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newborntown

NEWBORN TOWN INC.

赤子城 科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9911)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board of directors (the “**Board**”) of Newborn Town Inc. (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2022 (the “**Reporting Period**”). The interim results have been reviewed by the Audit Committee, and by PricewaterhouseCoopers in accordance with International Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the International Auditing and Assurance Standards Board. PricewaterhouseCoopers’s unmodified review report is included in the interim report to be sent to the Shareholders.

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

FINANCE HIGHLIGHT

- Revenue from contracts with customers for the six months ended 30 June 2022 amounted to RMB1,374.2 million, representing an increase of 32.3% from RMB1,038.5 million recorded for the six months ended 30 June 2021.
- Gross profit for the six months ended 30 June 2022 amounted to RMB482.4 million, representing a decrease of 7.8% from RMB523.0 million recorded for the six months ended 30 June 2021.
- Profit for the period for the six months ended 30 June 2022 amounted to RMB154.4 million, representing an increase of 11.6% from RMB138.4 million recorded for the six months ended 30 June 2021.
- Profit attributable to the owners of the Company for the six months ended 30 June 2022 amounted to RMB82.7 million, representing an increase of 121.3% from RMB37.4 million recorded for the six months ended 30 June 2021.
- Adjusted EBITDA for the six months ended 30 June 2022 amounted to RMB210.4 million, representing an increase of 19.5% from RMB176.1 million recorded for the six months ended 30 June 2021.

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue from contracts with customers	1,374,210	1,038,484
Gross profit	482,361	523,016
Profit before income tax	154,094	131,298
Profit for the period	154,374	138,355
Basic earnings per share (expressed in RMB per share)	0.07	0.04
Diluted earnings per share (expressed in RMB per share)	0.07	0.04
	<u>153,750</u>	<u>134,362</u>
Operating profit		
<i>Add:</i>		
Share-based compensation expenses ^{(1) (2)}	30,565⁽²⁾	16,518 ⁽¹⁾
Depreciation and amortization	26,059	25,204
	<u>210,374</u>	<u>176,084</u>
Adjusted EBITDA		

Notes:

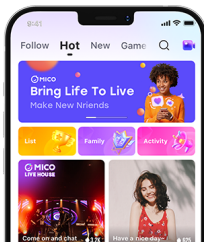
- (1) In May 2020 and March 2021, the Board approved the grant of an aggregate of 55,227,573 RSUs and 957,333 RSUs respectively to certain employees and management pursuant to the RSU Schemes. Share-based compensation expenses was recognized based on the vesting period of the RSU Schemes, and amounted to RMB15,445,000 for the six months ended 30 June 2021, tantamount to the economic benefits in relation to the benefit of the certain employees and management obtained from the Company. For further details, please refer to the announcements dated 28 May 2020 and 24 March 2021 of the Company. A subsidiary of the Company has recognized share-based compensation expenses amounting to RMB1,073,000 for the six months ended 30 June 2021 in relation to awards granted in 2018 pursuant to its share incentive plan.
- (2) In May 2020 and March 2021, the Board approved the grant of an aggregate of 55,227,573 RSUs and 957,333 RSUs respectively to certain employees and management pursuant to the RSU Schemes. Share-based compensation expenses was recognized based on the vesting period of the RSU Schemes, and amounted to RMB7,576,000 for the six months ended 30 June 2022, tantamount to the economic benefits in relation to the benefit of the certain employees and management obtained from the Company. For further details, please refer to the announcements dated 28 May 2020 and 24 March 2021 of the Company. A subsidiary of the Company has recognized share-based compensation expenses amounting to RMB5,465,000 for the six months ended 30 June 2022.

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

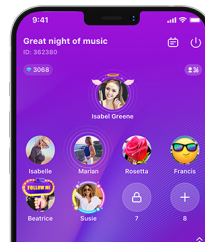
FINANCE HIGHLIGHT



Yummy - Heartbeat social networking platform



MICO - Open social networking platform



YoHo - Audio social networking platform



Unit: RMB

SUBSTANTIAL REVENUE GROWTH



Revenue amounted to RMB **1.37** billion increased by **32.3%** YOY

SIGNIFICANT INCREASE IN PROFIT



Adjusted EBITDA amounted to RMB **0.21** billion increased by **19.5%** YOY



Profit attributable to the owners of the Company amounted to RMB **82.7** million increased by **121.3%** YOY

RAPID GROWTH OF SOCIAL NETWORKING BUSINESS



Revenue of social networking business amounted to RMB **1.27** billion increased by **52.4%** YOY



Total downloads of social media APPs reaching **419** million
Over **23.09** million average monthly active users of our social networking products

ACCELERATION OF UNLOCKING VALUE OF SOCIAL NETWORKING PRODUCTS



MICO **Top-15** social networking app in terms of sales in the **US** and **Japan**



YoHo Remaining stable at the top of the list in the **Middle East**, with breakthrough layout in the **global** market



Yummy **Top-10** social networking app in terms of sales in **50** countries/regions

INNOVATIVE BUSINESS FORMS THE SECOND GROWTH CURVE



Revenue amounted to RMB **0.11** billion increased by **91.7%** as compared to H2 2021

NICHE GAMES WERE WELL POSITIONED



Synthesis handheld games achieved an S-grade **Top-30** decryption type of games in terms of sales in over **30** countries



Launched large-scale promotion and monetization

CHAIRMAN’S STATEMENT

Dear Shareholders,

In the first half of 2022, Newborn Town Inc. adhered to the development strategy of “concerning profit and scaling up”, attained improvement in quality and efficiency of its businesses through continuous refinement of products, technology and business models as well as high-quality development, and achieved healthy growth in income and profit.

During the period under review, our total revenue amounted to RMB1.37 billion, an increase by 32.3% compared with the same period in previous year; the adjusted EBITDA was RMB0.21 billion, an increase by 19.5% year on year; and profit attributable to the owners of the Company amounted to RMB82.7 million, an increase by 121.3% year on year, representing a significant growth.

The increase in revenue and profit was mainly attributable to the contribution from social networking business. Newborn Town Inc. has been developing global open social networking sector for a long time. In the first half, the Company continued to carry forward the strategy of “diversifying products and scaling up market share” and continuously expanded the coverage of global open social networking through “country replication”. We are delighted that our products have made breakthroughs in strategic markets such as Japan and the United States, and by entering high-value markets and optimizing content ecology, the overall efficiency of our social networking business has improved, realizing higher value growth.

As of 30 June 2022, the total downloads of our social networking products reached 419 million. In the second quarter of 2022, the average monthly active users exceeded 23.09 million, an increase by 27% year on year. Benefiting from the successful replication of social networking apps in many global markets and the improvement of commercialization efficiency, our social networking business revenue amounted to RMB 1.27 billion, an increase by 52.4% year on year.

With the high-quality growth of the core social networking business, our innovative business was also beginning to show the second growth curve. At present, our innovative businesses such as niche games are progressing smoothly, with revenue for the first half of this year reaching RMB0.11 billion, an increase of 91.7% compared with the second half of 2021. The revenue of innovative businesses has increased significantly and we gradually entered the payback stage.

Meanwhile, we continued to practice “long-termism” around the world and actively undertook social responsibility. We donated anti-pandemic supplies of millions of Hong Kong dollars to Hong Kong government and school supplies to “African Hope Learning Centre”, and supported Egypt hospital – 57357 Children Cancer Hospital together with users. In the process of continuously integrating into overseas markets, we are deeply involved in the local industry development. In April this year, we launched the first local media meetup for the online social networking and entertainment industry in Egypt, and invited more than 20 local mainstream media to attend, which promoted the development of internet social networking industry in the Middle East.

