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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

The board of directors (the “**Board**”) of Newborn Town Inc. (the “**Company**”) is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2023 (the “**Annual Results**”). The Annual Results have been reviewed by the Company’s Audit Committee.

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

FINANCIAL HIGHLIGHTS

- Revenue from contracts with customers for the year ended 31 December 2023 amounted to RMB3,307.8 million, representing an increase of 18.1% from RMB2,799.7 million recorded for the year ended 31 December 2022.
- Gross profit for the year ended 31 December 2023 amounted to RMB1,722.1 million, representing an increase of 62.8% from RMB1,057.9 million recorded for the year ended 31 December 2022.
- Profit for the year for the year ended 31 December 2023 amounted to RMB760.6 million, representing an increase of 164.7% from profit for the year of RMB287.3 million recorded for the year ended 31 December 2022.
- Profit attributable to equity shareholders of the Company for the year ended 31 December 2023 amounted to RMB512.8 million, representing an increase of 294.2% from RMB130.1 million recorded for the year ended 31 December 2022.
- Adjusted EBITDA for the year ended 31 December 2023 amounted to RMB674.6 million, representing an increase of 80.0% from RMB374.7 million recorded for the year ended 31 December 2022.

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Revenue from contracts with customers	3,307,799	2,799,698
Gross profit	1,722,083	1,057,907
Profit before income tax	772,758	287,379
Profit for the year	760,612	287,335
Basic earnings per share (expressed in RMB per share)	0.45	0.11
Diluted earnings per share (expressed in RMB per share)	0.45	0.11
	<u>551,113</u>	<u>269,261</u>
Operating profit	551,113	269,261
Add:		
Share-based compensation expenses ⁽¹⁾⁽²⁾	44,008 ⁽²⁾	45,845 ⁽¹⁾
Depreciation and amortization	79,517	59,582
Adjusted EBITDA	674,638	374,688

Notes:

- (1) In May 2020 and March 2021, the Board approved the grant of an aggregate of 55,227,573 RSUs and 957,333 RSUs, respectively to certain employees and management pursuant to the RSU Schemes. Share-based compensation expenses were recognised based on the vesting period of the RSU Schemes, and amounted to approximately RMB11,119,000 for the year ended 31 December 2022, tantamount to the economic benefits in relation to the benefit that the 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 recognised share-based compensation expenses amounting to approximately RMB11,304,000 for the year ended 31 December 2022.

On 30 August 2021, the Board proposed to grant 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. The Share Options of each grantee will be vested in four tranches subject to the fulfilment of certain performance targets regarding the Company. The performance targets were determined by the Board. Evaluations in relation to such awards were made on 31 December 2022 to assess the likelihood of such grantees meeting the performance targets. Share-based compensation expenses amounting to approximately RMB23,422,000 were recognised for the year ended 31 December 2022.

- (2) In May 2020, March 2021 and March 2023, the Board approved the grant of an aggregate of 55,227,573 RSUs, 957,333 RSUs and 2,441,170 RSUs respectively to certain employees and management pursuant to the RSU Schemes. Share-based compensation expenses were recognised based on the vesting period of the RSU Schemes, and amounted to approximately RMB5,315,000 for the year ended 31 December 2023, tantamount to the economic benefits in relation to the benefit obtained by certain employees and management from the Company. For further details, please refer to the announcements dated 28 May 2020, 24 March 2021 and 24 March 2023 of the Company. A subsidiary of the Company has recognised share-based compensation expenses amounting to approximately RMB23,611,000 for the year ended 31 December 2023.

On 30 August 2021, the Board granted in aggregate 80,000,000 Share Options to 32 eligible persons. The grant includes performance-based Share Options to grantees, which are generally vested within 10 years. The Share Options of each grantee will be vested in four tranches subject to the fulfilment of certain performance targets regarding the Company. The performance targets were determined by the Board. Evaluations in relation to such awards were made on 31 December 2023 to assess the likelihood of such grantees meeting the performance targets. Share-based compensation expenses amounting to approximately RMB15,082,000 were recognized for the year ended 31 December 2023.

BUSINESS HIGHLIGHTS



MICO



YoHo



TopTop



SUGO

Pan-audience social networking business



HeeSay



Blued



Finka

Diverse-audience social networking business



Alice's Dream: Merge Island



Taylor's Secret



Sudoku

Innovative business including niche game

Solid growth in revenue and significant increase in profits



Revenue amounted to **3.31** billion

increased by **18.1%** year-on-year



Gross profit margin reached **52.1%** increased by **14** percentage points year-on-year



Adjusted EBITDA amounted to **674.6** million

increased by **80.0%** year-on-year



Cash and cash equivalents amounted to **1.39** billion increased by **132.0%** year-on-year

The strategic market continues to grow, and latecomer products rapidly break through

Business scale in the Middle East and North Africa region increased by **30.0%** period-on-period

SUGO

Both revenue and profit increased by **more than three times** year-on-year

TopTop

Revenue increased by **more than 2 times** year-on-year, profit increased by **more than 6 times** year-on-year

HEESAY

New upgrade of brand continuously profitable

Unit: RMB

2023 CHAIRMAN’S STATEMENT

Dear Shareholders,

From 2013 onwards, we have pressed on our journey towards globalisation for 10 years. Over the past decade, we have our footprints marked in over 100 countries and regions, persistently fostering positive emotional value for global users.

Guided by this vision, the Company has built a solid and broad business system within the global social entertainment sphere. We are dedicated to the “pan-audience social networking” business, with a steadfast commitment in the Middle East and North Africa markets. We have strategically positioned ourselves in the “diverse-audience social networking” and “niche game” businesses, enabling us to explore more diversified markets and opportunities.

In pursuit of expansion into the global market, the Company has cultivated a rich “social networking+” product matrix, entering different segmented tracks to cater to the diverse and personalised needs of users. Leveraging our continuously evolving localisation capabilities, we are set on a development path of “national replication+product replication” to form a competitive edge in the Middle East and North Africa, being key markets of the Company where we emerged as one of the leading enterprises in such segmented track, while we experienced rapid growth and flourished in markets such as Southeast Asia.

Such businesses have made positive progress over the past year. In 2023, the Company’s various businesses have demonstrated improvements in both quality and efficiency, resulting in solid growth in revenue and profits. Our total revenue reached approximately RMB3.3 billion, representing a year-on-year increase of approximately 18.1%. The profit attributable to equity shareholders of the Company reached approximately RMB512.8 million, representing a year-on-year increase of approximately 294.2%. Adjusted EBITDA reached approximately RMB674.6 million, representing a year-on-year increase of approximately 80.0%. In particular, the Company’s social business continues to thrive with high quality, achieving a revenue of approximately RMB3.0 billion and maintaining a leading position in markets such as the Middle East and North Africa, as well as Southeast Asia. Meanwhile, our innovative business has experienced the second curve in growth, with revenue reaching approximately RMB336 million, representing a year-on-year increase of approximately 38.6%.

