,874	(120)
6 months to 12 months	1.35%	506	(7)
1 year to 2 years	5.55%	827	(46)
		23,207	(173)

Expected loss rates are based on actual loss experience over the past 12 months. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Target Business Group's view of economic conditions over the expected lives of the receivables.

(b) Liquidity risk

The Target Business Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash and cash equivalents and retains adequate financing arrangements with investors to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of each reporting year of the Target Business Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of each reporting year) and the earliest date the Target Business Group can be required to pay:

	As at 31 December 2020 Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Accounts payable	20,373	–	–	20,373	20,373
Accrued expenses and other payables (excluding salary and welfare payables and other taxes payable)	79,586	–	–	79,586	79,586
Lease liabilities	11,092	8,148	1,559	20,799	18,793
	111,051	8,148	1,559	120,758	118,752

	As at 31 December 2021 Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Accounts payable	28,507	–	–	28,507	28,507
Accrued expenses and other payables (excluding salary and welfare payables and other taxes payable)	43,780	–	–	43,780	43,780
Lease liabilities	12,098	3,507	726	16,331	15,154
	84,385	3,507	726	88,618	87,441

	As at 31 December 2022 Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Accounts payable	38,853	–	–	38,853	38,853
Accrued expenses and other payables (excluding salary and welfare payables and other taxes payable)	31,366	–	–	31,366	31,366
Amount due to related parties	49,023	–	–	49,023	49,023
Lease liabilities	3,507	481	246	4,234	3,980
	122,749	481	246	123,476	123,222

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Target Business Group is primarily exposed to fair value interest rate risk in relation to lease liabilities and cash flow risk in relation to variable-rate bank balances. The Target Business Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The directors of the Target Business Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant because the current market interest rates are relatively low and stable.

(d) Currency risk

Currency risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the Target Business Group's functional currency. The Target Business Group manages its currency risk by minimizing non-functional currency transactions, wherever possible.

The Target Business Group operates mainly in the PRC with most of the transactions settled in RMB. Management considers that the business is not exposed to significant foreign exchange risk as there are no significant financial assets or liabilities of the Target Business Group denominated in currencies other than the respective functional currencies of the Target Business Group's subsidiaries and structured entities.

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Target Business Group's financial instruments measured at each reporting dates on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

The following table presents the Target Business Group's financial assets and financial liabilities that are measured at fair value at each reporting dates:

During the Relevant Periods, the amount of the Target Business Group's financial assets and financial liabilities that are measured at fair value is immaterial. And there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Target Business Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the Relevant Periods in which they occur.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Target Business Group's financial instruments carried at cost were not materially different from their fair values as at 31 December 2020, 2021 and 2022.

24 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Target Business Group is as follows:

	Year ended 31 December		
	2020	**2021**	**2022**
	RMB'000	*RMB'000*	*RMB'000*
Short-term employee benefits	5,300	19,600	6,233
Share-based compensation expenses	12,268	1,001	126
Post-employment benefits	370	332	4,825
	17,938	20,933	11,184

(b) Other transactions and balances with related parties

Save as disclosed elsewhere in this Historical Financial Information, the Target Business Group has the following material related party transactions during the Relevant Periods.

From 1 January 2020 to 12 August 2022, Mr. Ma Baoli was the founder and CEO of the Target Business Company and was the related party of the Target Business Group. Transactions with Mr. Ma Baoli during the period are as follows:

(1) On 2 April 2020, the Target Business Company made a payment of RMB4,723,000 on behalf of Mr. Ma Baoli, founder, Chairman and Chief Executive Officer of the Target Business Company. All the amount was repaid by Mr. Ma Baoli on 19 August 2020.

(2) Mr. Ma subscribed for, through BlueCity Media Limited, and were allocated by the underwriters, an aggregate of 312,500 American depositary shares (the "ADSs"), which represents 156,250 Class A Ordinary Shares, in the Target Business Company's initial public offering at the initial public offering price and on the same terms as the other ADSs being offered, for consideration of US$5.0 million (equivalent to RMB35,103,500).

As at 31 December 2022, the amounts due from and due to related parties in the amount of RMB72,209,000 and RMB18,030,000 respectively represent the receivables from and payable to Land of Glory Ltd., a fellow subsidiary from August 2022.

As at 31 December 2022, the amounts due to related parties in an amount of RMB30,993,000 represent the balance of the dividend payable to the Target Business Company's parent company, Multelements Limited.

25 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

No significant non-adjusting events have occurred since 31 December 2022.