As a leading overseas internet platform, Newborn Town Inc. has always been dedicating to contributing our Chinese solutions to digital life of global users. We will keep extending boundary with a focus on our social networking business, continuously explore diverse development opportunities at overseas market to achieve multi-dimensional development and forge head to the goal of becoming the largest global open social networking platform.

I hereby present the Company's financial position and operating highlights for the first half of 2022, and summarise strategies and outlook of the Company for the second half of 2022.

BUSINESS REVIEW

I. Social networking business: expanding global markets to maintain high-quality growth

Social networking is our core business. We have been focusing on global open social networking sector, connecting global users with diversified social networking products to satisfy their different needs, and have formed product portfolio including Yumy (an heartbeat social networking app), MICO (an open social networking platform), YoHo (an audio social networking app) and other audio and video social media products.

In the first half of 2022, our social networking business has achieved rapid development, making rapid progress in global markets. Yumy is a video social networking product we launched last year, which has the major feature of "10-second heartbeat and limited-time matching". It is a top-10 social networking app in terms of sales in 50 countries and regions, and has now entered into the stage of business model validation. MICO, one of our core products, continued to vigorously expanded into high-value markets as Europe, the United States, Japan and South Korea in the first half of 2022. It was a top-15 social networking app in terms of sales in the United States and Japan, and made breakthroughs in many developed countries. YoHo, which started in the Middle East, continued to consolidate its leading position in the Middle East market while further exploring other markets, being a top-10 social networking app in terms of sales in the United States, France, Italy and other countries, and rapidly expanding its share in non-Middle East regions.

The rapid development of our social networking business globally is mainly benefited from our constant upgrade of product experience and optimization of content ecology, which is supported by our middle-office capabilities and localization capabilities. Refined operations support the high-quality growth and greatly improved the commercialization efficiency of our social networking business. In the first half of the year, the average monthly active users of our social networking business increased by approximately 30% year-on-year, while revenue from social networking business increased by approximately 50% year-on-year, which demonstrated improvement in loyalty and payment willingness of our users.

In particular, we promoted the sustained rapid development of social networking business in the following five aspects:

Enriching social networking scenario

We have incorporated more social interaction gameplay into our products. For example, we launched light interactive games such as virtual pets in our products, and added vivid interactions such as high fives and pokes, which created a stronger interactive social atmosphere and significantly improved the retention rate of our products. Certainly, these functions and scenarios also opened up more commercialization potential for us.

Optimizing content ecology

We have improved the incentive policy for content creators at our platform. Save for attracting KOL creators, we also focus on developing new creators and offering them more help and support. Meanwhile, we customized activities that conform to the preferences of local users based on the cultural characteristics of different markets, and identified more accurate and highly sticky user base in each market. Additionally, we have further strengthened the content review mechanism to create a healthy social environment for users around the world.

Upgrading recommendation algorithm

Since the deployment of social networking business, each of our product lines has accumulated reusable capabilities in the process of rapid development, and gradually formed our middle platform system. In the first half of this year, we continued to improve the middle platform and optimize the recommendation algorithm, and achieved more accurate social networking connections and content distribution. For example, we identified users with the same interests in more accurate manner and guided them to gather in a room, recommended content creators who are better at “breaking the ice” to new users of the platform, and guided new users to start interaction more quickly.

Extensively cultivating localized operation overseas

In the first half of 2022, we continued to consolidate the concept of “localization” into our corporate strategy and focus on various large markets overseas. Our product team also tried to gain deeper understanding of the needs of local users, and better communicate and collaborate with the operation team, so as to achieve coordination. In general, we carried out localization deeply in products usage, users services and social responsibilities, sparing no efforts to make our products satisfying for local users and offering better social networking products and services for global users.

Expanding global market

We endeavored efforts to develop developed markets. For example, in Japan, one of the strategic markets, we have perfected a local team composed of local employees, cooperated with local football teams, musicians, etc., and planed dozens of different types of operational activities every month, which has attracted a large number of content creators and users to participate, and continuously improved the local brand influence of our product. Meanwhile, we were also continuing our efforts in emerging markets to consolidate our leading position. In addition, based on our “country replication” approach, some products that once focused on a single market were expanding into a wider market, such as YoHo, which was shifting from the Middle East to Southeast Asia, Europe and the United States and other regions. Our global social networking ecosystem was expanding as a whole.

II. Innovative business: the second growth curve began to emerge

With the rapid growth of social networking business, we actively developed innovative business. In the first half of the year, good progress has been made in the deployment and exploration of niche games and metauniverse field, which promoted the initial formation of the Company’s second growth curve.

Niche games

The Company has launched two high-quality synthesis games, being Mergeland-Animal Adventure and Mergeland-Alice’s Adventure, whose official versions were launched in April and June 2022, respectively. The Company maintained rapid iteration of such games to further enrich gameplay and optimize experience, and gradually entered the stage of large-scale promotion.

The downloads and revenue of Mergeland-Animal Adventure grew rapidly since the launch of their official versions, constantly refreshing the rankings of best-selling games in countries around the world. It is now a top 30 best-selling puzzle game of Google Play in more than 30 countries and regions including Canada, the United Kingdom, Portugal, and Australia.

Next, as the Company increases its efforts in promotion and level of users, the two products will enter the stage of large-scale monetization, opening up new space for us to grow in performance.

Metauniverse

In the first half of this year, we launched the world's first video social digital collection for social networking product Yumy. We have also reached cooperation with a number of leading corporations in the field of virtual technology to jointly explore digital virtual character creation, virtual scene creation, AI virtual technology empowerment, among others, to help us create social networking and game products with more immersive experience. In addition, the Company also invested in smart wearable hardware, and headed to the hardware "entrance" of the metaverse effectively, seeking to achieve multi-dimensional collaboration in social networking, gaming and other fields in the future.

Nowadays, our innovative business has stepped out of the painful period of transformation and has started generating returns. We expect that through the deployment and exploration of innovative businesses, we can achieve sustainable growth in the Company's second growth curve.

STRATEGY AND OUTLOOK

I. Further exploring the global market

The global open social networking market is regarded as the US\$100 billion blue ocean super sector. Data showed that it is expected that the total global social media market will reach US\$300 billion in 2024, in particular, the proportion of audio and video social networking to the global social media market will increase from 33.48% in 2019 to 60.33% in 2024. The global internet social networking industry will maintain rapid growth and has broad potential for development.

With a global vision, we will keep developing global open social networking sector and build world's top open social networking products. Meanwhile, we will also keep paying attention to the young user group such as generation Z, explore merging product types, continuously enrich our social networking product portfolio to satisfy niche needs of young groups and serve more groups to offer richer social networking experience for global users and further expand global user groups.

II. Consolidating social networking business barrier

As a global enterprise, the Company has been consistently committed to bringing optimal social networking products to all parts of the world and enriching the social entertainment life of global users. We will keep consolidating the ecological and technical advantages of our products, consolidating localization capabilities, and bringing more valuable services to global users.

We will continue to optimize the social networking and content ecology of our products. In the future, we will add more interactive scenarios to our products to strengthen the social attributes of our products; attract more high-quality content creators to our platform through different forms to enrich the types of content on the platform; and continue to enrich the ways content creators interact with users, thereby adding more commercialization scenarios.

We will continue to refine products and technologies, improve the middle platform system, further optimize the algorithm model, improve the efficiency of social networking matching and content distribution, and help global users find their favorite friends and content.

