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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)

MAJOR AND CONNECTED TRANSACTIONS

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

CONTRACTUAL ARRANGEMENTS CONSTITUTING CONTINUING CONNECTED TRANSACTIONS

MAJOR AND CONNECTED TRANSACTIONS

References are made to (i) the Company's announcement dated 13 January 2022 and its circular dated 16 March 2022 in relation to, among other things, the proposed establishment of the Fund under the Partnership Agreement, (ii) the announcement of the Company dated 23 March 2023 (the "**Announcement**") in relation to, among other things, the proposed Acquisition and the entering into of the Sale and Purchase Agreement and the Deed of Amendment of the Partnership Agreement of the Fund (hereinafter referred to as the "**First Deed of Amendment**"), and (iii) the announcements of the Company dated 1 May 2023 and 25 May 2023 in relation to the extension of time for despatch of circular. Unless otherwise defined, capitalised terms used in this announcement that are not defined herein shall have the same meanings as defined in the Announcement.

THE ACQUISITION

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

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

DEEDS OF AMENDMENT OF THE PARTNERSHIP AGREEMENT OF THE FUND

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 (as the Board hereby announces) (ii) a deed of amendment (hereinafter referred to as the “**Second Deed of Amendment**”) on 18 April 2023 (collectively the “**Deeds of Amendment**”), to amend or supplement the Partnership Agreement.

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

The Board hereby announces that the Second Deed of Amendment was entered into by the Company, Spriver and Chizicheng Strategy Investment on 18 April 2023, and pursuant to which the term of the Partnership shall be changed from a maximum of ten years to an indefinite term and shall be terminated upon the first occurrence of any of the following events (each defined thereunder as a “**termination event**”):

- (a) the determination by the General Partner in its sole discretion at any time that such dissolution and termination would be in the best interests of the Limited Partners; or
- (b) the commencement of liquidation, bankruptcy or dissolution proceedings in respect of, the making of a winding up or dissolution order in relation to, or the withdrawal or removal of the General Partner unless another person is appointed as general partner pursuant to and as stipulated in the Partnership Agreement within 90 days.

LISTING RULES IMPLICATIONS

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

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

CONTRACTUAL ARRANGEMENTS CONSTITUTING CONTINUING CONNECTED TRANSACTIONS

BlueCity and its Affiliates adopt contractual arrangements to operate their businesses in the PRC as certain onshore entities operate in sectors that are subject to foreign investment restriction or prohibition under the applicable PRC laws and regulations, namely, the provision of internet and social networking and related services.

As advised by the PRC Legal Advisers, in light of the aforementioned restrictions or prohibitions on foreign investment, the establishment of the contractual arrangements between Beijing BlueCity Information & Technology Co., Ltd. (the “**WFOE**”), Beijing BlueCity Culture and Media Co., Ltd. (the “**VIE**”), and the registered shareholders of the VIE, namely Hande Houcheng and Newborn Town Network Technology (collectively, the “**PRC Equity Holders**”) are necessary for the Group to proceed with the Acquisition. Thus the WFOE, the VIE and the PRC Equity Holders entered into contractual arrangements prior to Completion to enable the financial results, the entire economic benefits and risks of the businesses of the VIE (including that of the entities controlled by the VIE that operate in the restricted or prohibited sectors) to flow into the WFOE and enable the WFOE to gain control over the VIE.

Further, being condition precedent to Completion, the contractual arrangements of BlueCity and its Affiliates will be reorganised and restructured to ensure compliance with the requirements of the governmental authorities of the PRC (including the China Securities Regulatory Commission) and the Stock Exchange (including the requirements as set out in the Stock Exchange’s Guidance Letter HKEx-GL77-14).

The contractual arrangements consist of a series of agreements (the “**VIE Agreements**”), including the Exclusive Consulting and Services Agreement, the Exclusive Option Agreement, the Equity Interest Pledge Agreement, the Powers of Attorney, the Partners’ Undertaking and the Spousal Undertaking, entered into by the PRC Equity Holders and the WFOE, each of which is an integral part of the contractual arrangements. Albeit neither the Group nor the WFOE holds any equity interests in the VIE, yet through the entering into of the VIE Agreements, the Group is able to exert effective control over the VIE to derive substantially all its economic benefits. The contractual arrangements among the Group (through the WFOE), the VIE and the PRC Equity Holders enable the Group to (i) derive substantially all of the economic benefits from the VIE in consideration for the services provided by the WFOE; (ii) exercise effective control over the VIE; and (iii) hold an exclusive option to purchase all or part of the equity interests and assets in the VIE when and to the extent permitted by PRC laws.

LISTING RULES IMPLICATIONS

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

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

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

As the term of the contractual arrangements exceeds three years, pursuant to Rule 14A.52, Somerley has been appointed as the Independent Financial Adviser to explain why a term exceeding three years is required and to confirm that it is normal business practice for agreements of this type to be of such duration.

APPLICATION FOR WAIVER

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

EGM

An EGM will be convened and held for the Shareholders to consider, and if thought fit, approve the Sale and Purchase Agreement, the Deeds of Amendment, the VIE Agreements, and the transactions contemplated thereunder, a circular containing, among other things, (i) background and purposes of the establishment of the Fund and the entering into of the Partnership Agreement; (ii) further information in relation to the Sale and Purchase Agreement, the Deeds of Amendment, the VIE Agreements, and the transactions contemplated thereunder; (iii) the recommendation from the Independent Board Committee and the recommendation from Somerley to the Independent Board Committee and the Independent Shareholders; (iv) the financial information of the Group; (v) the financial information of the Target Group; (vi) the unaudited pro forma financial information of the Enlarged Group; (vii) the management discussion and analysis of the Target Group; (viii) the general information of the Group; and (ix) a notice for convening the EGM, is expected to be despatched to the Shareholders on or before 30 June 2023.

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

As Completion is subject to the fulfilment of several conditions which are detailed in the section headed “Conditions precedent to the Sale and Purchase Agreement and the Deeds of Amendment” in this announcement, and the consummation of the said agreements are subject to the passing of the resolutions at the EGM, the Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the shares of the Company.