26 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of this report, the IASB has issued a number of amendments, and a new standard which are not yet effective for the Relevant Periods and which have not been adopted in the Historical Financial Information as follows:

	Effective for accounting year beginning on or after
IFRS 17, *Insurance contracts and related amendments*	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2, *Disclosure of Accounting Policies*	1 January 2023
Amendments to IAS 8, *Definition of Accounting Estimates*	1 January 2023
Amendments to IAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023
Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2024
Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	To be determined

The Target Business Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far, the Target Business Group has concluded that the adoption of them is unlikely to have a significant impact on the Target Business Group's results of operations and financial position.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Business Company or any of its subsidiaries in respect of any period subsequent to 31 December 2022.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "Unaudited Pro Forma Financial Information") has been prepared on the basis of the notes set out below for the purpose of illustrating the effects on the assets and liabilities of the Enlarged Group as if the Acquisition of the entire issued share capital of Chizicheng Strategy Investment Limited ("Chizicheng Strategy Investment") by the Company pursuant to the Sale and Purchase Agreement with Spriver Tech Limited ("Spriver") had been completed and the Deeds of Amendment of the Partnership Agreement of Metaclass Management ELP (the "Fund") had taken effect on 31 December 2022.

The Unaudited Pro Forma Financial Information as at 31 December 2022 has been prepared based on (i) the audited consolidated balance sheet of the Group as at 31 December 2022, as set out in its published annual report for the year ended 31 December 2022; (ii) the audited balance sheet of Chizicheng Strategy Investment and the audited consolidated balance sheet of the Fund (Chizicheng Strategy Investment, the Fund and the subsidiaries including controlled structured entities of the Fund are collectively referred to as "Target Group"), as set out in Appendix II(I) and Appendix II(II) respectively to the circular; and (iii) the pro forma adjustments prepared to reflect the effects of the acquisition by the Group and the Deeds of Amendment as explained in the notes set out below that are directly attributable to the acquisition and the Deeds of Amendment, not relating to other future events or decisions and are factually supportable.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information contained in this circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors of the Company for illustrative purposes only and is based on a number of assumptions, estimates and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Enlarged Group had the Acquisition been completed and the Deeds of Amendment taken effect on 31 December 2022 or any future date.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP AS AT 31 DECEMBER 2022

	The Group as at 31 December 2022	Target Group: Chizicheng Strategy Investment as at 31 December 2022	Target Group: The Fund as at 31 December 2022	Pro forma adjustments				Unaudited pro forma statement of assets and liabilities of the Enlarged Group as at 31 December 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
ASSETS								
Non-current assets								
Property and equipment	122,155	–	8,531	–	–	–	–	130,686
Intangible assets	185,635	–	100,109	–	17,406	–	–	303,150
Goodwill	197,287	–	46,276	–	254,080	–	–	497,643
Deferred tax assets	224	–	–	–	–	–	–	224
Investments accounted for using the equity method	176,051	–	–	–	(148,559)	–	–	27,492
Financial assets measured at fair value through profit or loss	38,226	–	–	–	–	–	–	38,226
Other receivable	22,812	–	–	–	–	–	–	22,812
Other non-current assets	1,210	–	50	–	–	–	–	1,260
Total non-current assets	743,600	–	154,966	–	122,927	–	–	1,021,493
Current assets								
Inventories	–	–	11,567	–	–	–	–	11,567
Other current assets	7,445	–	–	7,866	–	–	–	15,311
Accounts receivable	164,877	1,268	23,034	32,905	–	(1,268)	–	220,816
Other receivable	56,893	–	63,089	(40,771)	–	–	–	79,211
Financial assets measured at fair value through profit or loss	149,401	–	–	–	–	–	–	149,401
Restricted bank deposits	1,272	–	–	–	–	–	–	1,272
Cash and cash equivalents	596,729	–	143,550	–	–	–	–	740,279
Total current assets	976,617	1,268	241,240	–	–	(1,268)	–	1,217,857
Total assets	1,720,217	1,268	396,206	–	122,927	(1,268)	–	2,239,350

	The Group as at 31 December 2022	Target Group: Chizicheng Strategy Investment as at 31 December 2022	Target Group: The Fund as at 31 December 2022	Pro forma adjustments				Unaudited pro forma statement of assets and liabilities of the Enlarged Group as at 31 December 2022
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 1	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
LIABILITIES								
Non-current liabilities								
Lease liabilities	86,244	–	666	–	–	–	–	86,910
Deferred tax liabilities	46,889	–	24,091	–	5,047	–	–	76,027
Other non-current liabilities	–	–	1,700	–	–	–	–	1,700
Total non-current liabilities	133,133	–	26,457	–	5,047	–	–	164,637
Current liabilities								
Accounts payable	189,739	–	38,875	21,238	–	–	–	249,852
Contract liabilities	18,089	–	35,608	–	–	–	–	53,697
Tax payable	4,934	–	3,764	–	–	–	–	8,698
Bank overdraft	67	–	–	–	–	–	–	67
Lease liabilities	25,879	–	3,314	–	–	–	–	29,193
Other payable	110,366	–	136,267	(21,238)	–	(1,268)	4,946	229,073
Total current liabilities	349,074	–	217,828	-	–	(1,268)	4,946	570,580
Total liabilities	482,207	–	244,285	-	5,047	(1,268)	4,946	735,217
Net assets	1,238,010	1,268	151,921	–	117,880	–	(4,946)	1,504,133

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. The balances are extracted from the audited consolidated balance sheet of the Group as at 31 December 2022 as set out in the published annual report for the year ended 31 December 2022.