We will also continue to resolutely and extensively promote localized operations, enhance the ability of “country replication”, vigorously explore the markets in Europe, the United States, Japan and South Korea to acquire more high-value users, and continue to develop the markets in the Middle East and Southeast Asia to increase the penetration rate in emerging markets and continuously improve the global social networking ecology.

III. Keeping exploration of innovative business

We will continue to promote niche games strategy, rapidly iterate on existing game products, further enrich the gameplay, optimize the game experience, and promote large-scale promotion and monetization. On the basis of operating and iterating on the existing game products, we will keep vigorously develop middle and high-core game categories, expand game R&D teams, strengthen R&D strength, increase investment in R&D and promotion, expand user scale and market coverage, and improve game monetization ability. We expect that we can create more niche games and bring happiness to more players around the world.

In addition, we will continue to explore the metaverse, enrich metaverse elements in our products, and gradually build a metaverse social networking scene. We will also actively expand cooperation in the field of metaverse to bring a more immersive experience to users around the world.

Meanwhile, we will also actively explore diversified development opportunities in overseas markets, broaden the Company’s business scope, inject new vitality into the Company’s development, further expand the Company’s business scale, and cultivate future performance growth points.

We firmly believe that the global open social networking sector is at its growth stage, with bright future despite difficulties in its development. Newborn Town Inc. has made sufficient reserves in terms of product, technology and talent, laying a solid foundation for the global expansion of the Company’s social networking business. We will uphold the concept of long-termism, truly serve the market we are deeply developing, actively undertake our corporate social responsibility, propagate positive values, and enhance our global brand influence. We will also create more value for shareholders through sustained, diversified and high-quality performance growth.

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

Our total revenue increased by 32.3% to RMB1,374.2 million for the six months ended 30 June 2022 as compared to RMB1,038.5 million for the six months ended 30 June 2021. The following table sets forth a breakdown of our revenue by segments for the periods indicated:

	Six months ended 30 June		2021		YoY Change
	2022	% of Total	2021	% of Total	
	<i>RMB'000</i> <i>(unaudited)</i>	<i>revenue</i> <i>(unaudited)</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>revenue</i> <i>(unaudited)</i>	
Social networking business	1,265,945	92.1	830,625	80.0	52.4%
Innovative business	108,265	7.9	207,859	20.0	-47.9%
Total	<u>1,374,210</u>	<u>100.0</u>	<u>1,038,484</u>	<u>100.0</u>	<u>32.3%</u>

The revenue from social networking business increased by 52.4% to RMB1,265.9 million for the six months ended 30 June 2022 as compared to RMB830.6 million for the six months ended 30 June 2021, primarily because of (i) the increase of commercialization scenarios through incorporating more social interaction gameplay and social scenario into our products; (ii) the optimized content ecology and enriched ways for content creators to interact with users, which have improved more commercialization efficiency; (iii) the improved operational efficiency around the world breakthroughs that our social networking products have achieved in developed markets such as Europe, America, Japan and Korea, with significantly increased user value and monetization efficiency; and (iv) continuous optimization of the middle platform systems and recommendation algorithm model to precisely target the segmented needs of users in each market, which have improved the efficiency of our social products matching and content distribution.

The revenue from innovative business decreased by 47.9% to RMB108.3 million for the six months ended 30 June 2022 as compared to RMB207.9 million for the six months ended 30 June 2021, which is primarily because we iterated the original traffic monetisation business, and the niche game business has not yet entered the stage of scale monetization.

COST OF REVENUE

Our cost of revenue increased by 73.0% to RMB891.8 million for the six months ended 30 June 2022, as compared to RMB515.5 million for the six months ended 30 June 2021. The following table sets forth a breakdown of our cost of revenue by nature for the periods indicated:

	Six months ended 30 June		2021		YoY Change
	2022	% of Total	2021	% of Total	
	<i>RMB'000</i> <i>(unaudited)</i>	<i>(unaudited)</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>(unaudited)</i>	
Revenue sharing to streamers	625,095	45.5	311,470	30.0	100.7%
Payment handling costs	125,686	9.1	95,076	9.2	32.2%
Employee benefit expense	54,137	3.9	33,333	3.2	62.4%
Server capacity expense	31,509	2.3	18,502	1.8	70.3%
Intangible assets amortisation	20,383	1.5	20,419	2.0	-0.2%
Share-based compensation expenses	12,772	0.9	10,369	1.0	23.2%
Technical and other service fee	10,772	0.8	15,980	1.6	-32.6%
Others	11,495	0.8	10,319	1.0	11.4%
Total	891,849	64.8	515,468	49.8	73.0%

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

	Six months ended 30 June		2021		YoY Change
	2022	%	2021	%	
	<i>RMB'000</i> <i>(unaudited)</i>	<i>(unaudited)</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>(unaudited)</i>	
Social networking business	875,030	98.1	491,579	95.4	78.0%
Innovative business	16,819	1.9	23,889	4.6	-29.6%
Total	891,849	100.0	515,468	100.0	73.0%

The significant increase in the cost of revenue for the six months ended 30 June 2022 as compared with the corresponding period in 2021 was primarily attributable to the rapid development of social networking business and the corresponding increases in the cost.

The cost of revenue for social networking business increased by 78.0% to RMB875.0 million for the six months ended 30 June 2022 as compared to RMB491.6 million for the six months ended 30 June 2021, primarily due to the increase in revenue sharing to streamers of our social networking business and payment handling cost.

The cost of revenue for innovative business decreased by 29.6% to RMB16.8 million for the six months ended 30 June 2022 as compared to RMB23.9 million for the six months ended 30 June 2021, primarily due to the decrease of the revenue from innovative business and the corresponding decreases in the cost.

GROSS PROFIT AND GROSS PROFIT MARGIN

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

	Six months ended 30 June						YoY Chang in gross profit
	2022		2021				
	<i>Gross profit</i> (<i>unaudited</i>)	<i>%</i> (<i>unaudited</i>)	<i>Gross Profit margin</i> (<i>unaudited</i>)	<i>Gross Profit</i> (<i>unaudited</i>)	<i>%</i> (<i>unaudited</i>)	<i>Gross Profit margin</i> (<i>unaudited</i>)	
	<i>(RMB'000, except percentages)</i>						
Social networking business	390,915	81.0	30.9%	339,046	64.8	40.8%	15.3%
Innovative business	91,446	19.0	84.5%	183,970	35.2	88.5%	-50.3%
Total	482,361	100.0	35.1%	523,016	100.0	50.4%	-7.8%

Our gross profit decreased by 7.8% to RMB482.4 million for the six months ended 30 June 2022 as compared to RMB523.0 million for the six months ended 30 June 2021. The gross profit of our social networking business increased to RMB390.9 million for the six months ended 30 June 2022 from RMB339.0 million for the six months ended 30 June 2021, which was mainly because we kept deep-rooted into the open social networking sector in the global market. With the growth of revenue, gross profit also increased significantly. The decrease in the gross profit of our innovative business to RMB91.4 million for the six months ended 30 June 2022 from RMB184.0 million for the six months ended 30 June 2021 was mainly because we iterated the original traffic monetisation business, and the niche game business has not yet entered the stage of scale monetization.