As the Company expands its business, it remains committed to longtermism and actively fulfills its social responsibilities. We have created a large number of job opportunities in markets such as the Middle East and North Africa, aiding women in war-torn and impoverished areas to secure employment; We have launched multiple public welfare activities during Ramadan to improve living conditions for vulnerable groups. Starting from 2023, we launched the “TEEN in FOCUS” campaign worldwide, aiming to provide a conducive environment for young people in developing countries to grow. By fostering positive emotional value for global users, creating widespread employment opportunities, and participating in charitable and philanthropic endeavours, we have become an ESG advocate in more than ten countries and regions around the world.

Looking ahead, we will steadfastly focus on our core business of pan-audience social networking business, while actively developing diverse-audience social networking business and niche game business. We will continue to steadfastly invest in the Middle East and North African markets, while actively expanding into diverse markets such as Southeast Asia, Japan and South Korea, as well as North America, and striving to foster positive emotional value for more users.

I hereby present the Company's financial position and operating highlights for 2023 and summarise the strategies and outlook of the Company for 2024.

BUSINESS REVIEW

I. Pan-audience social networking business: rapid surge in latecomer products, further unleashing market potential in Middle East and North Africa

The pan-audience social networking business has been the core business of the Company, characterised by unparalleled development speed, the most deep-seated efforts, the most robust competitive edge, and the most thorough cognitive methodology over the past decade. At present, the Company's pan-audience social networking business is comprised of products such as the open social networking platform MICO, the audio social networking platform YoHo, the companion-based social networking platform SUGO, and the game-oriented social networking platform TopTop, all of which have experienced exponential growth over the past few years, and emerged as leading platforms in emerging markets such as the Middle East and North Africa and Southeast Asia, while also making strides in developed country such as Japan and South Korea.

In 2023, our relentless focus on technological innovation, product function enhancements, and meticulous localisation efforts have resulted in a substantially enriched content ecosystem across our products, with significant enhancements in terms of community ambiance, content quality, user experience, and user stickiness of our platforms, as well as a marked boost in commercialisation efficiency.

Specifically, MICO has undergone multiple upgrades and revisions catering to the needs of users in the Middle East, and provided customised services aimed at effectively enhancing community activity, further expanding the scale of new users, and driving profits at scale. YoHo has strengthened its content operation efforts, introducing more localised gameplay in the Middle East, further refining user operations. SUGO has optimised its matching strategies to facilitate more accurate match of users and effectively improving the efficiency of social networking scenarios which in turn led to an increase in the number of monthly active users by more than three times year-on-year, as accompanied by more than threefold increase in both revenue and profits. TopTop has improved the user growth system, increased the distribution ratio of community incentive resources, thereby having effectively enhanced the community ambiance, with revenue having more than doubled year-on-year and profits increased by over sixfold.

Since August 2023, the Company has three of its social products simultaneously making to the top 30 of the data.ai "China Non-Game Application Overseas Revenue List" for five consecutive months, solidifying its position as the social entertainment enterprise with the highest number of products featured on the list, while underscoring the general success of the Company's pan-audience social networking business.

In the early days of our overseas operations, we started off with MICO and deepened our efforts gradually. With the enhancement of our ability in "product replication" and "national replication", more and more long-term social products such as YoHo, SUGO, and TopTop have emerged, which not only verified the feasibility of the Company's "multi product, multi market" strategy, but also reaffirmed the sustainability of our core business.

Overall, the Company’s pan-audience social networking business has experienced consistent and high-quality growth over the past year, demonstrating significant potential and ample room for expansion while providing a solid foundation for the Company’s development in the social entertainment field. The Company is confident in continuously tapping into the varying needs of different countries, regions, and people around the world, launching more high-quality pan-audience social networking products, with an aim of establishing ourselves as a leading platform across various segmented tracks and achieving success in multiple markets.

II. Diverse-audience social networking business: achieving overall sustained profitability, with overseas brand HeeSay unveiling its new upgrade

The Company started to lay out the development of its diverse-audience social networking business in 2022. In August 2023, the Company conclusively completed the acquisition of Chizicheng Strategy Investment, as a result of which, products such as Blued and Finka were also integrated into our global social networking product matrix, further expanding the Company’s social networking business landscape.

In the process of laying out the diverse-audience social networking business, the Company recognised that the LGBTQ+ crowd’s needs are not confined to making friends, but also characterised by the strong demand for self-expression, life sharing, and collective entertainment experiences. Leveraging such insight, we have upgraded our products for overseas LGBTQ+ users and officially launched HeeSay, a diverse-audience online community, in early 2024.

HeeSay, having seamlessly integrated the user base and brand prowess of Blued International, is committed to fostering a diverse and open online community. Departing from the conventional single dating and socialising mode typical for diverse-audience social networking products, HeeSay introduces a plethora of dynamic features such as Post, live streaming, and voice rooms, enabling users to engage in real-time interactions with friends across the globe and discover like-minded friends.

Drawing on the Company’s experience in overseas markets over the past decade, HeeSay has refined its operational efficiency and commercial monetisation capabilities, thereby currently enjoying sustained profitability.

III. Innovative business: breakthrough in flagship game scale

In tandem with the robust high quality growth of our social networking business, the Company has been actively pursuing its venture into the innovative businesses, with a particular focus on avenues such as niche games. Leveraging our proprietary intelligent game development engines, we have launched niche games such as Alice’s Dream: Merge Island.

Alice’s Dream: Merge Island draws inspiration from the classic IP “Alice’s Adventures in Wonderland”. It receives widespread recognition in Google App Store for its innovative gameplay and exquisite artistry. Over the past year, the monthly revenue of Alice’s Dream: Merge Island has continued to grow. It has emerged as a frontrunner in the global Merge category and has consistently topped in rankings such as “China Mobile Game Overseas Revenue Growth Ranking” and “China Mobile Game Overseas Download Ranking”, as published by Sensor Tower.

Building upon such success, the Company’s gaming team has steadily incubated new products and has successfully launched new synthetic mobile games such as Taylor’s Secret, Merge Cove, and Sudoku in 2023.

STRATEGY AND OUTLOOK

I. Deeply cultivating the pan-audience social networking business and making long-term investments in strategic markets (Middle East and North Africa)

The Company is committed to pursuing high-quality growth strategies across various business lines and continuously improving operational efficiency, starting from the essence of business.