2. The assets and liabilities of Chizicheng Strategy Investment and the Fund are extracted from the audited balance sheet of Chizicheng Strategy Investment and the audited consolidated balance sheet of the Fund as at 31 December 2022 as set out in the accountants' reports prepared by KPMG, the text of which is set out in Appendix II(I) and Appendix II(II) respectively to this circular.

3. Certain reclassifications have been made to conform with the Group's presentation.

4. Before the completion of the Acquisition, the Group accounted for its investment in the Fund as a joint venture using equity method and the carrying amount of the investment amounted to RMB149 million as at 31 December 2022.

   Upon the completion of the Acquisition, the Group will control the Fund through its control of Chizicheng Strategy Investment and the interests held by the Company in the Fund, and therefore, the Group will consolidate the results and financial position of Chizicheng Strategy Investment and the Fund. The cost of investment in the subsidiary will be recorded at the aggregate of the consideration of the Sale and Purchase Agreement of USD1.00 and the fair value of the Company's previous investment in the Fund as at 31 December 2022.

   For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, the Group has estimated the fair values of the assets and liabilities of the Target Group based on the valuation report as at 31 December 2022 of the Fund prepared by an independent professional valuer. The acquisition accounting adjustments comprise the recognition of:

   (i) fair value adjustments of intangible assets of the Target Group upon Acquisition; and

   (ii) the related tax adjustments from the fair value adjustments based on the applicable tax rate.

   The calculation of goodwill is as follows:

	RMB'000
Consideration *(i)*	382,574
Less: total net identifiable assets of the Target Group *(ii)*	(119,272)
Add: non-controlling interests in net assets of the Target Group *(iii)*	37,054
Goodwill	300,356

(i) Consideration:

Cash consideration	–
Fair value of the acquirer's previously held equity interest	382,574
Total purchase consideration *(a)*	382,574

(ii) Total net identifiable assets of the Target Group:

Carrying amounts of net assets of the Target Group *(b)*	153,189
Fair value adjustments on:	
– Derecognition of Goodwill currently carried in the Target Group's books *(b)*	(46,276)
– Derecognition of net intangible assets (excluding software) carried in the Target Group's books *(b)*	(99,148)
– Derecognition deferred tax liabilities carried in the Target Group's books *(b)*	24,091
– Valuation adjustments of intangible assets *(b)*	116,554
– Deferred tax liabilities recognised *(c)*	(29,138)
Total net identifiable assets of the Target Group	119,272

(iii) Non-controlling interests in net assets of the Target Group

	RMB'000
Non-controlling interests in BlueCity and Land of Glory *(d)*	30,809
Non-controlling interests in the Fund *(d)*	6,245
Non-controlling interests in net assets of the Target Group	37,054

(a) The consideration for the Acquisition of the Target Group is RMB383 million, which is the aggregate of the consideration of the Sale and Purchase Agreement of USD1.00 and the fair value of the Company's previous investment in the Fund as at 31 December 2022. The fair value of the Company's previous investment in the Fund as at 31 December 2022 was estimated by the directors after considering the valuation report prepared by an independent professional valuer using the market approach.

(b) For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, the Directors, based on the valuation report prepared by an independent professional valuer, considered that except for the intangible assets, the fair value of other assets and liabilities of the Target Group are the same as their respective carrying amounts as at 31 December 2022.

Intangible assets represented the Target Group's brand name, technologies, user bases and licenses and are estimated by the directors after considering the valuation report prepared by an independent professional valuer. The valuation used relief-from-royalty method for brand name, cost approach for technologies and licenses, and cost saving method for user bases, respectively.

(c) The adjustments on deferred income tax liabilities are determined based on the difference between the tax bases and fair values of intangible assets by applying the Fund's expected tax rate of 25% in the period when the liabilities are settled.

(d) Non-controlling interests in BlueCity and Land of Glory represent approximately 21.1% equity interest not held by the Fund in BlueCity and Land of Glory. Non-controlling interests in the Fund represent approximately 7.06% interest held by Spriver in the Fund.

(e) For the purpose of the Unaudited Pro Forma Financial Information of the Enlarged Group, the directors have made an assessment on whether there is any impairment in respect of the goodwill arising from the Acquisition with reference to International Accounting Standard 36 "Impairment of Assets" ("IAS 36") and the Directors consider that there is no impairment provision required for the purpose of this Unaudited Pro Forma Financial Information. The Company will adopt consistent accounting policies and principal assumptions and valuation method (as used in the Unaudited Pro Forma Financial Information of the Enlarged Group) to assess the impairment of the Enlarged Group's goodwill in the future, and communicate such basis with its external auditor and audit committee.