Our gross profit margin decreased to 35.1% for the six months ended 30 June 2022 from 50.4% for the six months ended 30 June 2021. The gross profit margin of our social networking business decreased to 30.9% for the six months ended 30 June 2022 from 40.8% for the six months ended 30 June 2021, which was mainly attributable to the improvement of the incentive policy for content creators, resulting in an increase in the revenue sharing to streamers of social networking business. The gross profit margin of our innovative business decreased to 84.5% for the six months ended 30 June 2022 from 88.5% for the six months ended 30 June 2021.

SELLING AND MARKETING EXPENSES

For the six months ended 30 June 2022, our selling and marketing expenses decreased by 31.8% to RMB198.8 million as compared to RMB291.7 million for the six months ended 30 June 2021, primarily because we iterated the original traffic monetisation business, and the niche game business has not yet entered the stage of scale promotion.

RESEARCH AND DEVELOPMENT EXPENSES

For the six months ended 30 June 2022, our research and development expenses increased by 69.6% to RMB91.1 million as compared to RMB53.7 million for the six months ended 30 June 2021, primarily due to the increase in employee benefit expenses.

GENERAL AND ADMINISTRATIVE EXPENSES

For the six months ended 30 June 2022, our general and administrative expenses increased by 43.6% to RMB51.1 million as compared to RMB35.6 million for the six months ended 30 June 2021, primarily due to (i) an increase of RMB11.6 million in share-based compensation expenses; (ii) an increase of RMB5.0 million in employee benefit expenses; and (iii) an decrease of RMB2.2 million in depreciation and amortisation.

OPERATING PROFIT

For the six months ended 30 June 2022, our operating profit increased by 14.4% to RMB153.8 million as compared to RMB134.4 million for the six months ended 30 June 2021, primarily due to (i) a decrease of RMB92.9 million in our selling and marketing expenses; (ii) a decrease of RMB40.7 million in our gross profit; and (iii) an increase of RMB37.4 million in our research and development expenses.

FINANCE INCOME/(COST), NET

For the six months ended 30 June 2022, we recorded a net finance income of RMB0.5 million as compared to a net finance cost of RMB3.0 million for the six months ended 30 June 2021. Such change was primarily due to the settlement of the deferred consideration for the acquisition of approximately 23.27% equity interest of a subsidiary and the decrease in related finance costs.

INCOME TAX

For the six months ended 30 June 2022, we recorded income tax credits of RMB0.3 million as compared to the income tax credits of RMB7.1 million for the six months ended 30 June 2021, primarily due to the preferential tax rates enjoyed by some of our subsidiaries which were accredited as Software Enterprise under the relevant PRC Laws.

PROFIT FOR THE PERIOD

As a result of the foregoing, our profit for the period increased by 11.6% to RMB154.4 million for the six months ended 30 June 2022 as compared to RMB138.4 million for the six months ended 30 June 2021.

NON-IFRS MEASURES

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

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

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Operating profit	153,750	134,362
<i>Add:</i>		
Share-based compensation expenses ⁽¹⁾⁽²⁾	30,565⁽²⁾	16,518 ⁽¹⁾
Depreciation and amortization	26,059	25,204
Adjusted EBITDA	<u>210,374</u>	<u>176,084</u>
 Adjusted EBITDA growth	 19.5%	 753.2%

Notes:

- (1) In May 2020 and March 2021, the Board approved the grant of an aggregate of 55,227,573 RSUs and 957,333 RSUs respectively to certain employees and management pursuant to the RSU Schemes. Share-based compensation expenses was recognized based on the vesting period of the RSU Schemes, and amounted to RMB15,445,000 for the six months ended 30 June 2021, tantamount to the economic benefits in relation to the benefit of the certain employees and management obtained from the Company. For further details, please refer to the announcements dated 28 May 2020 and 24 March 2021 of the Company. A subsidiary of the Company has recognized share-based compensation expenses amounting to RMB1,073,000 for the six months ended 30 June 2021 in relation to awards granted in 2018 pursuant to its share incentive plan.
- (2) In May 2020 and March 2021, the Board approved the grant of an aggregate of 55,227,573 RSUs and 957,333 RSUs respectively to certain employees and management pursuant to the RSU Schemes. Share-based compensation expenses was recognized based on the vesting period of the RSU Schemes, and amounted to RMB7,576,000 for the six months ended 30 June 2022, tantamount to the economic benefits in relation to the benefit of the certain employees and management obtained from the Company. For further details, please refer to the announcements dated 28 May 2020 and 24 March 2021 of the Company. A subsidiary of the Company has recognized share-based compensation expenses amounting to RMB5,465,000 for the six months ended 30 June 2022.

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

CAPITAL STRUCTURE

We continued to maintain a healthy and sound financial position. Our total assets slightly decreased from RMB1,622.4 million as at 31 December 2021 to RMB1,620.4 million as at 30 June 2022, while our total liabilities decreased from RMB782.3 million as at 31 December 2021 to RMB307.9 million as at 30 June 2022. Liabilities-to-assets ratio decreased from 48.2% as at 31 December 2021 to 19.0% as at 30 June 2022.

FINANCIAL RESOURCES AND OPERATING CASH FLOW

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

As at 30 June 2022, our cash and cash equivalents was RMB737.9 million, compared with RMB724.6 million as at 31 December 2021.

Compared with RMB161.7 million for the six months ended 30 June 2021, the cash generated from operations for the six months ended 30 June 2022 decreased to RMB80.9 million. Such change was mainly due to the payment of previous revenue sharing to streamers and promotion expenses.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

To preserve funds for future capital expenditure and new business opportunities, we continue to invest surplus cash in commercial bank wealth management products and funds issued by major and reputable financial institutions, which generate relatively low risk income for us. We recognised such investments as financial assets measured at fair value through profit or loss of current portion and manage such investments in accordance with our internal policies as disclosed in the Prospectus. As at 30 June 2022, the fair value of such investments decreased to RMB138.4 million, compared with RMB166.1 million as at 31 December 2021. Such decrease was primarily due to the disposal and maturity of our investments.

CAPITAL EXPENDITURE

For the six months ended 30 June 2022, our capital expenditure primarily consisted of expenditures on property and equipment, including purchases of computers and other office equipment. The capital expenditure increased from RMB2.9 million for the six months ended 30 June 2021 to RMB3.1 million for the six months ended 30 June 2022, primarily due to the increase in the purchase of computers and other electronic devices during the six months ended 30 June 2022.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

We did not have any investment, acquisition or disposal of subsidiaries, associates and joint ventures during the six months ended 30 June 2022.

PLEDGE OF ASSETS

As at 30 June 2022, we did not pledge any of our assets.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

During the first half of 2022, the Company entered into the amended and restated exempted limited partnership agreement (“**Partnership Agreement**”) with Spriver and Chizicheng Strategy Investment Limited (“**Chizicheng Strategy Investment**”) and established the Fund upon the approval from independent shareholders at an extraordinary general meeting. Pursuant to the Partnership Agreement, the total fund-raising target of the Fund to be established shall be in the amount of US\$100 million, of which, Chizicheng Strategy Investment (as the General Partner) shall make cash contribution in the amount of US\$0.1 million, Spriver (as the Limited Partner) shall make cash contribution in the amount of US\$49.9 million, and the Company (as the Limited Partner) shall make cash contribution in the amount of US\$50 million. The purposes of the Fund include, among other things, to participate in the going-private transaction of BlueCity Holdings Limited, a NASDAQ – listed company (“**BlueCity**”) by making equity investment in the buyer consortium which will be formed for the purpose of acquiring all of the outstanding ordinary shares of BlueCity that are not beneficially owned by the buyer consortium. On 12 August 2022, the Company made most of the contribution to the Fund. And on the same day, the closing of the going-private transaction of BlueCity was completed.