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

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

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

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

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

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

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

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

DEEDS OF AMENDMENT OF THE PARTNERSHIP AGREEMENT OF THE FUND

References are made to the Company's announcement dated 13 January 2022 and its circular dated 16 March 2022 issued by the Company in relation to the proposed establishment of the Fund. The Partnership Agreement is entered into by the Company, Spriver and Chizicheng Strategy Investment on 4 July 2022 and that the total fund-raising target of the Fund to be established is stipulated to be in the amount of US\$100 million, of which, Chizicheng Strategy Investment (as the General Partner) shall make cash contribution in the amount of US\$0.1 million, Spriver (as the Limited Partner) shall make cash contribution in the amount of US\$49.9 million, and the Company (as the Limited Partner) shall make cash contribution in the amount of US\$50 million. Pursuant to the Partnership Agreement, once the Commitments are settled in full by the respective parties, Chizicheng Strategy Investment, Spriver and the Company's respective percentage interest in the Fund shall be 0.1%, 49.9% and 50%. For details of the Partnership Agreement and the transactions contemplated thereunder, please refer to the announcement dated 13 January 2022 and the circular dated 16 March 2022 issued by the Company in relation to the proposed establishment of the Fund.

In connection with (but not conditional upon) the Acquisition, the Board announced that on 23 March 2023, the Company, Spriver and Chizicheng Strategy Investment entered into the First Deed of Amendment. Pursuant to the First Deed of Amendment, the aggregate Commitments to the Partnership and capital commitments to any of the Parallel Funds (if any) of Chizicheng Strategy Investment, shall as of the Final Closing equal to US\$1.00, whereas the Commitment of Spriver, as the Limited Partner, shall be reduced from US\$49,900,000 to US\$3,800,000 with effect from the effective date of the First Deed of Amendment, and the Commitment of the Company, as the Limited Partner, shall remain the same, representing 7.06% and 92.94% interest, respectively, in the Fund. It was stipulated in the Partnership Agreement that the term of the Fund could, after expiry of the 10-year period, be extended by the General Partner for up to two consecutive one-year periods at its discretion and for further period(s) with the consent of the advisory committee (comprising of up to a maximum of three members selected by the General Partner from among certain Limited Partners' representatives and third party independent experts).

Further revisions were then introduced, with the Company, Spriver and Chizicheng Strategy Investment having entered into the Second Deed of Amendment on 18 April 2023. Pursuant to the Second Deed of Amendment, the term of the Partnership shall be changed from a maximum of ten years to an indefinite term and shall be terminated upon the first occurrence of any of the termination events, being (a) the determination by the General Partner in its sole discretion at any time that such dissolution and termination would be in the best interests of the Limited Partners; or (b) the commencement of liquidation, bankruptcy or dissolution proceedings in respect of, the making of a winding up or dissolution order in relation to, or the withdrawal or removal of the General Partner unless another person is appointed as general partner pursuant to and as stipulated in the Partnership Agreement within 90 days.

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

The terms of the Second Deed of Amendment were determined after arm's length negotiations between the parties thereto, and details of which are set out as follows:

Second Deed of Amendment

Date

18 April 2023 (after trading hours)

Parties

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

Subject matter

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

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

- (a) the determination by the General Partner in its sole discretion at any time that such dissolution and termination would be in the best interests of the Limited Partners; or
- (b) the commencement of liquidation, bankruptcy or dissolution proceedings in respect of, the making of a winding up or dissolution order in relation to, or the withdrawal or removal of the General Partner unless another person is appointed as general partner pursuant to Clause 31.4 within 90 days.”

CONDITIONS PRECEDENT TO THE SALE AND PURCHASE AGREEMENT AND THE DEEDS OF AMENDMENT

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

- (i) the obtaining of consent from the Independent Shareholders by an ordinary resolution of the Independent Shareholders as a separate class approving the Sale and Purchase Agreement and the transactions contemplated thereunder at the general meeting to be convened and held in accordance with the Listing Rules and the applicable laws and regulations;
- (ii) the completion of the reorganisation and restructuring in respect of the contractual arrangements of BlueCity and its Affiliates in accordance with the requirements of the governmental authorities of the PRC (including the China Securities Regulatory Commission) and the Stock Exchange; and
- (iii) the representations made by Spriver set out in the Sale and Purchase Agreement remain true and accurate at the date of the Sale and Purchase Agreement and the date of Completion.

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

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

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

The Company

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

Spriver

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

Chizicheng Strategy Investment

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

INFORMATION ON THE FUND, BLUECITY AND LAND OF GLORY

The Fund

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

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

BlueCity

As a world-leading online LGBTQ community which provides a comprehensive suite of services that fosters connections and enhances the wellbeing of the LGBTQ community, BlueCity fulfills both the daily and lifelong needs of its members through a wide range of targeted and tailored services, including social networking, live-streaming and health-related services. With its commitment to providing high-quality user experience, ensuring privacy protection, and promoting community health and well-being, BlueCity has captured the hearts and minds of the LGBTQ crowd and drawn a huge following across the globe.