Since the fair values and carrying amounts of the identifiable net assets of the Target Group as at the Completion may be materially different from their respective values used in the preparation of this Unaudited Pro Forma Financial Information, the actual amounts of the assets and liabilities to be recorded in the consolidated financial statements of the Group upon Completion may be materially different from the estimated amounts shown in this Appendix.

5. The adjustment represents eliminations of the balances between companies within the Enlarged Group on the Unaudited Pro Forma Financial Information upon the completion of the Acquisition as if the Acquisition had been completed on 31 December 2022. The balances represented the receivable/payable arising from the portfolio management service provided by Chizicheng Strategy Investment as the general partner to the Fund.

6. The adjustment represents the estimated professional fees of approximately RMB4,946,000, relating to the Acquisition. The amount is assumed to be paid after the completion of the acquisition and will be charged to the profit or loss of the Group.

7. No adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions entered into by the Enlarged Group subsequent to 31 December 2022.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report on the unaudited pro forma financial information of the Enlarged Group received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Newborn Town Inc.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Newborn Town Inc. (the "Company") and its subsidiaries (collectively the "Group"), Chizicheng Strategy Investment Limited ("Chizicheng Strategy Investment") and Metaclass Management ELP and its subsidiaries by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 December 2022 and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages 207 to 211 of the Company's circular dated 30 June 2023, in connection with the proposed acquisition of the entire issued share capital of Chizicheng Strategy Investment (the "Transaction") by the Company and the deed of amendment entered into by the Company, Spriver Tech Limited ("Spriver") and Chizicheng Strategy Investment on 23 March 2023 (after trading hours) and the second deed of amendment dated 18 April 2023 between the Company, Spriver and Chizicheng Strategy Investment (collectively the "Deeds of Amendment"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages 207 to 211 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Transaction and the Deeds of Amendment on the Group's financial position as at 31 December 2022 as if the Transaction had taken place and the Deeds of Amendment had taken effect at 31 December 2022. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the year ended 31 December 2022, on which an audit report has been published.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong SAR, China
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Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Management (HKSQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements,* issued by the HKICPA, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction and the Deeds of Amendment at 31 December 2022 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 30 June 2023

Set out below is the management discussion and analysis on the Target Group for the periods indicated, which is based on and should be read in conjunction with the historical financial information of the Target Group as set out in Appendix II to this circular.

BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

Chizicheng Strategy Investment (the "Target Company") was incorporated in Cayman Islands on 11 January 2022. The Target Company is the General Partner of the Fund, other than which, the Target Company does not have any other business carried out by itself or through any of its subsidiaries.

The Fund was incorporated on 20 January 2022. The Fund directly holds 78.86% interest in Multelements and 78.92% interest in Land of Glory, other than which, the Fund did not have any other business as at the Latest Practicable Date.

On 12 August 2022, a wholly-owned subsidiary of Multelements completed its merger with BlueCity, upon which BlueCity became a wholly-owned subsidiary of Multelements and ceased to be a publicly traded company. Other than holding 100% interest in BlueCity, Multelements does not have any other business. BlueCity, and its subsidiaries, the VIE and the subsidiaries of the VIE (collectively, the "Target Business Group"), operate a global LGBTQ platform with users from more than 200 countries and regions.

As a result of the said going-private transaction, the Fund has consolidated results of operations of the Target Business Group since 12 August 2022.

Following the completion of the going-private transaction of BlueCity, the Fund effected a reorganisation, after which Land of Glory, a subsidiary of BlueCity before the reorganisation, became a direct subsidiary of the Fund. The offshore business that were historically owned and operated by BlueCity, through its operating and holding entities, (the "Offshore Business") were transferred to Land of Glory. The Offshore Business mainly engages in the operation of the international version of the mobile app *Blued* with online social networking and live streaming functions for global users outside China.

For details, please see Note 1 "Basis of preparation and presentation of Historical Financial Information and background information" to the Historical Financial Information of the Fund included in the Accountants' Report in Appendix II (II) to this circular.

THE TARGET COMPANY (CHIZICHENG STRATEGY INVESTMENT)

Other than those related to the partnership interest in the Fund and the portfolio management service provided to the Fund, the Target Company has not incurred any material income or expenses for the period from 11 January 2022 (date of incorporation) to 31 December 2022, and it did not hold any material asset as at 31 December 2022. Therefore, the financial review and liquidity and financial resources of the Target Company are not specifically discussed in this section.

Capital Commitment

As at 31 December 2022, the Target Company did not have any significant capital commitment.