CONTINGENT LIABILITIES

As at 30 June 2022, we did not have any material contingent liabilities.

FOREIGN EXCHANGE RISK MANAGEMENT

We operate our business internationally and our major receipts and payments are denominated in the U.S. dollar. We are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar and the Hong Kong dollar. Therefore, foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the respective functional currency of our Group’s entities. We managed foreign exchange risk by performing regular reviews of our foreign exchange exposures. We did not hedge against any fluctuations in foreign currency during the six months ended 30 June 2022.

OTHER PRINCIPAL RISKS AND UNCERTAINTIES

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

- We face competition in the rapidly evolving industry and we may not be able to keep continuous research and development and innovation, and may not be able to compete successfully against our existing and future competitors.
- If the mobile internet industry fails to continue to develop, our profitability and prospects may be materially and adversely affected.

- Any failure to retain existing advertisers and media publishers or attract new advertisers and media publishers may negatively impact our revenue and business.
- We may be held liable for information or content displayed on, distributed by or linked to our mobile apps and may suffer a loss of users and damage to our reputation.
- Misappropriation or misuse of privacy information and failure to comply with laws and regulations on data protection, including the General Data Protection Regulation, could result in claims, changes to our business practices, monetary penalties, increased cost of operations, or declines in users and customers, or otherwise harm our business.
- If we fail to prevent security breaches, cyber-attacks or other unauthorised access to our systems or our users' data, we may be exposed to significant consequences, including legal and financial exposure and loss of users, and our reputation.

EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 11 July 2022, the Group, as the lessee, entered into lease agreements with Beijing Wanhai Xingchen Enterprise Management Co., Ltd., as the lessor, in relation to the lease of certain floors of a building. The Group will recognise additions as right-of-use asset amounting to approximately RMB112 million in aggregate for the proposed lease term of 64 months.

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

For the six months ended 30 June 2022, neither the Company nor any member of the Group has purchased, sold or redeemed any of the Company's listed securities as of the date of the announcement.

SHARE REPURCHASE PURSUANT TO RSU AWARD SCHEME

The details of Shares purchased by Three D Partners Limited pursuant to RSU Award Scheme as at 30 June 2022 are as follows:

Total number of Shares purchased: 5,154,000

Percentage of the Shares purchased to the existing total number of Shares in issue: Approximately 0.43%

Average consideration per Share: Approximately HK\$2.88

Total consideration of Shares purchased: Approximately HK\$14,856,780

For further details, please refer to the announcements dated 9 June 2022, 16 June 2022 and 30 June 2022 of the Company.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 June 2022, we had a total of 733 full-time employees, based in Beijing, Shenzhen and Jinan. Among all employees, 440 of them are in R&D department, representing 60% of the total fulltime employees. The number of employees employed by the Group varies from time to time depending on needs, and employees are remunerated with reference to market conditions and individual employees' performance, qualification and experience.

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

AUDIT COMMITTEE

The Audit Committee has reviewed the Group's unaudited interim condensed consolidated financial information for the Reporting Period. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters.

The Audit Committee was of view that the Company's unaudited interim condensed consolidated financial information was prepared in accordance with the applicable accounting standards.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining and promoting stringent corporate governance. The principle of the Company's corporate governance is to promote effective internal control measures, uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business, to ensure that its affairs are conducted in accordance with applicable laws and regulations and to enhance the transparency and accountability of the Board to all Shareholders.

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

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

COMPLIANCE WITH THE MODEL CODE OF THE LISTING RULES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all Directors, each of the Directors has confirmed that he has complied with the required standards as set out in the Model Code during the Reporting Period.

INTERIM DIVIDEND

The Board has resolved that the interim dividend for the six months ended 30 June 2022 would not be declared.

USE OF PROCEEDS

Use of Proceeds from the Global Offering

The shares of the Company were listed on the main board of the Stock Exchange on 31 December 2019 by way of global offering, raising total net proceeds of HK\$166.9 million after deducting professional fees, underwriting commissions and other related listing expenses.

The Group will gradually utilise the net proceeds in accordance with the intended purposes and expected timeline as disclosed in the Prospectus and the announcement dated 24 March 2021 of the Company. The breakdown of the intended use and amount utilised as at 30 June 2022 were as follows:

	Budget <i>HK\$ million</i> <i>(approximately)</i>	Amount that had been utilised as at 30 June 2022 <i>HK\$ million</i> <i>(approximately)</i>	Remaining balance as at 30 June 2022 <i>HK\$ million</i> <i>(approximately)</i>	Proposed timetable for the use of unutilised net proceeds
To develop, expand and upgrade our Solo X product matrix	126.0	126.0	–	On or before 31 December 2022
To enhance the big data and AI capabilities of our Solo Aware AI engine	28.4	27.8	0.6	On or before 31 December 2022
To be used for working capital and other general corporate purposes	10.7	10.7	–	On or before 31 December 2022
To upgrade our Solo Math programmatic advertising platform	1.8	1.8	–	On or before 31 December 2022
Total	<u>166.9</u>	<u>166.3</u>	<u>0.6</u>	On or before 31 December 2022

Use of Proceeds from the Completion of Placing of Existing Shares and Subscription of New Shares Under General Mandate

On 24 January 2022, the Company, Spriver Tech Limited (the “**Seller**”) and CLSA Limited (the “**Sole Placing Agent**”) entered into the Placing and Subscription Agreement, pursuant to which, (i) the Seller agreed to sell, and the Sole Placing Agent agreed, as agent of the Seller, to procure on a best effort basis not less than six purchasers to purchase 92,366,000 Shares held by the Seller at a price of HK\$3.80 per Share, and (ii) the Seller conditionally agreed to subscribe for, and the Company conditionally agreed to issue, 92,366,000 new Shares at a price, which is equivalent to the Purchase Price of HK\$3.80 per Share.

The Directors considered that (i) the net proceeds from the Subscription will strengthen the financial position of the Group and provide additional working capital to the Group; (ii) the Placing and Subscription Agreement will be entered into upon normal commercial terms following arm’s length negotiations among the Company, the Seller and the Sole Placing Agent; and (iii) the Placing and the Subscription also will represent good opportunities to broaden the shareholder base and the capital base of the Company. Accordingly, the Directors considered that the Placing and the Subscription are in the interests of the Company and the Shareholders as a whole.

The completion of the Placing and the Subscription took place on 27 January 2022 and 4 February 2022, respectively. An aggregate of 92,366,000 Sale Shares have been successfully placed at the Purchase Price of HK\$3.80 per Sale Share to no less than six professional, institutional and/or other investors procured by the Sole Placing Agent. The aggregate nominal value of the Sale Shares was US\$9,236.60.

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, as at the date of this announcement, the placees and their respective ultimate beneficial owners are third parties independent of and not connected with the Company or its connected persons. None of the placees has become a substantial shareholder of the Company as a result of the Placing.

The Company received total net proceeds from the Placing and the Subscription, after deducting all the applicable costs and expenses of HK\$347.1 million.