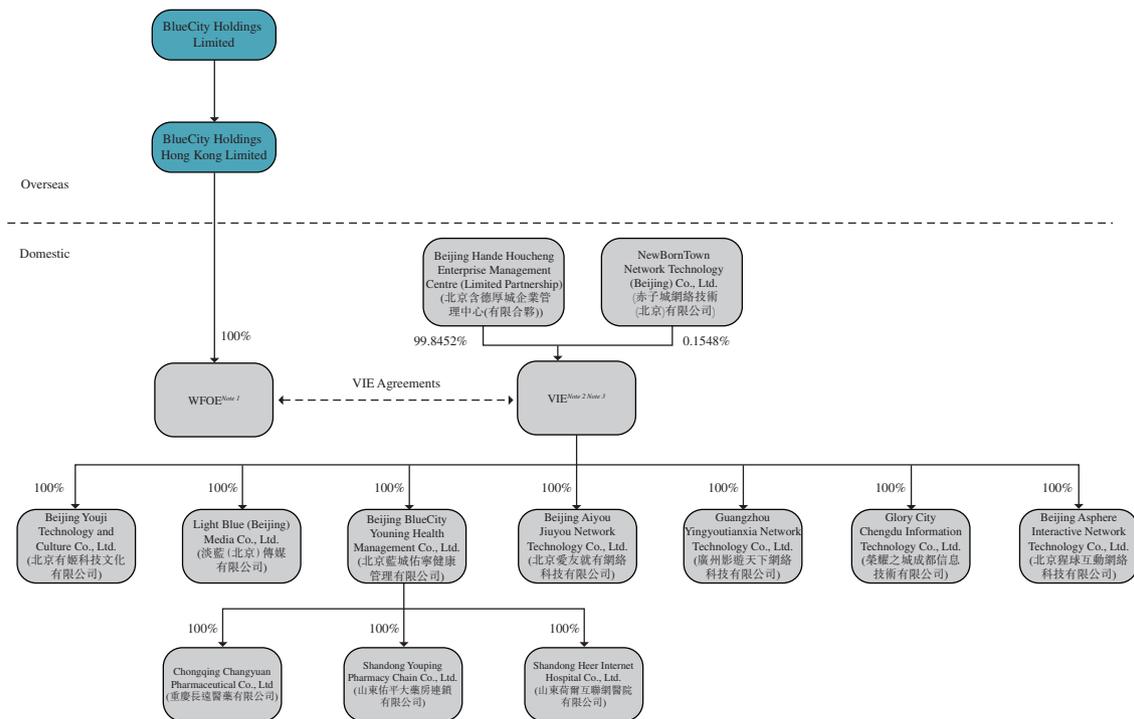
BlueCity and its Affiliates adopt contractual arrangements to operate its business onshore in the PRC. Being condition precedent to Completion, the contractual arrangements of BlueCity and its Affiliates will be reorganised and restructured in accordance with the requirements of the governmental authorities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

Land of Glory

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

CONTRACTUAL ARRANGEMENTS OF BLUECITY AND ITS AFFILIATES

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



Notes:

- 1: Beijing BlueCity Information & Technology Co., Ltd. (北京藍城兄弟信息技術有限公司)
- 2: Beijing BlueCity Culture and Media Co., Ltd. (北京藍城兄弟文化傳媒有限公司)
- 3: The PRC Equity Holders, being the registered shareholders of the VIE are Hande Houcheng (a limited partnership established under the laws of the PRC on 25 August 2014 by LIU Chunhe and LI Ping, being founders of the Group and executive Directors of the Company) and Newborn Town Network Technology (a company incorporated under the laws of the PRC with limited liability on 28 February 2014 and a direct wholly-owned subsidiary of NewBornTown Mobile Technology which by virtue of the Company's existing contractual arrangements, accounted for as the Company's subsidiary), holding approximately 99.85% and approximately 0.15% interest in the VIE, respectively.

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

PRC LAWS AND REGULATIONS RELATING TO FOREIGN OWNERSHIP RESTRICTIONS

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

Restrictions and prohibitions regarding the Internet and Social Networking Business

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

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

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

Reasons for entering into the contractual arrangements

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

As advised by the PRC Legal Advisers, in light of the above restrictions or prohibitions on foreign investment, the establishment of the contractual arrangements between the WFOE, the VIE and the PRC Equity Holders are necessary for the Group to proceed with the Acquisition.