We will continue to ensure that MICO and YoHo generate stable and healthy cash flow and profits for the pan-audience social networking business, while continuously exploring additional avenues for growth. We will expand the reach of SUGO and TopTop in key markets and accelerate the optimisation of commercialisation efficiency.

Recognising the significant potential of the Middle East and North African markets, the media and entertainment sector of which is projected by Mordor Intelligence to grow from approximately US\$39.05 billion in 2023 to approximately US\$61.23 billion in 2028, we have become a leading player in the local online social entertainment field. Moving forward, the Company will firmly invest in and continue to focus on the Middle East and North African markets, sticking to its successful business strategies to consolidate its leading position in such regions while further exploring the vast opportunities within such markets.

Apart from Middle East and North Africa, Southeast Asia is yet another market where the Company has an edge in, and the Company will continue to invest in expanding its market share within such locale. The Company will continue to maintain its composed stance towards strategic markets such as North America, Japan, and South Korea, steadily investing, continuously experimenting and on the lookout for strategic opportunities while ensuring profitability thereof.

To accomplish such goals, the Company will further strengthen its localised operational capabilities, continuously enhance the scale and influence of its products in markets where it has an edge in, as well as its penetration rate in strategic markets. At the same time, the Company will increase investment in technology and product innovation, facilitating rapid product iteration to meet the diverse needs of our users, and enhancing the global social entertainment ecosystem through enriching our portfolio of pan-audience social networking products.

II. Developing diverse-audience social networking business and enhancing HeeSay's global brand influence

According to Frost & Sullivan's survey report, the global diverse-audience user base totalled approximately 500 million in 2021, with continued rapid growth in monthly active users (MAU). In 2023, the global online diverse-audience social networking business market reached approximately US\$3.842 billion. At present, the penetration rate of diverse-audience social networking products remains relatively low in the market, leaving significant room for growth in Southeast Asia, Japan, South Korea, Europe and America, thereby presenting ample opportunities for us to further develop our diverse-audience social networking business.

We will continue to explore the value of the global diverse-audience social networking filed and actively develop diverse-audience social networking businesses. In markets where we enjoy an edge in, such as Southeast Asia, we will solidify HeeSay’s leading position by our thorough understanding user needs, improving product ecology, thus fostering a thriving community atmosphere through high-quality online and offline activities, and enhancing user experience and commercialisation level.

Furthermore, we will prioritise developing regions deemed suitable for the growth of HeeSay and other products, and gradually expand the reach of HeeSay and other diverse-audience social networking products into more global markets through our “national replication” strategy.

We believe that, with the continuous enhancement of the Company’s product technology development, localised operations and other capabilities, as well as the closer collaboration across our entire Company’s social networking business, we can expand the scale of our diverse-audience social networking business, achieve continuous growth in revenue and profits, and ultimately establish a “super brand” with global influence in the future.

III. Continuously refining flagship games to produce more high-quality products

In recent years, the leisure niche game market has experienced rapid growth. The growth rate of global leisure niche games is projected to remain approximately 9% from 2022 to 2027, and the market size is estimated to reach approximately US\$25 billion by 2027. The Company will continue to develop innovative businesses with our sight set on niche games and create niche games with a long lifecycle.

We will continue to optimise and polish the gameplay and user experience of our existing products, so as to enhance the retention of new players, the stickiness of loyal players, while further enhancing the monetisation ability and profitability of flagship games. At the same time, we will maintain longtermism, making cautious investments and steadily nurturing new products to achieve “product replication”. By establishing a deep product moat, we aspire to create more “evergreen” games capable of sustained operations for 5 to even 10 years.

We will further explore the integration of gaming business and social networking business, aligning with user preferences for social entertainment experiences and foster synergistic collaboration across businesses.

Over the past decade, the Company has been advancing on the path of globalisation, every step we have taken is aimed at enriching positive emotional value for more users. Grounded in our lasting commitment to long-term goals and our original vision, every decision and innovation is aimed at drawing us closer to fulfill the needs of users.

In this constantly evolving digital age, we firmly believe in the transformative power of technology to transcend borders and forge heartfelt connections. As a “Born Global” company, our globalisation strategy is being validated by the times and the market. In the future, we are dedicated to solidifying our global presence, vigorously advancing our technology, products, and services, and serve more users worldwide. At the same time, we remain unwavering in our commitment to uphold longtermism, focusing on new technologies and opportunities, achieving diversified and sustainable growth, thereby creating long-term returns for the Shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

For the year ended 31 December 2023 our total revenue was approximately RMB3,307.8 million, representing an increase of approximately 18.1% as compared to approximately RMB2,799.7 million for the year ended 31 December 2022. The following table sets forth a breakdown of our revenue by segments for the years indicated:

	Year ended 31 December				YoY change
	2023		2022		
	<i>RMB'000</i>	<i>% of Total revenue</i>	<i>RMB'000</i>	<i>% of Total revenue</i>	
Social networking business	2,971,915	89.8	2,557,371	91.3	16.2%
Innovative business	335,884	10.2	242,327	8.7	38.6%
Total	<u>3,307,799</u>	<u>100.0</u>	<u>2,799,698</u>	<u>100.0</u>	<u>18.1%</u>

Revenue from our social networking business was approximately RMB2,971.9 million for the year ended 31 December 2023, representing an increase of approximately 16.2% as compared to approximately RMB2,557.4 million for the year ended 31 December 2022, which is primarily attributable to (i) the Company's steady progress in the pan-audience social networking business, the increasingly enriched content ecosystem across our products, through technological innovation and product function upgrades, which enhanced user experience and community activity, as well as further expanded the scale of new users; (ii) in August 2023, the Company conclusively completed the acquisition of Chizicheng Strategy Investment and started to consolidate the revenue of BlueCity, which is conducive to the laying out of the diverse-audience social networking business and further expansion of the social networking business landscape.

The revenue from our innovative business for the year ended 31 December 2023 was approximately RMB335.9 million, representing an increase of approximately 38.6% as compared to approximately RMB242.3 million for the year ended 31 December 2022, which was primarily attributable to the successful product incubation and development by our gaming team.