Gearing Ratio

As at 31 December 2022, the Target Company did not have any borrowings, therefore gearing ratio was not applicable.

Foreign Exchange Exposure

For the period from 11 January 2022 to 31 December 2022, the Target Company was not exposed to any significant foreign currency risk.

Employees and Remuneration Policy

The Target Company did not have any staff for the period from 11 January 2022 to 31 December 2022.

Contingent Liabilities

As at 31 December 2022, the Target Company did not have any significant contingent liabilities.

Charge on Assets

As at 31 December 2022, the Target Company did not have any charge on assets.

Significant Investment

Other than the partnership interest in the Fund, the Target Company did not hold any significant investments as at 31 December 2022.

Future Plans for Material Investments

As at the Latest Practicable Date, the Fund did not have any future plans for material investments or acquisition of capital assets.

THE FUND

Other than the results of operations and financial position attributable to the consolidation of the Target Business Group and the Offshore Business, the Fund has not incurred material income or expenses for the period from 20 January 2022 (date of incorporation) to 31 December 2022 and did not have material assets and liabilities as at 31 December 2022. Therefore, the financial review and liquidity and financial resources of the Fund are not specifically discussed in this section. Please see below management discussion and analysis on the Target Business Group for details.

Capital Commitment

As at 31 December 2022, the Fund did not have material capital commitment.

Gearing Ratio

As at 31 December 2022, the Fund did not have any borrowings, therefore gearing ratio was not applicable.

Foreign Exchange Exposure

The subsidiaries of the Fund operate business internationally and a portion of subsidiaries' cash and cash equivalents, accounts and other receivables and accounts and other payables were denominated in a foreign currency other than the functional currency of the operations to which the transactions relate. There are also exchange differences on translation of financial statements of foreign operations. The subsidiaries of the Fund are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar, Hong Kong dollar, Vietnamese Dong and Japanese Yen. The subsidiaries of the Fund manage the foreign exchange risk by performing regular reviews of its foreign exchange exposures.

Employees and Remuneration Policy

The Fund did not have any staff for the period from 20 January 2022 to 31 December 2022. As at 31 December 2022, the subsidiaries of the Fund had a total of 529 employees, which were mainly employees of the Target Business Group and Land of Glory. The subsidiaries of the Fund remunerate their employees based on salaries, wages and other benefits.

Contingent Liabilities

As at 31 December 2022, the Fund did not have any significant contingent liabilities.

Charge on Assets

As at 31 December 2022, the Fund did not have any charge on assets.

Significant Investment

Except for the acquisition of the Target Business Group, as set out in Note 10 "Business Combination" to the Historical Financial Information of the Fund included in the Accountants' Report in Appendix II (II) to this circular, for the period from 20 January 2022 to 31 December 2022, the Fund did not have any other significant investment or material acquisition and disposal.

Future Plans for Material Investments

As at the Latest Practicable Date, the Fund did not have any future plans for material investments or acquisition of capital assets.

THE TARGET BUSINESS GROUP

Business Review

The Target Business Group operates an internet technology platform dedicated to providing a comprehensive suite of services that fosters connections for and enhances the well-being of the LGBTQ community, with users from more than 200 countries and regions. It provides online social networking services, live streaming services, professional health-related merchandise sales and a variety of public interest services with ease to access through four platforms, namely *Blued*, *Finka*, *He Health* and *Danlan Public Interest*. After the aforementioned divestment of the Offshore Business in August 2022, the Target Business Group focuses on operating and developing its business and services in China.

Financial Review

Revenue

For the years ended 31 December 2020, 2021 and 2022, the total revenue of the Target Business Group amounted to RMB1,031.3 million, RMB1,076.6 million and RMB921.2 million, respectively, which primarily comprised the revenue derived from live streaming services, membership services, merchandise sales and advertising services.

The total revenue of the Target Business Group increased by RMB45.3 million from RMB1,031.3 million in 2020 to RMB1,076.6 million in 2021, mainly attributable to (i) the increase in the number of paying users benefited from diverse membership service offerings on its apps, and (ii) the continued expansion of the health-related merchandise sales. The total revenue of the Target Business Group decreased by RMB155.4 million from RMB1,076.6

million in 2021 to RMB921.2 million in 2022, mainly due to the divestment of the Offshore Business and a decrease in revenue from domestic live streaming services as a result of the headwinds in the talent show live streaming industry in China.

Cost of Revenues

For the years ended 31 December 2020, 2021 and 2022, the cost of revenues of the Target Business Group amounted to RMB713.7 million, RMB728.6 million and RMB576.3 million, respectively, which mainly comprised revenue-sharing fee paid to talent agencies in accordance with revenue-sharing arrangements, commission fees paid to mobile app stores and third-party payment platforms, cost of merchandise and staff costs. Changes in the cost of revenues were primarily in line with changes in revenues of the Target Business Group for the same years.