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

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

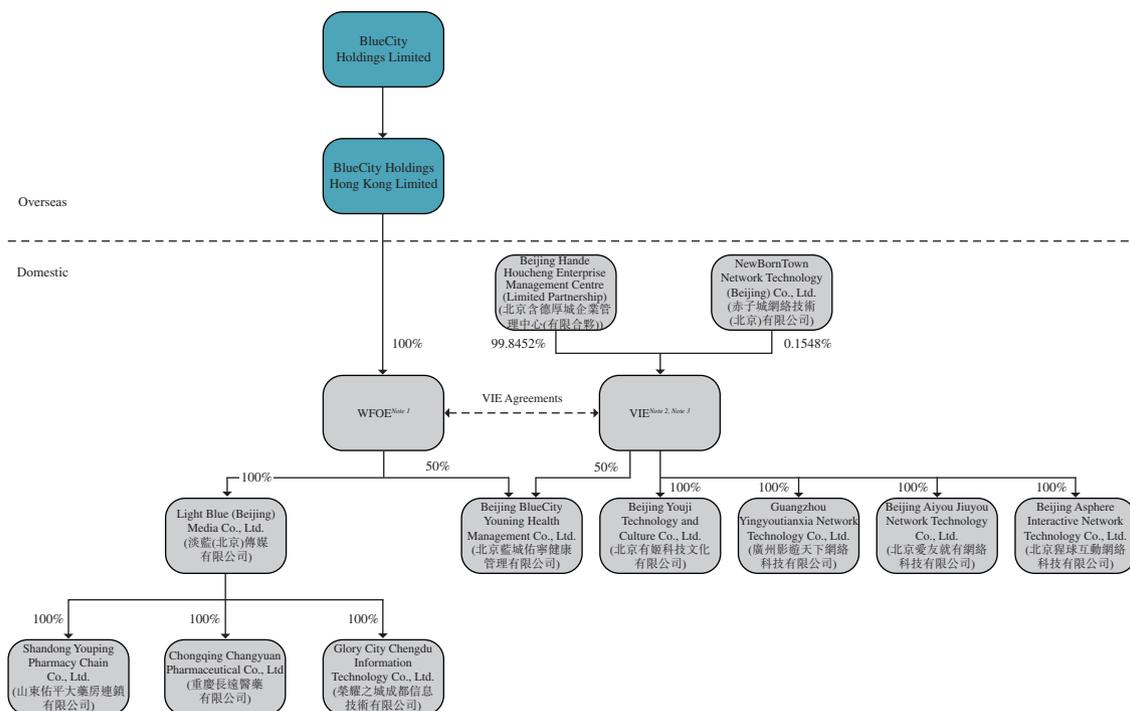
REORGANISATION AND RESTRUCTURING OF BLUECITY AND ITS AFFILIATES

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

- (i) For each of such PRC entities currently controlled by the WFOE through contractual arrangements (i.e. through the VIE structure) that operates or plans to operate in business areas where foreign investments are “prohibited” under the Negative List (notwithstanding the holding of the relevant license (i.e. Internet Cultural Operation License), the Company shall preserve the existing arrangement (such that the WFOE shall continue to hold, through the VIE structure, 100% interests in the aforementioned entities) to ensure compliance with the relevant PRC laws and regulations;
- (ii) as for the PRC entity currently controlled by the WFOE through the VIE structure that engages in the provision of value-added telecommunication services whilst holding only the foreign-investment restricted business license (i.e. ICP License), reorganisation is considered necessary for such entity to ensure compliance with the relevant PRC laws and regulations as value-added telecommunication services being classed as “restricted” under the Negative List such that foreign investors are only permitted to hold a maximum of 50% equity interests over entities that hold ICP Licenses. After completion of the reorganisation exercise, the WFOE will directly hold 50% of the shares in such PRC entity, and the remaining 50% of its shares will be held by the WFOE through the VIE structure; and
- (iii) as for those PRC entities currently controlled by WFOE through the VIE structure that are engaged in businesses that are neither “restricted” nor “prohibited” from foreign investment pursuant to the Negative List (namely, Light Blue (Beijing) Media Co., Ltd., Shandong Youping Pharmacy Chain Co., Ltd., Chongqing Changyuan Pharmaceutical Co., Ltd., and Glory City Chengdu Information Technology Co., Ltd.), they will undergo such reorganisation and restructuring as deemed necessary by the Company (as advised by the PRC Legal Advisers) to ensure compliance with the relevant PRC laws and regulations as well as the Stock Exchange’s “narrowly tailored” requirement for contractual arrangements.

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

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



Notes:

- 1: Beijing BlueCity Information & Technology Co., Ltd. (北京藍城兄弟信息技術有限公司)
- 2: Beijing BlueCity Culture and Media Co., Ltd. (北京藍城兄弟文化傳媒有限公司)
- 3: The PRC Equity Holders, being the registered shareholders of the VIE are Hande Houcheng (a limited partnership established under the laws of the PRC on 25 August 2014 by LIU Chunhe and LI Ping, being founders of the Group and executive Directors of the Company) and Newborn Town Network Technology (a company incorporated under the laws of the PRC with limited liability on 28 February 2014 and a direct wholly-owned subsidiary of NewBornTown Mobile Technology which by virtue of the Company's existing contractual arrangements, accounted for as the Company's subsidiary) holding approximately 99.85% and approximately 0.15% interest in the VIE, respectively.

REVENUE CONTRIBUTED BY THE ENTITIES CONTROLLED BY THE VIE

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

Entities controlled by the VIE (after reorganisation)

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

INFORMATION ON THE VIE AGREEMENTS

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

(i) Exclusive Consulting and Services Agreement

Date

20 March 2023

Parties

- (a) The WFOE
- (b) The VIE

Subject matter

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

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

Term

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

(ii) Powers of Attorney

Date

20 March 2023

Parties

- (a) The WFOE
- (b) The PRC Equity Holders

Subject matter

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

Term

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

(iii) Equity Interest Pledge Agreement

Date

20 March 2023

Parties

- (a) The WFOE
- (b) The PRC Equity Holders

Subject matter

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

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

Term

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

(iv) Exclusive Option Agreement

Date

20 March 2023

Parties

- (a) The WFOE
- (b) The PRC Equity Holders

Subject matter

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

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

Term

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

(v) Partners' Undertaking

Date

24 June 2023

Parties

- (a) Mr. LIU Chunhe, the general partner of Hande Houcheng
- (b) Mr. LI Ping, the limited partner of Hande Houcheng

Subject matter

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

- (1) to procure Hande Houcheng to continuously comply with the contractual arrangements and will not initiate or adopt any claims which will contradict the contractual arrangements;
- (2) that his interests in the VIE through Hande Houcheng are beneficially owned by the WFOE and he will not claim any such interests;
- (3) that without prior written consent of the WFOE or its designated person, he will not, and will procure Hande Houcheng not to, amend the partnership agreements, partnership composition or dispose of any interests in Hande Houcheng;

- (4) that he will transfer his interests in Hande Houcheng to the designated person in accordance with the instruction(s) of the WFOE or its designated person to the extent permissible by applicable laws, and remit the consideration (if any) to the WFOE or its designated person(s);
- (5) that he will procure that Hande Houcheng refrain from breaching any contractual arrangements or taking any action in violation of the contractual arrangements by virtue of the equity interests held by Hande Houcheng in the VIE;
- (6) that if the WFOE or its designated person(s) requires, pursuant to the contractual arrangements, that amendments be made to the relevant terms of the partnership agreement of Hande Houcheng or that adjustments be made to Hande Houcheng itself, he will facilitate and complete such requirements as requested; and
- (7) that if he breaches any of the undertakings therein, he will be deemed a contracting party thereto, and bear liability of such breach in accordance with the contractual arrangements and compensate for losses so suffered by other parties to the contractual arrangements.

(vi) Spousal Undertaking

Date

24 June 2023

Parties

- (a) Spouse of Mr. LIU Chunhe, the general partner of Hande Houcheng
- (b) Spouse of Mr. LI Ping, the limited partner of Hande Houcheng

Subject matter

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

- (1) to agree that any equity interests (together with any other interests therein) held by her spouse as a general partner or a limited partner of Hande Houcheng (as the case may be) are separate properties of her spouse and do not fall within the scope of communal properties; and her spouse and Hande Houcheng are entitled to deal with the equity interests in the VIE and any interests therein in accordance with the contractual arrangements without her prior consent;
- (2) to agree that her spouse may amend or terminate the contractual arrangements without her authorisation or consent;
- (3) that she will not raise any proposition or take any action against the contractual arrangements by virtue of the equity interests held by her spouse (through Hande Houcheng) in the VIE;

- (4) that if all or part of the shares held by her spouse are transferred to her, to pledge, sell or dispose such shares in accordance with the provisions and requirements prescribed in the contractual arrangements, she will observe obligations of her spouse as a general partner or a limited partner of Hande Houcheng (as the case may be) under the contractual arrangements and to sign all necessary documents and take all necessary actions to ensure the contractual arrangements to be properly performed;
- (5) that she has never participated, nor does she intend to participate in the operation, management or voting matters of Hande Houcheng or the VIE; and
- (6) to waive any rights related to the interests in Hande Houcheng held by her spouse that may be vested in her in accordance with the applicable laws.