The Group will gradually utilise the net proceeds in accordance with the intended use and expected timetable disclosed in the announcement dated 25 January 2022. The breakdown of the intended use and amount utilised as at 30 June 2022 were as follows:

	Budget <i>HK\$ million</i> <i>(approximately)</i>	Amount that had been utilised as at 30 June 2022 <i>HK\$ million</i> <i>(approximately)</i>	Remaining balance as at 30 June 2022 <i>HK\$ million</i> <i>(approximately)</i>	Proposed timetable for the use of unutilised net proceeds
Promoting the Company's business development and improving the efficiency in monetisation of social networking business and game business	173.6	173.6	-	On or before 31 December 2022
Pursuing strategic alliances, investments and acquisitions	<u>173.5</u>	<u>7.8</u>	<u>165.7</u>	On or before 31 December 2022
Total	<u><u>347.1</u></u>	<u><u>181.4</u></u>	<u><u>165.7</u></u>	On or before 31 December 2022

Note: The remaining proceeds are expected to be utilised on or before 31 December 2022, and is based on the Directors' best estimation of the future market conditions and thus subject to change.

PUBLICATION OF 2022 INTERIM RESULTS AND INTERIM REPORT

This interim results announcement will be published on the Stock Exchange's website www.hkexnews.hk and the Company's website www.newborntown.com. The interim report of the Company for the six months ended 30 June 2022 will be dispatched to shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in September 2022.

FINANCIAL INFORMATION

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2022

(Expressed in Renminbi (“RMB”))

	Note	Unaudited Six months ended 30 June	
		2022 RMB'000	2021 RMB'000
Revenue from contracts with customers	4	1,374,210	1,038,484
Cost of revenue	5	(891,849)	(515,468)
Gross profit		482,361	523,016
Selling and marketing expenses	5	(198,820)	(291,715)
Research and development expenses	5	(91,059)	(53,693)
General and administrative expenses	5	(51,117)	(35,587)
Net impairment losses on financial assets		(235)	(9,504)
Other income		1,009	5,099
Other gain/(loss) – net		11,611	(3,254)
Operating profit		153,750	134,362
Finance income		630	550
Finance cost		(124)	(3,530)
Finance income/(cost), net		506	(2,980)
Share of net loss of associates accounted for using the equity method		(162)	(84)
Profit before income tax		154,094	131,298
Income tax credits	6	280	7,057
Profit for the period		154,374	138,355
Profit attributable to:			
Owners of the Company		82,705	37,377
Non-controlling interests		71,669	100,978
Other comprehensive income/(loss), net of tax			
Items that will not be reclassified to profit or loss			
Currency translation differences		4,299	(292)
Items that maybe subsequently reclassified to profit or loss			
Currency translation differences		12,768	(4,113)
Total comprehensive income for the period		171,441	133,950
Total comprehensive income attributable to:			
Owners of the Company		102,531	34,528
Non-controlling interests		68,910	99,422
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
Basic earnings per share	7.1	0.07	0.04
Diluted earnings per share	7.2	0.07	0.04

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

as at 30 June 2022

(Expressed in RMB)

		Unaudited	Audited
		30 June	31 December
		2022	2021
	<i>Note</i>	RMB'000	RMB'000
ASSETS			
Non-current assets			
Property and equipment		13,049	16,107
Intangible assets		206,023	226,412
Goodwill		197,287	197,287
Financial assets measured at fair value through profit or loss		26,063	26,756
Investments accounted for using the equity method		2,628	2,789
Other receivable		23,934	21,835
Deferred tax assets		248	248
Other non-current assets		11,500	5,000
		<hr/>	<hr/>
Total non-current assets		480,732	496,434
		<hr/>	<hr/>
Current assets			
Other current assets		8,274	5,283
Accounts receivable	9	157,730	146,810
Other receivable		96,103	82,031
Financial assets measured at fair value through profit or loss		138,426	166,119
Cash and cash equivalents		737,951	724,588
Restricted bank deposits		1,222	1,163
		<hr/>	<hr/>
Total current assets		1,139,706	1,125,994
		<hr/>	<hr/>
Total assets		1,620,438	1,622,428
		<hr/> <hr/>	<hr/> <hr/>
LIABILITIES			
Current liabilities			
Accounts payable	10	175,082	226,120
Other payable		60,729	478,759
Lease liabilities		5,416	7,504
Contract liabilities		14,737	14,882
Bank overdraft		41	32
Tax payable		2,319	–
		<hr/>	<hr/>
Total current liabilities		258,324	727,297
		<hr/>	<hr/>

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

as at 30 June 2022

(Expressed in RMB)

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 <i>RMB'000</i>
Non-current liabilities		
Deferred tax liabilities	49,207	51,808
Lease liabilities	416	3,229
Total non-current liabilities	<u>49,623</u>	<u>55,037</u>
Total liabilities	<u><u>307,947</u></u>	<u><u>782,334</u></u>
EQUITY		
Equity attributable to the owners of the Company		
Share capital	818	759
Share premium	669,523	387,156
Treasury shares	(12,719)	–
Other reserves	294,563	248,046
Accumulated losses	(76,453)	(159,158)
	<u>875,732</u>	<u>476,803</u>
Non-controlling interests	<u>436,759</u>	<u>363,291</u>
Total equity	<u>1,312,491</u>	<u>840,094</u>
Total liabilities and equity	<u><u>1,620,438</u></u>	<u><u>1,622,428</u></u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2022

(Expressed in RMB)

	Attributable to owners of the Company					Sub-total RMB'000	Non- controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Treasury Shares RMB'000	Other reserves RMB'000	Retained earnings/ (Accumulated losses) RMB'000			
Balance at 1 January 2021	695	93,701	–	314,950	127,126	536,472	250,536	787,008
Profit for the period	–	–	–	–	37,377	37,377	100,978	138,355
Other comprehensive loss	–	–	–	(2,849)	–	(2,849)	(1,556)	(4,405)
Total comprehensive income	–	–	–	(2,849)	37,377	34,528	99,422	133,950
Transaction with owners:								
Shares-based compensation expenses	–	–	–	16,518	–	16,518	–	16,518
Balance at 30 June 2021	<u>695</u>	<u>93,701</u>	<u>–</u>	<u>328,619</u>	<u>164,503</u>	<u>587,518</u>	<u>349,958</u>	<u>937,476</u>
Balance at 1 January 2022	<u>759</u>	<u>387,156</u>	<u>–</u>	<u>248,046</u>	<u>(159,158)</u>	<u>476,803</u>	<u>363,291</u>	<u>840,094</u>
Profit for the period	–	–	–	–	82,705	82,705	71,669	154,374
Other comprehensive income	–	–	–	19,826	–	19,826	(2,759)	17,067
Total comprehensive income	–	–	–	19,826	82,705	102,531	68,910	171,441
Transaction with owners:								
Issuance of shares upon placement	59	282,367	–	–	–	282,426	–	282,426
Shares-based compensation expenses	–	–	–	26,691	–	26,691	4,558	31,249
Purchase of own shares	–	–	(12,719)	–	–	(12,719)	–	(12,719)
Balance at 30 June 2022	<u>818</u>	<u>669,523</u>	<u>(12,719)</u>	<u>294,563</u>	<u>(76,453)</u>	<u>875,732</u>	<u>436,759</u>	<u>1,312,491</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2022

(Expressed in RMB)