Gross Profit and Gross Profit Margin

For the years ended 31 December 2020, 2021 and 2022, the Target Business Group recorded a gross profit of RMB317.6 million, RMB348.0 million and RMB344.8 million, respectively. The gross profit margin increased from 30.8% in 2020 to 32.3% in 2021 and further to 37.4% in 2022, primarily because the revenue from high-gross-margin membership service as a percentage in its total revenue recorded notable increases during the same years.

Other Income/(Loss), Net

For the years ended 31 December 2020, 2021 and 2022, the Target Business Group recorded other income/(loss), net of RMB4.6 million, RMB(3.5) million and RMB21.9 million, respectively.

The other income/(loss) of the Target Business Group decreased from RMB4.6 million in 2020 to RMB(3.5) million in 2021, mainly due to the loss on disposal of family planning services, partially offset by the increase in government grant. The other income/(loss) of the Target Business Group increased from RMB(3.5) million in 2021 to RMB21.9 million in 2022, primarily because of the gains recognised on the divestment of the Offshore Business in 2022.

Selling and Marketing Expenses

For the years ended 31 December 2020, 2021 and 2022, the selling and marketing expenses incurred by the Target Business Group amounted to RMB181.7 million, RMB219.9 million and RMB101.2 million, respectively.

The selling and marketing expenses of the Target Business Group increased by RMB38.2 million from RMB181.7 million in 2020 to RMB219.9 million in 2021, mainly due to increases in (i) staff costs for sales and marketing personnel, and (ii) advertising expenses primarily in relation to the advertising efforts in the domestic market. The selling and marketing expenses of the Target Business Group decreased by RMB118.7 million from RMB219.9 million in 2021 to RMB101.2 million in 2022, mainly due to decreases in staff costs for sales and marketing personnel and advertising expenses in the global market as a result of its cost reduction efforts.

Technology and Development Expenses

For the years ended 31 December 2020, 2021 and 2022, the technology and development expenses incurred by the Target Business Group amounted to RMB143.1 million, RMB223.2 million and RMB164.6 million, respectively.

The technology and development expenses of the Target Business Group increased by RMB80.1 million from RMB143.1 million in 2020 to RMB223.2 million in 2021, mainly due to (i) an increase in the headcount of technology and development staff, and (ii) an increase in content, server and bandwidth costs associated with technology and development activities. The technology and development expenses of the Target Business Group decreased by RMB58.6 million from RMB223.2 million in 2021 to RMB164.6 million in 2022, mainly due to decreases in technology and development staff costs and content, servers and bandwidth costs as a result of the cost reduction efforts and the divestment of the Offshore Business.

General and Administrative Expenses

For the years ended 31 December 2020, 2021 and 2022, the general and administrative expenses incurred by the Target Business Group amounted to RMB183.1 million, RMB104.2 million and RMB136.6 million, respectively.

The general and administrative expenses of the Target Business Group decreased by RMB78.9 million from RMB183.1 million in 2020 to RMB104.2 million in 2021, mainly in relation to share-based compensation expenses. The general and administrative expenses of the Target Business Group increased by RMB32.4 million from RMB104.2 million in 2021 to RMB136.6 million in 2022, mainly due to the increase in professional fees in relation to the going-private transaction.

Impairment Loss on Non-financial Assets

For the years ended 31 December 2020, 2021 and 2022, the Target Business Group recorded impairment loss on non-financial assets of nil, RMB109.9 million and nil, respectively. The impairment loss on non-financial assets incurred in 2021 was mainly related to the impairment of goodwill, details of which were set out in Note 10 to the Historical Financial Information of the Target Business Group included in the Accountants' Report in Appendix II (III) to this circular.

Finance Income, Net

For the years ended 31 December 2020, 2021 and 2022, the finance income, net generated by the Target Business Group amounted to RMB5.1 million, RMB0.4 million and RMB0.9 million, respectively.

The Target Business Group's finance income, net decreased by RMB4.7 million from RMB5.1 million in 2020 to RMB0.4 million in 2021, primarily due to the decrease in interest income as a result of the decrease in cash and cash equivalents and term deposits. The Target Business Group's finance income, net increased by RMB0.5 million from RMB0.4 million in 2021 to RMB0.9 million in 2022, primarily due to the decrease in interest on lease liabilities.

Changes of the Carrying Amount of Preferred Shares

For the years ended 31 December 2020, 2021 and 2022, the Target Business Group recorded changes of the carrying amount of preferred shares of RMB244.1 million, nil and nil, respectively. Such preferred shares in 2020 were converted into ordinary shares of the Target Business Group upon its listing on the Nasdaq in July 2020. For details of the preferred shares, please refer to Note 20 to the Historical Financial Information of the Target Business Group included in the Accountants' Report in Appendix II (III) to this circular.