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

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

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

Dispute resolutions

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

Succession

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

Liquidation

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

Death, bankruptcy and divorce

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

Conflict of interests

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

Loss sharing

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

Measures implemented by the Group in compliance with the contractual arrangements

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

- (i) the Powers of Attorney are granted to the WFOE, and the related matters are decided by designated persons of the WFOE, including for instance Directors and their successors, and the Powers of Attorney will not be exercised by officers or directors of the Company who are also the PRC Equity Holders to prevent any potential conflict of interest;
- (ii) major issues arising from the implementation and compliance with the contractual arrangements or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;
- (iii) the Board will review the overall performance of and compliance status of the contractual arrangements at least once a year;
- (iv) the Company will disclose the overall performance and compliance status of the contractual arrangements in its annual reports;
- (v) the Company will engage external legal advisers or other professional advisers, if necessary, to assist the Board in conducting reviews on the implementation of the contractual arrangements, assessing the legal compliance of the WFOE and the VIE, and in dealing with specific issues or matters arising from the contractual arrangements; and
- (vi) the Company shall consult its PRC legal advisers from time to time to check if there are any legal developments in the PRC affecting the contractual arrangements contemplated under the VIE Agreements, and, where necessary, immediately report to the Board and provide it with appropriate advice and recommendations to enable it to timely determine if any modification or amendment needs to be made in compliance with the updated legal requirements.

THE BOARD'S VIEW ON THE VIE AGREEMENTS

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

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

- (iii) upon the breach by the VIE of any contractual obligations under the Exclusive Consulting and Services Agreement, the WFOE as pledgee under the Equity Interest Pledge Agreement, shall have the right to dispose of the pledged equity interests in the VIE and shall be accorded priority in receiving the proceeds from such disposal. The PRC Equity Holders also further covenant that they will not, without the prior written consent of the WFOE, dispose of, create or allow any encumbrance on the pledged equity interests; and
- (iv) pursuant to the Powers of Attorney, each of the PRC Equity Holders has unconditionally and irrevocably authorised the WFOE to exercise all its rights as a shareholder of the VIE, including but not limited to the exercising of full rights to exert control over, and manage the finance, accounting and daily operations of the VIE.

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

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

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

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

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

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

- (1) irrevocably exercise such voting rights as entitled by equity holders of the VIE;
- (2) exercise effective financial and operational control over the VIE;
- (3) receive substantially all such economic interest returns generated by the VIE through the fees charged for the technical and consulting services provided by the WFOE;
- (4) obtain an irrevocable and exclusive right to purchase all or part of the equity interests in the VIE from the respective equity holders at a minimum purchase price permitted under the PRC laws and regulations; and
- (5) obtain a pledge over the entire equity interests of the VIE from its respective equity holders to secure performance of the VIE's obligation under the VIE Agreements.

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

CONTRACTUAL ARRANGEMENTS CONSTITUTING CONTINUING CONNECTED TRANSACTIONS

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

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

Listing Rules implications

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

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

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

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

As the term of the contractual arrangements exceeds three years, pursuant to Rule 14A.52, Somerley has been appointed as the Independent Financial Adviser to explain why a term exceeding three years is required and to confirm that it is normal business practice for agreements of this type to be of such duration.

OPINION FROM THE INDEPENDENT FINANCIAL ADVISER

As the term of the contractual arrangements exceeds three years, pursuant to Rule 14A.52 of the Listing Rules, the Company has appointed Somerley as the Independent Financial Adviser to explain why a term exceeding three years is required and to confirm that it is normal business practice for agreements of this type to be of such duration.

In rendering the opinion pursuant to Rule 14A.52 of the Listing Rules, Somerley has taken into consideration the following factors:

- (1) the Company operates through two reporting segments, namely social networking business and innovative business. Social networking business segment mainly includes diversified social networking products with product portfolio including Yumy (a heartbeat social networking platform), MICO (an open social networking platform), YoHo (an audio social networking platform) and other audio and video social media products. Innovative business segment mainly includes niche games, metaverse and other related businesses;
- (2) BlueCity is principally engaged in providing live streaming, advertising, membership, merchandise sales and other services;
- (3) BlueCity and its Affiliates adopt contractual arrangements to operate its onshore business in the PRC;

- (4) the Company is ineligible to operate VIE in the PRC in view of foreign ownership restrictions under the PRC laws and regulations;
- (5) the Company is able to continue to exercise effective control over the licensed business and operation and to safeguard the assets of the VIE through the contractual arrangements; and
- (6) a comparatively long duration of the contractual arrangements without a fixed term will provide stability to the Group's operations and extend the period of income to be derived from the VIE, it is commercially desirable and essential for the Group to enter into the contractual arrangements without a fixed term;

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

Based on the aforesaid criteria, six Comparable Contractual Arrangements have been identified, and each of which has entered into a series of contractual arrangements with the relevant PRC operating entities and their shareholders so that each of the Comparable Companies can effectively consolidate the financial results of the relevant operating entities into its consolidated financial statements. Somerley noted that five out of all six Comparable Contractual Arrangements so identified have durations ranging from five years to an indefinite term.

Somerley considers that the Comparable Contractual Arrangements represent fair and representative samples given (i) the Comparable Contractual Arrangements of the Comparable Companies are similar to the contractual arrangements operating in the "e-commerce & internet services" industry in the PRC; (ii) the Comparable Contractual Arrangements identified during the Review Period represent recent structure of obtaining control over PRC companies operating in industries subject to the foreign ownership restriction; and (iii) the sufficient number (i.e. size of six) of the Comparable Contractual Arrangements being identified.