COST OF REVENUE

Our cost of revenue for the year ended 31 December 2023 was approximately RMB1,585.7 million, representing a decrease of approximately 9.0%, as compared to approximately RMB1,741.8 million for the year ended 31 December 2022. The following table sets forth a breakdown of our cost of revenue by nature for the years indicated:

	Year ended 31 December 2023		2022		YoY change
	RMB'000	% of Total revenue	RMB'000	% of Total revenue	
Revenue sharing to streamers	899,317	27.2	1,175,258	42.0	-23.5%
Payment handling costs	281,361	8.5	260,496	9.3	8.0%
Employee benefit expense	156,973	4.7	130,184	4.6	20.6%
Server capacity expense	72,581	2.2	64,514	2.3	12.5%
Depreciation and amortisation	60,738	1.8	40,766	1.5	49.0%
Technical and other service fee	28,679	0.9	22,560	0.8	27.1%
Share-based compensation expenses	28,295	0.9	20,797	0.7	36.1%
Cost of merchandise sales	25,767	0.8	-	-	100.0%
Others	32,005	0.9	27,216	1.0	17.6%
Total	1,585,716	47.9	1,741,791	62.2	-9.0%

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

	Year ended 31 December 2023		2022		YoY change
	RMB'000	%	RMB'000	%	
Social networking business	1,542,819	97.3	1,700,755	97.6	-9.3%
Innovative business	42,897	2.7	41,036	2.4	4.5%
Total	1,585,716	100.0	1,741,791	100.0	-9.0%

The cost of revenue for our social networking business was approximately RMB1,542.8 million for the year ended 31 December 2023, representing a decrease by approximately 9.3% as compared to approximately RMB1,700.8 million for the year ended 31 December 2022, which was primarily attributable to the decrease in revenue sharing to streamers of our social networking business driven by improved commercialization efficiency of our social networking products.

The cost of revenue for our innovative business increased by 4.5% to RMB42.9 million for the year ended 31 December 2023 as compared to RMB41.0 million for the year ended 31 December 2022.

GROSS PROFIT AND GROSS PROFIT MARGIN

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

	Year ended 31 December						
	2023		2022		2022		YoY change in gross profit
	<i>Gross profit</i>	<i>%</i>	<i>Gross profit margin</i>	<i>Gross profit</i>	<i>%</i>	<i>Gross profit margin</i>	
<i>(RMB '000, except for percentages)</i>							
Social networking business	1,429,096	83.0	48.1%	856,616	81.0	33.5%	66.8%
Innovative business	292,987	17.0	87.2%	201,291	19.0	83.1%	45.6%
Total	1,722,083	100.0	52.1%	1,057,907	100.0	37.8%	62.8%

Our gross profit for the year ended 31 December 2023 was approximately RMB1,722.1 million, representing an increase of approximately 62.8% as compared to approximately RMB1,057.9 million for the year ended 31 December 2022. The gross profit of our social networking business increased to approximately RMB1,429.1 million for the year ended 31 December 2023 from approximately RMB856.6 million for the year ended 31 December 2022, which was primarily attributable to the continuous enrichment of our pan-audience social networking product portfolio as we tapped into the diverse audience social networking market, which led to increases in both revenue and gross profit of our social networking business. The gross profit of our innovative business increased to approximately RMB293.0 million for the year ended 31 December 2023 from approximately RMB201.3 million for the year ended 31 December 2022, which was primarily attributable to the smooth progress in the Company's incubation of new products, such as the sudoku games, which have contributed to revenue growth for our innovative business, thereby driving the significant increase in our gross profit.

Our gross profit margin increased to approximately 52.1% for the year ended 31 December 2023 from approximately 37.8% for the year ended 31 December 2022. The gross profit margin of our social networking business increased to approximately 48.1% for the year ended 31 December 2023 from approximately 33.5% for the year ended 31 December 2022, which was mainly attributable to the improved commercialisation efficiency and commercial realisation of social networking products through upgrades in product features and enhancements in content quality. The gross profit margin of our innovative business increased to approximately 87.2% for the year ended 31 December 2023 from approximately 83.1% for the year ended 31 December 2022.

SELLING AND MARKETING EXPENSES

For the year ended 31 December 2023, our selling and marketing expenses was approximately RMB688.4 million, representing an increase of 42.2% as compared to approximately RMB484.1 million for the year ended 31 December 2022, which was mainly attributable to our stepped up efforts in promoting our social networking business.

RESEARCH AND DEVELOPMENT EXPENSES

For the year ended 31 December 2023, our research and development expenses was approximately RMB314.5 million, representing an increase of approximately 48.3% as compared to approximately RMB212.1 million for the year ended 31 December 2022, which was mainly attributable to the increase in our employee benefit expenses.

GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended 31 December 2023, our general and administrative expenses was approximately RMB172.0 million, representing an increase of approximately 53.8% as compared to approximately RMB111.8 million for the year ended 31 December 2022, which was mainly attributable to an increase in our employee benefit expenses.

OPERATING PROFIT

For the year ended 31 December 2023, our operating profit was approximately RMB551.1 million, representing an increase of approximately 104.6% as compared to an operating profit of approximately RMB269.3 million for the year ended 31 December 2022, which was mainly attributable to (i) an increase of approximately RMB664.2 million in our gross profit; (ii) an increase of approximately RMB204.3 million in our selling and marketing expenses; (iii) an increase of approximately RMB102.4 million in our research and development expenses; and (iv) an increase of approximately RMB60.2 million in our general and administrative expenses.

FINANCE INCOME/(COST)

For the year ended 31 December 2023, we recorded net finance income of approximately RMB15.5 million as compared to net finance cost of approximately RMB0.5 million for the year ended 31 December 2022. Such change was mainly attributable to such increase in interest income from our bank deposits.

INCOME TAX

For the year ended 31 December 2023, we recorded income tax expense of approximately RMB12.15 million as compared to income tax expense of approximately RMB0.04 million for the year ended 31 December 2022.

PROFIT FOR THE YEAR

As a result of the foregoing reasons, our profit for the year increased by approximately 164.7% to approximately RMB760.6 million for the year ended 31 December 2023 as compared to a profit for the year of approximately RMB287.3 million for the year ended 31 December 2022.

NON-IFRS MEASURES

To supplement our consolidated statement of comprehensive income, which are presented in accordance with IFRS, we also use adjusted EBITDA as an additional financial measure, which is not required by, or presented in accordance with IFRS. We believe that this non-IFRS measure helps our investors in identifying underlying trends in our business and provides our investors useful information 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 the same approach that our management takes when comparing our 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 table sets forth the reconciliation of our non-IFRS financial measure for the years indicated, to the nearest measures prepared in accordance with IFRS:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Operating profit	551,113	269,261
<i>Add:</i>		
Share-based compensation expenses ⁽¹⁾⁽²⁾	44,008⁽²⁾	45,845 ⁽¹⁾
Depreciation and amortization	79,517	59,582
Adjusted EBITDA	<u>674,638</u>	<u>374,688</u>
Adjusted EBITDA growth	80.0%	4.9%

Notes:

- (1) In May 2020 and March 2021, the Board approved the grant of an aggregate of 55,227,573 RSUs and 957,333 RSUs respectively to certain employees and management pursuant to the RSU Schemes. Share-based compensation expenses were recognised based on the respective vesting periods of the RSU Schemes, and amounted to approximately RMB11,119,000 for the year ended 31 December 2022, tantamount to the economic benefits in relation to the benefits that the 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 recognised share-based compensation expenses amounting to approximately RMB11,304,000 for the year ended 31 December 2022.