Profit/(Loss) for the Year

For the years ended 31 December 2020, 2021 and 2022, the Target Business Group recorded a profit/(loss) for the year of RMB62.3 million, RMB(312.9) million and RMB(34.0) million, respectively. The profit for the year of RMB62.3 million in 2020 turned into the loss for the year of RMB312.9 million primarily because (i) it recognised changes of the carrying amount of preferred shares in 2020, while nil in 2021, as all preferred shares were converted into ordinary shares upon its listing on Nasdaq in July 2020, and (ii) it recorded an impairment loss on goodwill and intangible assets in 2021. The loss for the year reduced from RMB312.9 million in 2021 to RMB34.0 million in 2022, primarily due to the decreases in servers, bandwidth and cloud infrastructure costs, staff costs and advertising expenses mainly as a result of its cost reduction efforts, and the gains on divestment of the Offshore Business.

Liquidity and Financial Resources

The total assets of the Target Business Group mainly consist of cash and cash equivalents, amounts due from related parties, prepayments, deposits and other receivables, accounts receivables, goodwill, intangible assets and property and equipment. As at 31 December 2020, 2021 and 2022, the Target Business Group recorded total assets of RMB963.3 million, RMB625.7 million and RMB391.3 million, respectively. The decreases in its total assets were primarily in relation to (i) reduction in property and equipment mainly as a result of the expiry and depreciation charge of office leases, (ii) amortisation of intangible assets; and (iii) reduction in terms deposits and cash and cash equivalents.

As at 31 December 2020, 2021 and 2022, the net current assets of the Target Business Group were RMB494.7 million, RMB305.4 million and RMB65.3 million, respectively. The decrease in net current assets were mainly due to decreases in cash and cash equivalents and term deposits.

The Target Business Group financed its operations and working capital requirements primarily through cash generated by historical equity financing activities and the proceeds from its initial public offering. As at 31 December 2020, 2021 and 2022, the cash and cash equivalents of the Target Business Group were RMB449.5 million, RMB360.8 million and RMB117.4 million, respectively. The decreases in cash and cash equivalents were mainly due to operating loss and dividends paid. The Target Business Group regularly monitors its liquidity requirements, to ensure that it maintains sufficient reserves of cash and cash equivalents and retains adequate financing arrangements with investors to meet its liquidity requirements in the short and longer term.

As at 31 December 2020, 2021 and 2022, the Target Business Group did not have any outstanding bank borrowings.

Gearing Ratio

As at 31 December 2020, 2021 and 2022, the gearing ratio (calculated as total interest-bearing borrowings divided by total equity) of the Target Business Group was nil, nil and nil, respectively.

Capital Management

The Target Business Group's primary objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The directors of the Target Business Group review the capital structure based on the Target Business Group's gearing ratio. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The Target Business Group will balance its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt.

Foreign Exchange Risk

Substantially all revenues and expenses of the Target Business Group are denominated in RMB. The Target Business Group does not believe that it currently has any significant direct foreign exchange risk and has not used any derivative financial instruments to hedge exposure to such risk.

The Target Business Group's cash and cash equivalents, accounts and other receivables and accounts and other payables were denominated in various foreign currencies, such as U.S. dollar, Hong Kong dollar, Vietnamese Dong and Japanese Yen. The Target Business Group manages the foreign exchange risk by performing regular reviews of its foreign exchange exposures.

Contingent Liability

As at 31 December 2020, 2021 and 2022, the Target Business Group did not have any significant contingent liability.

Capital Commitments

As at 31 December 2020, 2021 and 2022, the Target Business Group did not have any significant capital commitments.

Charges on Assets

As at 31 December 2020, 2021 and 2022, the Target Business Group did not have any charge over its assets.

Material Investments and Material Acquisitions and Disposals

Except for the business combination set out in Note 11 to the Historical Financial Information of the Target Business Group included in the Accountants' Report in Appendix II (III) to this circular, for the years ended 31 December 2020, 2021 and 2022, the Target Business Group did not have any other material investment or material acquisition and disposal.

Employees and Remuneration Policy

As at 31 December 2020, 2021 and 2022, the Target Business Group had a total of 755, 801 and 497 employees, respectively. For the years ended 31 December 2020, 2021 and 2022, the staff costs (including the equity-settled share-based payment expenses) of the Target Business Group amounted to RMB312.5 million, RMB302.1 million and RMB247.0 million, respectively. The Target Business Group remunerates its employees based on salaries, wages and other benefits.

Future Plans for Material Investments

As at the Latest Practicable Date, the Target Business Group did not have any future plans for material investments or acquisition of capital assets.

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)	238,706,646	20.04%
	Concert party(5)	341,828,420	28.70%
	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)	341,828,420	28.70%
	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. The grant of 24,000,000 share options to Mr. LIU Chunhe and 6,000,000 share options to Mr. LI Ping has been approved by the Independent Shareholders at the EGM held on 31 March 2022.