Based on the above considerations, Somerley is of the view that it is normal business practice for an agreement of this type to be of such duration, and that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole to enter into the contractual arrangements without a fixed term.

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

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

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

(ii) Reasons for the waiver application

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

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

- (b) Whilst the contractual arrangements, once implemented, constitute continuing connected transactions of the Company for the purpose of Chapter 14A of the Listing Rules, the Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administration costs to the Company, for all transactions contemplated under the VIE Agreements to be subject to strict compliance with the requirements set out under Rules 14A.52 and 14A.53 of the Listing Rules.
- (c) Upon the results and financial operations of the VIE and its subsidiaries being consolidated into that of the Group's by virtue of the contractual arrangements coming into effect, the Company will not only receive substantially all the economic benefits derived therefrom, but also that the interests of its Shareholders will not be prejudiced as the PRC Equity Holders (and especially the connected person, Hande Houcheng), having relinquished their rights through the VIE Agreements, will not be able to derive any benefits thereunder.
- (d) Based on the foregoing, the transactions contemplated under the VIE Agreements, albeit deemed "continuing connected" under the Listing Rules, were merely considered so in form as they lack, in substance, the qualifying features of "continuing connected transactions", as is typical of contractual arrangements in relation to that of a variable interest entity structure.
- (e) The Board (including the independent non-executive Directors) is of the view that the contractual arrangements and the transactions contemplated thereunder are fundamental to the Group's legal structure and business operations, have been entered into in the ordinary and usual course of business of the Target Group, are on normal commercial terms or better and are fair and reasonable and in the interests of the Company and its Shareholders as a whole. The waiver application for the lifting of restrictions on both the term and annual caps in relation to the contractual arrangements is thus deemed justifiable by the Directors, whom consider such being but normal business practice to ensure that the financial and operational policies of the VIE and its subsidiaries remain continually under the effective control of the Group with economic benefits derived therefrom consistently, and such that any possible leakages of assets and values are being prevented on an uninterrupted basis.

(iii) Conditions of the Waiver

The Waiver is subject to the following conditions:

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

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

(b) No change without Independent Shareholders' approval

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

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

(c) *Economic benefits and flexibility*

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

(d) *Renewal and reproduction*

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

(e) *On-going reporting and approvals*

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

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

- the independent non-executive Directors will review the contractual arrangements annually and confirm in the Company’s annual report for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the contractual arrangements, (ii) no dividends or other distributions have been made by the VIE and its subsidiaries to the PRC Equity Holders which are not otherwise subsequently assigned or transferred to the Group, and (iii) any new contracts entered into, renewed or reproduced between the Group and the VIE and its subsidiaries during the relevant financial period above are fair and reasonable, or advantageous to the Shareholders so far as the Group is concerned and in the interests of the Shareholders as a whole;
- the Company’s auditors will carry out procedures annually on the transactions carried out pursuant to the contractual arrangements and will provide a letter to the Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of the Directors and have been entered into in accordance with the relevant contractual arrangements and that no dividends or other distributions have been made by the VIE and its subsidiaries to the PRC Equity Holders which are not otherwise subsequently assigned or transferred to the Target Group;
- for the purpose of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, each of the VIE and its subsidiaries will be treated as the Company’s wholly-owned subsidiary, but at the same time, the directors, chief executives or substantial shareholders of each of the VIE and its subsidiaries and their respective associates will be treated as connected persons of the Company as applicable under the Listing Rules (excluding for this purpose, the VIE and its subsidiaries), and transactions between these connected persons and the Group (including for this purpose, the VIE and its subsidiaries), other than those under the contractual arrangements, will be subject to requirements under Chapter 14A of the Listing Rules; and
- the VIE and its subsidiaries will undertake that, for so long as the Shares are listed on the Stock Exchange, the VIE and its subsidiaries will provide the Group’s management and the Company’s auditors full access to their relevant records for the purpose of the Company’s auditing procedures with regard to the connected transactions.

RISK FACTORS IN RELATION TO THE VIE AGREEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Neither the insurance of the Group, nor that of the Target Group's, covers the risks relating to the VIE Agreements and the transactions contemplated thereunder and the Company has no intention to purchase any additional insurance in this regard. If any risk arises from the VIE Agreements in the future, such as those affecting the enforceability of the VIE Agreements and the relevant agreements for the transactions contemplated thereunder and the operation of the VIE Agreements, the results of the Target Group may be adversely affected. However, the Group will monitor the relevant legal and operational environment from time to time to comply with the applicable laws and regulations. The Company will be evaluating the feasibility, the cost and the benefit of insuring the transactions contemplated under the VIE Agreements on a continual basis.

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

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

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

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

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

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

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

Under the scenario where only the entering into of the Deeds of Amendment is approved, the Company, as a Limited Partner, does not control the Fund and therefore does not consolidate the financial statements of the Fund. The Company will continue to account for its investment in the Fund as a joint venture using the equity method.

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

- (1) Assuming the entering into of the Deeds of Amendment is approved, there will be no difference between Spriver's Commitment under the Partnership Agreement (as amended by the First Deed of Amendment) and its current Contribution, because Spriver's Commitment under the Partnership Agreement shall be reduced to US\$3,800,000 pursuant to the First Deed of Amendment and it has already contributed US\$3,800,000.
- (2) Assuming the entering into of the Deeds of Amendment is not approved, Spriver will be subject to an obligation to make Contributions to the Partnership up to its Commitment of US\$49,900,000 under the Partnership Agreement if and when the General Partner specifies the amount which Spriver is required to contribute in a drawdown notice pursuant to the Partnership Agreement, which means Spriver may be required to further contribute the difference between US\$49,900,000 and US\$3,800,000.