On 30 August 2021, the Board proposed to grant 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. The Share Options of each grantee will be vested in four tranches subject to the fulfilment of certain performance targets regarding the Company. The performance targets were determined by the Board. Evaluations in relation to such awards were made on 31 December 2022 to assess the likelihood of such grantees meeting the performance targets. Share-based compensation expenses amounting to approximately RMB23,422,000 were recognised for the year ended 31 December 2022.

- (2) In May 2020, March 2021 and March 2023, the Board approved the grant of an aggregate of 55,227,573 RSUs, 957,333 RSUs and 2,441,170 RSUs, respectively to certain employees and management pursuant to the RSU Schemes. Share-based compensation expenses were recognised based on the vesting period of the RSU Schemes, and amounted to approximately RMB5,315,000 for the year ended 31 December 2023, tantamount to the economic benefits in relation to the benefits of the certain employees and management obtained from the Company. For further details, please refer to the announcements dated 28 May 2020, 24 March 2021 and 24 March 2023 of the Company. A subsidiary of the Company has recognised share-based compensation expenses amounting to approximately RMB23,611,000 for the year ended 31 December 2023.

On 30 August 2021, the Board granted in aggregate 80,000,000 Share Options to 32 eligible persons. The grant includes performance-based Share Options to grantees, which are generally vested within 10 years. The Share Options of each grantee shall be vested in four tranches subject to the fulfilment of certain performance targets regarding the Company. The performance targets were determined by the Board. Evaluations in relation to such awards were made on 31 December 2023 to assess the likelihood of such grantees meeting the performance targets. Share-based compensation expenses amounting to approximately RMB15,082,000 were recognised for the year ended 31 December 2023.

CAPITAL STRUCTURE

We continued to maintain a healthy and sound financial position. Our total assets grew from approximately RMB1,720.2 million as at 31 December 2022 to approximately RMB2,790.9 million as at 31 December 2023, while our total liabilities increased from approximately RMB482.2 million as at 31 December 2022 to approximately RMB843.4 million as at 31 December 2023. Liabilities-to-assets ratio increased from approximately 28.0% as at 31 December 2022 to 30.2% as at 31 December 2023.

FINANCIAL RESOURCES AND OPERATING CASH FLOW

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

As at 31 December 2023, our cash and cash equivalents was approximately RMB1,386.3 million, compared with approximately RMB596.7 million as at 31 December 2022.

Compared with approximately RMB311.7 million for the year ended 31 December 2022, the cash generated from operations in 2023 increased to approximately RMB738.8 million.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

To preserve funds for future capital expenditure and new business opportunities, we continue to invest surplus cash in commercial bank wealth management products and funds issued by major and reputable financial institutions, which generate relatively low risk income for us. We 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 31 December 2023, the balance of such investments increased to RMB170.9 million, compared with approximately RMB149.4 million as at 31 December 2022. Such increase was primarily attributable to the purchase of financial products.

CAPITAL EXPENDITURE

For the year ended 31 December 2023, our capital expenditure primarily consisted of expenditures on property and equipment, and intangible assets, including purchases of computers, other office equipment and etc.. The capital expenditure payment decreased from approximately RMB10.9 million for the year ended 31 December 2022 to approximately RMB9.9 million for the year ended 31 December 2023.

SIGNIFICANT INVESTMENT

Save as disclosed in the announcement, the Group did not hold any significant investments as of 31 December 2023.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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 (the “**Acquisition**”). Upon completion of the Acquisition, the Company held the entire issued share capital of Chizicheng Strategy Investment and directly controlled the Fund through its control of the General Partner and the interests held by the Company in the Fund, and consolidated 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). 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) a deed of amendment on 18 April 2023 (collectively the “**Deeds of Amendment**”), to amend or supplement the Partnership Agreement. All conditions precedent to the Sale and Purchase Agreement and the Deeds of Amendment have been fulfilled and completion of the Acquisition took place on 2 August 2023. Upon completion of the Acquisition, the results of the Chizicheng Strategy Investment, the Fund, and the aforementioned companies held by the Fund were consolidated into the consolidated financial statements of the Group. For further details, please refer to the announcements of the Company dated 23 March 2023, 26 June 2023, 19 July 2023, and 2 August 2023, and the circular of the Company dated 30 June 2023.

Save as disclosed in this announcement, we did not have any other material acquisition or disposal of subsidiaries, associates and joint ventures during the year ended 31 December 2023.

PLEDGE OF ASSETS

As at 31 December 2023, we did not pledge any of our assets.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

CONTINGENT LIABILITIES

As at 31 December 2023, we did not have any material contingent liabilities.

FOREIGN EXCHANGE RISK MANAGEMENT

We operate our business internationally and our major receipts and payments are denominated in the U.S. dollar. We are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar and the Hong Kong dollar. Therefore, foreign exchange risk arises when future commercial transactions or 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 year ended 31 December 2023.

OTHER PRINCIPAL RISKS AND UNCERTAINTIES

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

- We face competition in the rapidly evolving industry and we may not be able to sustain 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 developing, 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.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2023, we had a total of 1,465 full-time employees, mainly based in Beijing, Shenzhen, Chendu, Hainan and Jinan. Among all employees, 736 of them are in R&D department, representing approximately 50.24% of the total number of full-time 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 they receive.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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 C1 to the Listing Rules (the "**Corporate Governance Code**"). The Corporate Governance Code has been applicable to the Company with effect from the Listing Date.

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

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

COMPLIANCE WITH 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 C3 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.

EVENT OCCURRING AFTER THE REPORTING PERIOD

As of the date of this announcement, there has been no material event occurring after the reporting period of the Group.

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

For the twelve months ended 31 December 2023, neither the Company nor any member of the Group has purchased, sold or redeemed any of the Company's listed securities as of the date of the announcement.

SHARE PURCHASE PURSUANT TO RSU AWARD SCHEME

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

Total number of Shares purchased: 19,064,000

Percentage of the Shares purchased to the existing total number of Shares in issue: Approximately 1.60%

Average consideration per Share: Approximately HK\$1.57

Total consideration of Shares purchased: Approximately HK\$30,011,040.40

For further details, please refer to the announcements of the Company dated 28 April 2023, 5 May 2023, 12 May 2023, 19 May 2023, 25 May 2023, 2 June 2023, 9 June 2023, 16 June 2023, 23 June 2023, 30 June 2023, 7 July 2023, 14 July 2023 and 21 July 2023.