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	80,858	161,713
Payment of income tax	(2)	(740)
Net cash inflow from operating activities	80,856	160,973
Cash flows from investing activities		
Purchase of Wealth Management Products (“WMP”) measured at fair value through profit or loss	(119,931)	(137,449)
Maturity of WMPs measured at fair value through profit or loss	153,373	163,545
Prepayment for investment in equity interest of a private company measured at fair value through profit or loss	(6,500)	–
Purchase of property and equipment	(3,112)	(2,853)
Loans to third parties	(1,160)	–
Proceeds of loans repayments from third parties	6,000	–
Net cash inflow from investing activities	28,670	23,243
Cash flows from financing activities		
Issuance of shares upon placement	285,567	–
Transaction costs relating to issuance of shares upon placement	(3,141)	–
Repayment of lease liabilities (including interest paid)	(4,545)	(2,947)
Purchase of own shares	(12,719)	–
Transactions with non-controlling interests	(395,217)	–
Net cash outflow from financing activities	(130,055)	(2,947)
Net (decrease)/increase in cash and cash equivalents	(20,529)	181,269
Cash and cash equivalents at beginning of period	724,556	430,998
Effects of exchange rate changes on cash and cash equivalents	33,883	(4,682)
Cash and cash equivalents at end of period	737,910	607,585
Including:		
Cash and cash equivalents	737,951	607,619
Bank overdraft	(41)	(34)

1 GENERAL INFORMATION AND SIGNIFICANT EVENTS

1.1 General Information

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

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

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

The interim condensed consolidated financial information comprises the interim condensed consolidated balance sheet as at 30 June 2022, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six months ended 30 June 2022, and a summary of significant accounting policies and other explanatory notes (the “Interim Financial Information”). The Interim Financial Information is presented in RMB, unless otherwise stated.

The Interim Financial Information has not been audited but has been reviewed by the external auditor of the Company.

1.2 Significant events in the current period

(a) *Share issuance and repurchase*

On 27 January 2022, Spriver Tech Limited (“Spriver”) successfully placed an aggregate of 92,366,000 ordinary shares at HK\$3.80 per share to no less than six professional, institutional and/or other investors procured by the sole placing agent, CLSA Limited. On 4 February 2022, a total of 92,366,000 ordinary shares were allotted and issued to Spriver at the net subscription price, after deducting all the applicable costs and expenses, of HK\$3.76 per share under the general mandate. The subscribed shares represent approximately 7.75% of the issued share capital of the Company as enlarged by the allotment.

In June 2022, the Company purchased a total of 5,154,000 ordinary shares through Three D Partners Limited pursuant to RSU Award Scheme adopted by the Company in June 2022, at a total consideration of HK\$14,856,780.

(b) *Establish of Metaclass Management ELP (the “Fund”)*

During the first half of 2022, the Company obtained the approval from independent shareholders at an extraordinary general meeting to enter into the amended and restated exempted limited partnership agreement (“Partnership Agreement”) with Spriver and Chizicheng Strategy Investment Limited (“Chizicheng Strategy Investment”) and to establish the Fund. Pursuant to the Partnership Agreement, the total fund-raising target of the Fund to be established shall be in the amount of US\$100 million, of which, Chizicheng Strategy Investment (as the General Partner) shall make cash contribution in the amount of US\$0.1 million, Spriver (as the Limited Partner) shall make cash contribution in the amount of US\$49.9 million, and the Company (as the Limited Partner) shall make cash contribution in the amount of US\$50 million. The purposes of the Fund include, among other things, to participate in the going-private transaction of BlueCity Holdings Limited, a NASDAQ – listed company (“BlueCity”) by making equity investment in the buyer consortium which will be formed for the purpose of acquiring all of the outstanding ordinary shares of BlueCity that are not beneficially owned by the buyer consortium. On 12 August 2022, the Company made the majority of the contribution to the Fund. And on the same day, the closing of the going-private transaction of BlueCity was completed.

2 BASIS OF PREPARATION

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

The Interim Financial Information does not include all the notes of the type normally included in annual financial statements. Accordingly, it should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2021, which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), as set out in the 2021 annual report of the Group (the “2021 Financial Statements”).

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

Except as described below, the accounting policies applied in the preparation of the Interim Financial Information are consistent with those used in the preparation of the 2021 Financial Statements.

The following amended and revised standards are mandatory for the first time for the Group’s financial year beginning on 1 January 2022 and are applicable for the Group:

- Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use
- Amendments to IAS 37 – Onerous Contracts – Cost of Fulfilling a Contract
- Annual Improvements to IFRS Standards 2018-2020
- Amendments to IFRS 3 – Reference to the Conceptual Framework

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

In addition, the IASB also published a number of new standards and amendments to standards which are effective for the financial year beginning on or after 1 January 2023 and have not been early adopted by the Group. Management is assessing the impact of such standards and will adopt the relevant standards in the subsequent periods as required.

3 SEGMENT INFORMATION

The Group’s business activities are regularly reviewed and evaluated by the chief operating decision maker (“CODM”) and the Group is organised into segments according to the revenue streams of the Group. Prior to 1 January 2022, value-added service business and traffic monetisation business were identified as the segments of the Group. With the upgrading of the Group’s strategy, the social networking business has become the main business and core revenue source of the Group, therefore the CODM revisited its assessment of the segment and updated its segments according to the Group’s product matrixs, namely social networking business and innovative business during the current period for the six months ended 30 June 2022, to better reflect the development of each business line. The segment information for the six months ended 30 June 2021 has also been retrospectively adjusted.

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

The segment results for six months ended 30 June 2022 and 2021 are as follows:

	Social networking business	Innovative business	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Six months ended 30 June 2022			
Revenue	1,265,945	108,265	1,374,210
Cost of revenue	(875,030)	(16,819)	(891,849)
Gross profit	390,915	91,446	482,361
Six months ended 30 June 2021			
Revenue	830,625	207,859	1,038,484
Cost of revenue	(491,579)	(23,889)	(515,468)
Gross profit	339,046	183,970	523,016

4 REVENUE FROM CONTRACTS WITH CUSTOMERS

An analysis of the Group's revenue by category for six months ended 30 June 2022 and 2021 was as follows:

	Unaudited	
	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
<i>Recognised at a point in time</i>		
Social networking business	1,255,894	815,115
Innovative business	108,265	207,859
<i>Recognised over time</i>		
Social networking business	10,051	15,510
Total	1,374,210	1,038,484

5 EXPENSES BY NATURE

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

	Unaudited	
	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue sharing to streamers	625,095	311,470
Promotion expenses	194,097	288,121
Employee benefit expenses	168,461	104,726
Payment handling costs	125,686	95,076
Server capacity expenses	31,509	19,306
Share-based compensation expenses	30,565	16,518
Depreciation and amortisation	26,059	25,204
Technical and other service fee	14,874	18,935
Travel expense	2,432	2,899
Rent expense	1,940	2,539
Consultancy and professional service fee	1,392	2,557
Auditor's remuneration		
– Audit and audit related services	1,000	1,000
– Non-audit services	298	–
Others	9,437	8,112
Total	1,232,845	896,463

6 INCOME TAX CREDITS

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Current tax		
Current tax on profits for the period	(2,321)	(5)
Deferred income tax		
Changes in deferred tax assets/liabilities	2,601	7,062
Income tax credits	280	7,057

7 EARNINGS PER SHARE

7.1 Basic

Basic earnings per share for the six months ended 30 June 2022 were calculated by dividing the profit attributable to owners of the Company of RMB82,705,000 (for the six months ended 30 June 2021: RMB37,377,000) by the weighted average number of ordinary shares of 1,140,310,000 (for the six months ended 30 June 2021: 998,850,000) in issue during the period.

Issuance of ordinary shares upon placement in February 2022 and repurchase of ordinary shares in June 2022 were accounted at time portion basis.

7.2 Diluted

For the six months ended 30 June 2022, the Group has considered the impact from the restricted share unit (“RSU”) and share options issued by the Group. The RSUs issued by the Group had a dilutive effect during the period, while as the exercise price of the share options exceeded the average price of ordinary shares during the period for which the share options were in issue, such share options did not have any dilutive effect on earnings per share.