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

LISTING RULES IMPLICATIONS

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

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

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

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

EGM

An EGM will be convened and held for the Shareholders to consider, and if thought fit, approve the Sale and Purchase Agreement, the Deeds of Amendment, the VIE Agreements, and the transactions contemplated thereunder, a circular containing, among other things, (i) background and purposes of the establishment of the Fund and the entering into of the Partnership Agreement; (ii) further information in relation to the Sale and Purchase Agreement, the Deeds of Amendment, the VIE Agreements, and the transactions contemplated thereunder; (iii) the recommendation from the Independent Board Committee and the recommendation from Somerley to the Independent Board Committee and the Independent Shareholders; (iv) the financial information of the Group; (v) the financial information of the Target Group; (vi) the unaudited pro forma financial information of the Enlarged Group; (vii) the management discussion and analysis of the Target Group; (viii) the general information of the Group; and (ix) a notice for convening the EGM, is expected to be despatched to the Shareholders on or before 30 June 2023.

Mr. LIU Chunhe, Parallel World Limited and Mr. LI Ping are interested in approximately 22.05%, 6.14% and 6.64%, respectively of the shares in the Company. For details of their respective shareholdings in the Company, please refer to the Company's annual report for the year ended 31 December 2022. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, save for Spriver, Mr. LIU Chunhe, Parallel World Limited and Mr. LI Ping who will abstain from voting, no Shareholders or any of their respective associates have any material interest in the Sale and Purchase Agreement, the Deeds of Amendment, the VIE Agreements, and the transactions contemplated thereunder.

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

As Completion is subject to the fulfilment of several conditions which are detailed in the section headed "Conditions precedent to the Sale and Purchase Agreement and the Deeds of Amendment" in this announcement, and the consummation of the said agreements are subject to the passing of the resolutions at the EGM, the Acquisition may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the shares of the Company.

DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

"Acquisition"	the proposed acquisition of the Sale Shares by the Company from Spriver pursuant to the Sale and Purchase Agreement
"Additional Amount"	an additional amount which shall be made by each Additional Limited Partner, and each Limited Partner that increases its Commitment at a Subsequent Closing to the Partnership representing notional interest on the Additional Contribution (and for the avoidance of doubt, shall include any amount attributable to payment of management fees) at a rate equal to 8 per cent per annum (compounded annually) from the date or dates upon which the Limited Partner's Commitment would have been drawn down had it been a Limited Partner from the Initial Closing up to the date of its payment, based upon the actual number of days elapsed in a year of 365 days
"Additional Contribution"	a Contribution which shall be made by each Additional Limited Partner, and each Limited Partner that increases its Commitment at a Subsequent Closing of an amount equal to its proportionate share (based on Commitments), at such Subsequent Closing, or on such date as the General Partner may determine, of the aggregate amount previously contributed by Limited Partners for partnership expenses and for the making of any Portfolio Investments which have not been realised in full prior to the Subsequent Closing

“Additional Limited Partner”	any person who has been admitted to the Partnership as a Limited Partner at a Subsequent Closing in accordance with the Partnership Agreement
“Affiliate(s)”	any person that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the person specified and, for this purpose, a person shall be treated as being controlled by another person if that other person is able to direct its affairs and/or to control the composition of its board of directors or equivalent body provided that no SPV, Parallel Fund, Alternative Investment Vehicle or Successor Fund shall be deemed to be an Affiliate of the General Partner
“BlueCity”	BlueCity Holdings Limited, an exempted company with limited liability incorporated in the Cayman Islands and a wholly-owned subsidiary of Multelements Limited
“Board”	the board of directors of the Company
“Chizicheng Strategy Investment”	Chizicheng Strategy Investment Limited, an exempted company with limited liability incorporated in the Cayman Islands on 11 January 2022 and was wholly-owned by Spriver before Completion
“Closing”	any date determined by the General Partner as at which one or more persons may be admitted to the Partnership or an existing Limited Partner may increase its Commitment
“Commitment(s)”	in respect of any Partner, the amount agreed to be advanced by such Limited Partner to the Partnership pursuant to the Subscription Agreement (and, where the Subscription Agreement requires, by Chizicheng Strategy Investment pursuant to the Partnership Agreement) (whether or not repaid to the Partner in whole or in part) but excluding any Additional Amount
“Company”	Newborn Town Inc. (赤子城科技有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 9911)
“Completion”	the completion of the Acquisition in accordance with the terms and conditions of the Sale and Purchase Agreement

“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Contribution(s)”	in respect of any Partner, the aggregate amount contributed to the Partnership by way of capital payment by such Partner pursuant to Partnership Agreement (and, where the Partnership Agreement requires, by such Partner to any Alternative Investment Vehicle)
“Deeds of Amendment”	collectively, the First Deed of Amendment and the Second Deed of Amendment
“Director(s)”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, amongst others, the Sale and Purchase Agreement, the Deeds of Amendment, the VIE Agreements and the transactions contemplated thereunder
“Enlarged Group”	the Group as enlarged by the Target Group upon completion of the entering into Sale and Purchase Agreement, the Deeds of Amendment and the transactions contemplated thereunder
“Equity Interest Pledge Agreement”	the equity interest pledge agreement dated 20 March 2023 between the WFOE and the PRC Equity Holders
“Exclusive Consulting and Services Agreement”	the exclusive consulting and services agreement dated 20 March 2023, between the WFOE and the VIE
“Exclusive Option Agreement”	the exclusive option agreement dated 20 March 2023 between the WFOE and shareholders of the VIE
“Final Closing”	the last Closing which shall take place no later than twelve (12) months after the Initial Closing or such later date as the General Partner may determine
“First Deed of Amendment”	the deed of amendment of the Partnership Agreement of the Fund entered into by the Company, Spriver and Chizicheng Strategy Investment on 23 March 2023 (after trading hours)
“General Partner”	Chizicheng Strategy Investment
“Group”	the Company and its subsidiaries
“Hande Houcheng”	Beijing Hande Houcheng Enterprise Management Centre (Limited Partnership), a limited partnership established in the PRC on 25 August 2014 by LIU Chunhe and LI Ping, being founders of the Group and executive Directors of the Company. Hande Houcheng was held as to 99.9% by Mr. LIU Chunhe (the general partner), and 0.1% by Mr. LI Ping (the limited partner)