ANNUAL GENERAL MEETING

The forthcoming Annual General Meeting (“AGM”) will be held on 21 May 2024. A notice convening the AGM and all other relevant documents will be published and despatched to the Shareholders.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend the vote at the AGM to be held on 21 May 2024, the registers of members of the Company will be closed from 14 May to 21 May 2024, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration no later than 4:30 p.m. on 13 May 2024.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has maintained a public float of no less than 25% of the issued shares as at the date of this announcement, which was in line with the requirement under the Listing Rules.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Company has established the Audit Committee with written terms of reference in compliance with the Corporate Governance Code. As at the date of this announcement, the Audit Committee consists of three independent non-executive Directors, namely Mr. CHI Shujin, Mr. GAO Ming and Mr. HUANG Sichen. Mr. CHI Shujin is the chairman of the Audit Committee. The annual results of the Group for the year ended 31 December 2023 have been reviewed by the Audit Committee of the Company.

SCOPE OF WORK OF AUDITOR

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes thereto in this results announcement of the Group for the year ended 31 December 2023 have been agreed by the Company's auditor, KPMG, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by KPMG in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by KPMG on this results announcement.

FINAL DIVIDEND

No final dividend would be recommended by the Board for the year ended 31 December 2023.

PUBLICATION OF 2023 ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.newborntown.com. The annual report of the Group for the year ended 31 December 2023 containing all applicable information required by the Listing Rules will be despatched to the Shareholders of the Company and published on the above websites in April 2024.

GROUP RESULTS

The Company is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2023.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2023

(Expressed in Renminbi (“RMB”))

		Year ended 31 December	
		2023	2022
	Note	RMB'000	RMB'000
Revenue from contracts with customers	4	3,307,799	2,799,698
Cost of revenue	5	<u>(1,585,716)</u>	<u>(1,741,791)</u>
Gross profit		<u>1,722,083</u>	<u>1,057,907</u>
Selling and marketing expenses	5	(688,447)	(484,068)
Research and development expenses	5	(314,524)	(212,072)
General and administrative expenses	5	(171,987)	(111,813)
Net impairment losses on financial assets		(2,578)	(1,593)
Other income		3,373	1,605
Other gain – net		<u>3,193</u>	<u>19,295</u>
Operating profit		<u>551,113</u>	<u>269,261</u>
Finance income		21,461	982
Finance cost		<u>(5,949)</u>	<u>(1,512)</u>
Finance income/(cost) – net		<u>15,512</u>	<u>(530)</u>
Share of net gain of associates and joint ventures accounted for using the equity method		47,310	18,648
Gain on revaluation of equity method investee		<u>158,823</u>	<u>–</u>
Profit before income tax		<u>772,758</u>	<u>287,379</u>
Income tax expenses	6	<u>(12,146)</u>	<u>(44)</u>
Profit for the year		<u>760,612</u>	<u>287,335</u>
Profit attributable to:			
Equity shareholders of the Company		512,845	130,135
Non-controlling interests		247,767	157,200

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – CONTINUED

for the year ended 31 December 2023

(Expressed in RMB)

		Year ended 31 December	
		2023	2022
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other comprehensive income/(loss), net of tax			
Items that will not be reclassified to profit or loss			
Currency translation differences		(1,597)	6,627
Items that maybe subsequently reclassified to profit or loss			
Currency translation differences		(14,430)	24,920
Share of other comprehensive income of investments accounted for using the equity method		(10,034)	10,034
Total comprehensive income for the year		<u>734,551</u>	<u>328,916</u>
Total comprehensive income attributable to:			
Equity shareholders of the Company		489,536	169,462
Non-controlling interests		245,015	159,454
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
Basic earnings per share	<i>7a</i>	<u>0.45</u>	<u>0.11</u>
Diluted earnings per share	<i>7b</i>	<u>0.45</u>	<u>0.11</u>

CONSOLIDATED BALANCE SHEET

as at 31 December 2023

(Expressed in RMB)

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
<i>Note</i>		
ASSETS		
Non-current assets		
Property and equipment	124,875	122,155
Intangible assets	260,467	185,635
Goodwill	385,511	197,287
Deferred tax assets	22	224
Investments accounted for using the equity method	24,300	176,051
Financial assets measured at fair value through profit or loss	36,634	38,226
Other receivable	16,865	22,812
Other non-current assets	50	1,210
	<hr/>	<hr/>
Total non-current assets	848,724	743,600
Current assets		
Inventories	19,301	–
Other current assets	17,537	7,445
Accounts receivable	243,161	164,877
Other receivable	103,523	56,893
Financial assets measured at fair value through profit or loss	170,945	149,401
Cash and cash equivalents	1,386,363	596,729
Restricted bank deposits	1,302	1,272
	<hr/>	<hr/>
Total current assets	1,942,132	976,617
	<hr/>	<hr/>
Total assets	2,790,856	1,720,217

CONSOLIDATED BALANCE SHEET – CONTINUED

as at 31 December 2023

(Expressed in RMB)

		As at 31 December	
		2023	2022
	Note	RMB'000	RMB'000
LIABILITIES			
Current liabilities			
Accounts payable	10	292,997	189,739
Contract liabilities		74,821	18,089
Income tax payable		17,580	4,934
Bank overdraft		37	67
Lease liabilities		32,788	25,879
Other payable		278,187	110,366
Total current liabilities		696,410	349,074
Net current assets		1,245,722	627,543
Non-current liabilities			
Deferred tax liabilities		70,409	46,889
Lease liabilities		75,442	86,244
Other non-current liabilities		1,100	–
Total non-current liabilities		146,951	133,133
Total liabilities		843,361	482,207
EQUITY			
Equity attributable to the owners of the Company			
Share capital		818	818
Treasury shares		(40,404)	(12,719)
Share premium		669,523	669,523
Other reserves		10,956	80,636
Retained earnings/(accumulated losses)		480,050	(30,436)
		1,120,943	707,822
Non-controlling interests		826,552	530,188
Total equity		1,947,495	1,238,010
Total liabilities and equity		2,790,856	1,720,217

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2023

(Expressed in RMB)