For the six months ended 30 June 2022, dilutive earnings per share were calculated by dividing the profit attributable to owners of the Company of RMB82,636,000 (for the six months ended 30 June 2021: RMB37,377,000) by the weighted average number of ordinary shares of 1,164,114,000 to assume conversion of all dilutive potential ordinary shares (for the six months ended 30 June 2021: 998,850,000) in issue during the period. As the dilutive effect on earnings per share resulting from the assumed exercise of RSUs was negligible, diluted earnings per share were the same as basic earnings per share.

8 DIVIDENDS

No dividend has been paid or declared by the Company for the six months ended 30 June 2022 (for the six months ended 30 June 2021: nil).

9 ACCOUNTS RECEIVABLE

An aging analysis of the gross accounts receivable as at 30 June 2022 and 31 December 2021, based on date of recognition, is as follows:

	Unaudited As at 30 June 2022 RMB'000	Audited As at 31 December 2021 RMB'000
Up to 6 months	158,422	145,760
6 months to 1 year	50	538
1 year to 2 years	9,825	12,033
2 years to 3 years	11,839	9,352
Over 3 years	13,520	12,851
	<hr/>	<hr/>
Gross carrying amount	193,656	180,534
	<hr/>	<hr/>
Less: impairment provision	(35,926)	(33,724)
	<hr/>	<hr/>
Total accounts receivable	157,730	146,810
	<hr/> <hr/>	<hr/> <hr/>

10 ACCOUNTS PAYABLE

Aging analysis of the accounts payable as at 30 June 2022 and 31 December 2021 based on the date of recognition is as follows:

	Unaudited As at 30 June 2022 RMB'000	Audited As at 31 December 2021 RMB'000
Up to 3 months	151,105	203,821
3 months to 6 months	6,165	12,279
6 months to 1 year	8,871	1,034
1 year to 2 years	175	2,750
2 years to 3 years	2,184	570
More than 3 years	6,582	5,666
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	175,082	226,120
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Accounts payable are usually paid within 1 year of recognition.

11 EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 11 July 2022, the Group, as the lessee, entered into lease agreements with Beijing Wanhai Xingchen Enterprise Management Co., Ltd, as the lessor, in relation to the lease of certain floors of a building. The Group will recognise additions as right-of-use asset amounting to approximately RMB112 million in aggregate for the proposed lease term of 64 months.

DEFINITIONS

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

“Audit Committee”	the audit committee of the Company
“AGM”	the annual general meeting of the Company held on 31 May 2021
“Beijing Mico”	Beijing Mico World Technology Co., Ltd. (北京米可世界科技有限公司) (formerly known as Beijing Zhongluo Technology Co., Ltd. (北京眾絡科技有限公司)), a company incorporated under the laws of the PRC with limited liability
“BlueCity”	BlueCity Holdings Limited, a NASDAQ-listed company with a stock code of BLCT
“Board”	the board of directors
“Building”	Tower T2 of No. 33 Xiaoyun Road
“China” or “PRC”	the People’s Republic of China, and for the purpose of this announcement only, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Chizicheng Strategy Investment”	Chizicheng Strategy Investment Limited, an exempted company with limited liability incorporated in the Cayman Islands on 11 January 2022 and was wholly owned by Spriver as of the date of the announcement
“Company”, “our Company” or “the Company”	Newborn Town Inc. (赤子城科技有限公司), a company with limited liability incorporated in the Cayman Islands whose shares are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“EGM”	the first extraordinary general meeting of the Company held on 31 March 2022 for the purpose of considering and, if thought fit, approving, amongst others, the establishment of the Fund under the Partnership Agreement and the Proposed Grant
“Fund”	a private fund to be established in the form of an exempted limited partnership under the laws of the Cayman Islands pursuant to the Partnership Agreement
“General Mandate”	the general mandate granted to the Directors by the Shareholders at the AGM to allot, issue and deal with up to 20% of the total number of issued Shares of the Company as at the date of the AGM
“General Partner”	Chizicheng Strategy Investment

“Group”, “our Group” or “the Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFRS”	the International Financial Reporting Standards, amendments and interpretation issued from time to time by the International Accounting Standards Board
“Independent Shareholders”	the Shareholders who are not required to abstain from voting in favour of the resolution for approving the proposed resolutions under the Listing Rules
“Lease Agreement of Beijing Mico”	the office building lease agreement dated 11 July 2022 in respect of the Floors 8 to 9 (actual floors) of Tower T2 of the leased Building entered into between Beijing Mico (as a Lessee) and Beijing Wanhai Xingchen (as the Lessor)
“Lease Agreement of NewBornTown Network Technology”	the office building lease agreement dated 11 July 2022 in respect of the Floors 6 to 7 (actual floors) of Tower T2 of the leased Building entered into between NewBornTown Network Technology (as a Lessee) and Beijing Wanhai Xingchen (as the Lessor)
“Lease Agreements”	the Lease Agreement of NewBornTown Network Technology and the Lease Agreement of Beijing Mico
“Lessee(s)”	NewBornTown Network Technology under the Lease Agreement of NewBornTown Network Technology and Beijing Mico under the Lease Agreement of Beijing Mico, each as a Lessee
“Lessor” or “Beijing Wanhai Xingchen”	Beijing Wanhai Xingchen Enterprise Management Co., Ltd.*(北京萬海星辰企業管理有限公司), a company incorporated under the laws of the PRC with limited liability. To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, the Lessor and its ultimate beneficial owners are third parties independent of the Company and its connected person(s)
“Listing Date”	31 December 2019, the date on which the Company was listed on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“NASDAQ”	National Association of Securities Dealer Automated Quotations
“NewBornTown Network Technology”	NewBornTown Network Technology (Beijing) Co., Ltd. (赤子城網絡技術(北京)有限公司), a company incorporated under the laws of the PRC with limited liability on 28 February 2014

“Partnership Agreement”	the amended and restated exempted limited partnership agreement entered into among Spriver, the General Partner and the Company on 4 July 2022
“Placing”	the placing of Sale Shares on the terms and subject to the conditions set out in the Placing and Subscription Agreement
“Placing and Subscription Agreement”	the agreement entered into among the Company, the Seller, the Sole Placing Agent in relation to the Placing and the Subscription on 24 January 2022
“Prospectus”	the prospectus of the Company dated 17 December 2019
“RMB”	Renminbi, the lawful currency of China
“RSU”	a restricted share unit award granted to a participant under the RSU Schemes
“RSU Schemes”	the employee RSU scheme and the management RSU scheme adopted by the Board on 11 December 2019
“Sale Shares”	92,366,000 Shares that the Seller agrees to sell, and the Sole Placing Agent agrees, as agent of the Seller, to procure on a best effort basis not less than six purchasers to purchase, subject to the terms and conditions of the Placing and Subscription Agreement
“Shares”	ordinary share(s) in the share capital of the Company with a par value of US\$0.0001 each
“Shareholder(s)”	the holder(s) of the Share(s)
“Spriver”	Spriver Tech Limited, an investment holding company incorporated in the British Virgin Islands with limited liability
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Subscription Shares by the Seller
“Subscription Shares”	92,366,000 new Shares to be issued by the Company to the Seller under the Subscription pursuant to the General Mandate
“US\$”	United States dollars, the lawful currency of the United States
“We”, “us” or “our”	our Company or our Group, as the context may require
“%”	per cent

APPRECIATION

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

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

Beijing, 25 August 2022

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

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