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“ICP License”	Internet content provider license, a value-added telecommunications business operation license issued by the relevant PRC government authorities with a service scope of internet information service
“Independent Board Committee”	the independent board committee of the Board, comprising Mr. GAO Ming, Mr. CHI Shujin and Mr. HUANG Sichen, all being the independent non-executive Directors of the Company
“Independent Shareholder(s)”	the Shareholders who are not required to abstain from voting in favour of the resolution for approving the proposed resolutions under the Listing Rules
“Initial Closing”	the initial Closing which took place on the date of the Partnership Agreement
“Land of Glory”	Land of Glory Ltd., an exempted company with limited liability incorporated in the Cayman Islands
“LGBTQ”	an acronym for lesbian, gay, bisexual, transgender and queer or questioning
“Limited Partner(s)”	any person who has been admitted by the General Partner as a limited partner of the Fund in accordance with the terms of the Partnership Agreement and has not ceased to be a limited partner of the Fund in accordance with such terms
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Mullelements”	Mullelements Limited, an exempted company with limited liability incorporated in the Cayman Islands
“NewBornTown Mobile Technology”	NewBornTown Mobile Technology (Shandong) Holdings Co., Ltd. (赤子城移動科技(山東)股份有限公司), formerly known as NewBornTown Mobile Technology (Beijing) Co., Ltd. (赤子城移動科技(北京)股份有限公司), a company incorporated under the laws of the PRC with limited liability on 15 August 2007 and by virtue of the Company’s existing contractual arrangements, accounted for as a subsidiary of the Company

“Newborn Town Network Technology”	Newborn Town Network Technology (Beijing) Co., Ltd, a limited liability company incorporated in the PRC
“Parallel Funds”	one or more additional collective investment schemes, vehicles or other arrangements managed, sponsored, advised, or established (at the cost of certain investors) by the General Partner or any Affiliates in order to facilitate investment by such investors
“Parallel World Limited”	Parallel World Limited, a BVI business company incorporated in the British Virgin Islands with limited liability on 24 August 2018, the issued shares of which is wholly-owned as to 100% by Mr. LI Ping
“Partners”	the General Partner and all Limited Partners
“Partnership” or “Fund”	Metaclass Management ELP, an exempted limited partnership to be established under the laws of the Cayman Islands
“Partnership Agreement”	the amended and restated exempted limited partnership agreement dated 4 July 2022 entered into between Spriver, Chizicheng Strategy Investment and the Company
“Partners’ Undertaking”	an unconditional and irrevocable undertaking dated 24 June 2023 as executed by each of the general partner and the limited partner of Hande Houcheng (i.e. Mr. LIU Chunhe and Mr. LI Ping)
“Portfolio Investment(s)”	a direct or indirect interest in any securities, assets or rights in the nature of investments, acquired by the Fund but does not include Temporary Liquid Investments
“Powers of Attorney”	the powers of attorney dated 20 March 2023 as executed by Hande Houcheng and Newborn Town Network Technology as the PRC Equity Holders
“PRC” or “China”	the People’s Republic of China. For the purposes of this announcement only and except where the context requires otherwise, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Equity Holders”	refer to the registered shareholders of the VIE, namely Hande Houcheng and Newborn Town Network Technology which holds 99.85% interest and 0.15% interest in the VIE, respectively
“PRC Legal Advisers”	Jingtian & Gongcheng, the legal advisers to the Company as to PRC laws
“RMB”	Renminbi, the lawful currency in the PRC

“Sale and Purchase Agreement”	the sale and purchase agreement dated 23 March 2023 entered into between the Company and Spriver in relation to the Acquisition
“Second Deed of Amendment”	the second deed of amendment of the Partnership Agreement of the Fund dated 18 April 2023 between the Company, Spriver and Chizicheng Strategy Investment
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time
“Share(s)”	the ordinary share(s) in the share capital of the Company with a par value of US\$0.0001 each
“Shareholder(s)”	the holder(s) of the Shares
“Sommerley” or “Independent Financial Adviser”	Sommerley Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), which has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement, the Deeds of Amendment, the VIE Agreements, and the transactions contemplated thereunder
“Spousal Undertaking”	an unconditional and irrevocable undertaking dated 24 June 2023 as executed by each of the respective spouse of the general partner and the limited partner of Hande Houcheng
“Spriver”	Spriver Tech Limited, a BVI business company incorporated in the British Virgin Islands with limited liability on 22 August 2018, the issued shares of which is wholly-owned as to 100% by Mr. LIU Chunhe
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	an agreement entered into between the Company, Spriver and Chizicheng Strategy Investment on 4 July 2022
“Subsequent Closing”	a Closing subsequent to the Initial Closing
“Takeovers Code”	the Code on Takeovers and Mergers published by the SFC

“Target Group”	Chizicheng Strategy Investment, the Fund and the companies held by the Fund, including Multelements (which is held as to 78.86% directly by the Fund), Land of Glory (which is held as to 78.92% directly by the Fund), and BlueCity (which is held as to 100% directly by Multelements)
“Temporary Liquid Investments”	cash, cash deposits or debt instruments issued by governments, financial institutions or companies having a maturity as at the date of their acquisition of not more than 1 (one) year or listed securities considered by the General Partner to be liquid
“US\$”	United States dollars, the lawful currency of the United States of America
“VIE”	Beijing BlueCity Culture and Media Co., Ltd., a limited liability company incorporated in the PRC
“VIE Agreement(s)”	collectively, the Exclusive Consulting and Services Agreement, the Powers of Attorney, the Equity Interest Pledge Agreement, the Exclusive Option Agreement, the Partners’ Undertaking and the Spousal Undertaking, details of which are set out in this announcement
“VIE structure”	a variable interest entity structure, in the form of contractual arrangements, as adopted by the Target Group
“WFOE”	Beijing BlueCity Information & Technology Co., Ltd., a limited liability company incorporated in the PRC
“%”	per cent

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

Beijing, 26 June 2023

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