	Attributable to equity shareholders of the Company						Non-controlling interests	Total equity
	Share capital	Treasury shares	Share premium	Other reserves	Accumulated losses	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2022	<u>759</u>	<u>–</u>	<u>387,156</u>	<u>248,046</u>	<u>(159,158)</u>	<u>476,803</u>	<u>363,291</u>	<u>840,094</u>
Profit for the year	–	–	–	–	130,135	130,135	157,200	287,335
Other comprehensive income	–	–	–	39,327	–	39,327	2,254	41,581
Total comprehensive income	<u>–</u>	<u>–</u>	<u>–</u>	<u>39,327</u>	<u>130,135</u>	<u>169,462</u>	<u>159,454</u>	<u>328,916</u>
Issuance of shares upon placement	59	–	282,367	–	–	282,426	–	282,426
Purchase of own shares	–	(12,719)	–	–	–	(12,719)	–	(12,719)
Appropriation to statutory reserves	–	–	–	1,413	(1,413)	–	–	–
Changes in the share of other reserves of investments accounted for using equity method	–	–	–	(239,660)	–	(239,660)	–	(239,660)
Shares-based compensation expenses	–	–	–	31,510	–	31,510	7,443	38,953
Balance at 31 December 2022	<u><u>818</u></u>	<u><u>(12,719)</u></u>	<u><u>669,523</u></u>	<u><u>80,636</u></u>	<u><u>(30,436)</u></u>	<u><u>707,822</u></u>	<u><u>530,188</u></u>	<u><u>1,238,010</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – CONTINUED

for the year ended 31 December 2023

(Expressed in RMB)

	Attributable to owners of the Company (Accumulated losses)/						Non- controlling interests	Total equity
	Share capital	Treasury shares	Share premium	Other reserves	retained earnings	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2023	<u>818</u>	<u>(12,719)</u>	<u>669,523</u>	<u>80,636</u>	<u>(30,436)</u>	<u>707,822</u>	<u>530,188</u>	<u>1,238,010</u>
Profit for the year	-	-	-	-	512,845	512,845	247,767	760,612
Other comprehensive income	-	-	-	(23,309)	-	(23,309)	(2,752)	(26,061)
Total comprehensive income	-	-	-	(23,309)	512,845	489,536	245,015	734,551
Transaction with owners:								
Purchase of own shares	-	(27,685)	-	-	-	(27,685)	-	(27,685)
Appropriation to statutory reserves	-	-	-	2,359	(2,359)	-	-	-
Shares-based compensation expenses	-	-	-	23,001	-	23,001	21,007	44,008
Transaction with non-controlling interests	-	-	-	(71,731)	-	(71,731)	(28,268)	(99,999)
Business combination	-	-	-	-	-	-	58,610	58,610
Balance at 31 December 2023	<u>818</u>	<u>(40,404)</u>	<u>669,523</u>	<u>10,956</u>	<u>480,050</u>	<u>1,120,943</u>	<u>826,552</u>	<u>1,947,495</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2023

(Expressed in RMB)

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	738,805	311,667
Interest received	21,461	982
Payment of income tax	(6,763)	(4)
Net cash inflow from operating activities	753,503	312,645
Cash flows from investing activities		
Purchase of Wealth Management Products measured at fair value through profit or loss	(220,375)	(238,526)
Maturity of Wealth Management Products measured at fair value through profit or loss	200,443	265,105
Additional investment in equity interest of a private company measured at fair value through profit or loss	–	(13,000)
Investments accounted for using the equity method	(27,893)	(374,424)
Disposal of investments accounted for using the equity method	33,000	–
Purchase of property and equipment	(9,386)	(10,904)
Purchase of intangible assets	(558)	–
Disposal of property and equipment	324	28
Loan to other parties	(10,035)	(29,091)
Proceeds of loans repayments from other parties	34,001	44,254
Net cash obtained from a business combination	215,059	–
Net cash inflow/(outflow) from investing activities	214,580	(356,558)
Cash flows from financing activities		
Issuance of shares upon placement	–	285,567
Transaction costs relating to issuance of shares upon placement	–	(3,141)
Capital element of lease rentals paid	(28,707)	(12,573)
Interest element of lease rentals paid	(5,949)	(1,512)
Purchase of own shares	(27,685)	(12,719)
Transactions with non-controlling interests	(99,999)	(395,217)
Net cash outflow from financing activities	(162,340)	(139,595)
Net increase/(decrease) in cash and cash equivalents	805,743	(183,508)
Cash and cash equivalents at beginning of year	596,662	724,556
Effects of exchange rate changes on cash and cash equivalents	(16,079)	55,614
Cash and cash equivalents at end of year	1,386,326	596,662
Including:		
Cash and cash equivalents	1,386,363	596,729
Bank overdraft	(37)	(67)

1 GENERAL INFORMATION

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

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

In March 2022, the Company, as a limited partner, established Metaclass Management ELP (the “Fund”, an exempted limited partnership formed under the laws of the Cayman Islands) with Chizicheng Strategy Investment Limited (“Chizicheng Strategy Investment”) as the general partner and Spriver Tech Limited (“Spriver”) as a limited partner. Both Chizicheng Strategy Investment and Spriver are controlled by Mr. Liu Chunhe. The Company made a total cash contribution of USD50 million (equivalent to approximately RMB338 million) to the capital of the Fund.

On 2 August 2023, the Group completed the acquisition of the business operated by BlueCity Holdings Limited (“BlueCity”), subsidiary of the Fund, through the acquisition of Chizicheng Strategy Investment, the general partner of the Fund. The acquisition is accounted for as a business combination in accordance with IFRS 10.

2 BASIS OF PREPARATION

The consolidated financial statements for the year ended 31 December 2023 comprise the company and its subsidiaries (together referred to as the “Group”) and The Group’s interest in associates and joint ventures.

The consolidated financial statements have been prepared under the historical cost convention, except for financial instruments measured at fair value through profit and loss (“FVPL”).

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2023:

- Amendments to IAS 8, Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates
- Amendments to IAS 1, Presentation of financial statements and IFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies
- Amendments to IAS 12, Income taxes: International tax reform – Pillar Two model rules

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new and amended IFRSs are discussed below:

Amendments to IAS 8, Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates.

The amendments provide further guidance on the distinction between changes in accounting policies and changes in accounting estimates. The amendments do not have a material impact on these financial statements as the Group’s approach in distinguishing changes in accounting policies and changes in accounting estimates is consistent with the amendments.

Amendments to IAS 1, Presentation of financial statements and IFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies.

The amendments require entities to disclose material accounting policy information and provide guidance on applying the concept of materiality to accounting policy disclosure. The Group has revisited the accounting policy information it has been disclosing and considered it is consistent with the amendments.

Amendments to IAS 12, Income taxes: International tax reform – Pillar Two model rules

The amendments introduce a temporary mandatory exception from deferred tax accounting for the income tax arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (“OECD”) (income tax arising from such tax laws is hereafter referred to as “Pillar Two income taxes”), including tax laws that implement qualified domestic minimum top-up taxes described in those rules. The amendments also introduce disclosure requirements about such tax including the estimated tax exposure to Pillar Two income taxes. The amendments are immediately effective upon issuance and require retrospective application.