(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 of the Laws of Hong Kong), 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. DIRECTORS' POSITIONS IN THE SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at the Latest Practicable Date, as disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, Spriver Tech Limited is interested in 238,706,646 Shares, representing approximately 20.04% of the total number of Shares in issue; and Parallel World Limited is interested in 73,121,774 Shares, representing approximately 6.14% of the total number of Shares in issue.

As at the Latest Practicable Date, Mr. LIU Chunhe, an executive Director of the Company who currently serves as the Chairman of the Board, is the sole director of Spriver Tech Limited, and Mr. LI Ping, an executive Director of the Company, is the sole director of Parallel World Limited.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or any proposed director of the Company was a director or employee of a company which had an interest and/or short position in the Shares and/or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. 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 SFO.

(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.

5. 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 Enlarged 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 2022, 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 Enlarged Group or were proposed to be acquired or disposed of by or leased to, any member of the Enlarged 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 Enlarged 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 Enlarged Group other than those businesses to which the Directors and their associates were appointed to represent the interests of the Company and/or the Enlarged Group.

6. 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 Enlarged Group.

7. 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
PricewaterhouseCoopers	Certified Public Accountants under Professional Accountants Ordinance (Cap.50)
	Registered Public Interest Entity Auditor under Accounting and Financial Reporting Council Ordinance (Cap.588)
KPMG	Certified Public Accountants
	Public Interest Entity Auditor Registered in accordance with the Accounting and Financial Reporting Council Ordinance

Each of 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/report and the references to its name in the form and context in which they appear respectively.

As at the Latest Practicable Date, each of 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, each of the expert mentioned above did not have, nor had, any direct or indirect interest in any assets which had been since 31 December 2022, 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.

8. 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 Enlarged Group since 31 December 2022 (being the date to which the latest published audited financial statements of the Group were made up).

9. MISCELLANEOUS

(i) The joint company secretaries are Mr. SONG Pengliang and Mr. AU-YEUNG Wai Ki, Joseph. Mr. AU-YEUNG Wai Ki is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

(ii) The registered office of the Company is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

(iii) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(iv) The English language text of this circular shall prevail over the Chinese language in case of inconsistency.

10. 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 Sale and Purchase Agreement;

(ii) the Partnership Agreement;

(iii) the First Deed of Amendment;

(iv) the Second Deed of Amendment;

(v) the VIE Agreements;

(vi) the accountants' reports on financial information of the Target Group from KPMG, the text of which is set out in Appendix II to this circular;

(vii) the report on unaudited pro forma financial information of the Group from PricewaterhouseCoopers, the text of which is set out in Appendix III to this circular;

(viii) the letter from Somerley; and

(ix) the consent letters referred to in the paragraph headed "7. Expert and Consent" of this appendix.

NEWBORN TOWN INC.
赤子城科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9911)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the first extraordinary general meeting of 2023 (the "**Meeting**") of Newborn Town Inc. (the "**Company**") will be held at 6/F, Tower B, Xiaoyun Road 33rd Building, Chaoyang District, Beijing, PRC on 19 July 2023 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. "**THAT**:

   (a) The Sale and Purchase Agreement and the transactions contemplated thereunder be and are hereby confirmed, approved, authorised and ratified; and

   (b) any one Director be and is hereby authorised on behalf of the Company to do all such acts and things and execute all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his sole opinion and absolute direction may consider necessary, appropriate or desirable to implement or give effect to the Sale and Purchase Agreement and the transactions contemplated thereunder."

2. "**THAT**:

   (c) The Deeds of Amendment and the transactions contemplated thereunder be and are hereby confirmed, approved, authorised and ratified; and

   (d) any one Director be and is hereby authorised on behalf of the Company to do all such acts and things and execute all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his sole opinion and absolute direction may consider necessary, appropriate or desirable to implement or give effect to the Deeds of Amendment and the transactions contemplated thereunder."

3. "**THAT**:

   (e) The VIE Agreements and the transactions contemplated thereunder be and are hereby confirmed, approved, authorised and ratified; and

   (f) any one Director be and is hereby authorised on behalf of the Company to do all such acts and things and execute all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his sole opinion and absolute direction may consider necessary, appropriate or desirable to implement or give effect to the VIE Agreements and the transactions contemplated thereunder (including the contractual arrangements)."

4. 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 each of the Sale and Purchase Agreement, the Deeds of Amendment, the VIE Agreements and the transactions contemplated thereunder (including the contractual arrangements) as are, in the opinion of the Directors (or a duly authorised committee thereof), in the interests of the Company.

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

Beijing, 30 June 2023

Registered office:
The offices of Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Island

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

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 17 July 2023 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 17 July 2023. 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 17 July 2023.

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.