3 SEGMENT INFORMATION

The Group’s business activities are regularly reviewed and evaluated by the CODM and the Group is organised into segments according to the revenue streams of the Group.

The CODM assesses the performance of the operating segments based on the gross profit. The reconciliation of gross profit to profit before income tax is shown in the consolidated statement 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 the years ended 31 December 2023 and 2022 are as follows:

	Social networking business <i>RMB’000</i>	Innovative business <i>RMB’000</i>	Total <i>RMB’000</i>
For the year ended 31 December 2023			
Revenue	2,971,915	335,884	3,307,799
Cost of revenue	(1,542,819)	(42,897)	(1,585,716)
Gross profit	1,429,096	292,987	1,722,083
For the year ended 31 December 2022			
Revenue	2,557,371	242,327	2,799,698
Cost of revenue	(1,700,755)	(41,036)	(1,741,791)
Gross profit	856,616	201,291	1,057,907

4 REVENUE FROM CONTRACTS WITH CUSTOMERS

An analysis of the Group's revenue by category for the years ended 31 December 2023 and 2022 was as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
<i>Recognised at a point in time</i>		
Social networking business	2,854,467	2,535,943
Innovative business	335,884	242,327
<i>Recognised over time</i>		
Social networking business	117,448	21,428
Total	3,307,799	2,799,698

5 EXPENSES BY NATURE

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Revenue sharing to streamers	899,317	1,175,258
Employee benefit expense	656,652	438,586
Promotion expenses	616,687	473,364
Payment handling costs	281,361	260,496
Server capacity expense	72,581	64,514
Depreciation and amortisation	79,517	59,582
Technical and other service fee	57,806	26,492
Consultancy and professional service fee	11,154	13,124
Travel expense	13,396	6,554
Rent expense	6,679	5,793
Auditor's remuneration		
– Audit and audit related services	4,510	3,800
– Non-audit services	183	519
Cost of inventories	25,767	–
Others	35,064	21,662
Total	2,760,674	2,549,744

6 INCOME TAX EXPENSES

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Current tax		
Current tax on profits for the year	17,581	4,939
Deferred income tax		
Changes in deferred tax assets/liabilities	(5,435)	(4,895)
Income tax expenses	12,146	44

7 EARNINGS PER SHARE

7a Basic

Basic earnings per share for the years ended 31 December 2023 and 31 December 2022 were calculated by dividing the profit attributable to equity shareholders of the Company of RMB512,845,000 and RMB130,135,000 by the weighted average number of ordinary shares of 1,147,908,000 and 1,143,463,000 in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	Year ended 31 December	
	2023 '000	2022 '000
Issued ordinary shares at 1 January	1,191,216	1,098,850
Effect of ordinary shares held by trusts for employee share incentives	(35,920)	(40,883)
Effect of ordinary shares issued	–	83,762
Effect of shares repurchased	(11,152)	(2,577)
Effect of restricted share units(RSU) vested	3,764	4,311
Weighted average number of ordinary shares at 31 December	1,147,908	1,143,463

7b Diluted

For the year ended 31 December 2023, dilutive earnings per share were calculated by dividing the profit attributable to equity shareholders of the Company of RMB511,275,000 (2022: RMB129,942,000) by the weighted average number of ordinary shares of 1,148,767,000(2022: 1,155,191,000),calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the company (diluted)

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Profit attributable to ordinary equity shareholders	512,845	130,135
Effect of share incentive for non-wholly owned subsidiary	(1,570)	(193)
Profit attributable to ordinary equity shareholders (diluted)	511,275	129,942

(ii) **Weighted average number of ordinary shares (diluted)**

	Year ended 31 December	
	2023 '000	2022 '000
Weighted average number of ordinary shares at 31 December	1,147,908	1,143,463
Effect of deemed issue of shares under the company's share incentive scheme	859	11,728
Weighted average number of ordinary shares (diluted) at 31 December	<u>1,148,767</u>	<u>1,155,191</u>

For the years ended 31 December 2023 and 2022, the Group has considered the impact from the restricted share units (“RSU”) and share options issued by the Group on diluted earnings per share. The RSUs issued by the Group had a dilutive effect during the year, while since the exercise price of the share options exceeds the average share 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.

8 DIVIDENDS

No dividends have been paid or declared by the Company for the years ended 31 December 2023 and 2022.

9 ACCOUNTS RECEIVABLE

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

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Up to 6 months	241,795	161,854
6 months to 1 year	3,344	7,246
1 year to 2 years	7,203	532
2 years to 3 years	3,309	12,022
Over 3 years	32,088	22,163
Gross carrying amount	<u>287,739</u>	<u>203,817</u>
Less: impairment provision	<u>(44,578)</u>	<u>(38,940)</u>
Total accounts receivable	<u>243,161</u>	<u>164,877</u>

10 ACCOUNTS PAYABLE

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

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Up to 1 year	267,808	179,093
1 year to 2 years	19,618	3,206
More than 2 years	5,571	7,440
	<u>292,997</u>	<u>189,739</u>

Accounts payable are usually paid within 1 year of recognition.

DEFINITION

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

“Acquisition”	the proposed acquisition of the Sale Shares by the Company from Spriver pursuant to the Sale and Purchase Agreement
“App(s)” or “app(s)”	application(s)
“Audit Committee”	the audit committee of the Company
“BlueCity”	BlueCity Holdings Limited
“Board”	the board of Directors
“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 the Company as of the date of this 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
“Directors”	the directors of the Company
“EBITDA”	Earnings before interest and other finance costs, taxation, depreciation and amortisation
“ESG”	environmental, social and governance
“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)
“Fund”	Metaclass Management ELP, an exempted limited partnership to be established under the laws of the Cayman Islands
“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

“Land of Glory”	Land of Glory Ltd., an exempted company with limited liability incorporated in the Cayman Islands
“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)
“Multelements”	Multelements Limited, an exempted company with limited liability incorporated in the Cayman Islands
“Partnership Agreement”	the amended and restated exempted limited partnership agreement entered into between Spriver, the General Partner and the Company on 4 July 2022
“Prospectus”	the prospectus of the Company dated 17 December 2019
“Reporting Period”	the year ended 31 December 2023
“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 and Purchase Agreement”	the sale and purchase agreement dated 23 March 2023 entered into between the Company and Spriver in relation to the Acquisition
“Share Option(s)”	a right granted to subscribe for the Shares pursuant to the Share Option Scheme
“Share Option Scheme”	the share option scheme adopted by the Company at the annual general meeting held on 31 May 2021
“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, a BVI business company incorporated in the British Virgin Islands with limited liability on 22 August 2018, the issued shares of which is owned as to 100% by Mr. Liu Chunhe
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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 year. 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, 21 March 2024

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.