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Flowing Cloud Technology Ltd

飛天雲動科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6610)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2023**

The Board is pleased to announce the unaudited interim results of the Group for the six months ended June 30, 2023, together with the comparative figures for the six months ended June 30, 2022.

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

	For the six months ended		Change
	2023	2022	
	<i>RMB'000</i>	<i>RMB'000</i>	
	(Unaudited)	(Unaudited)	
Revenue	598,956	473,124	26.6%
Gross profit	196,059	147,732	32.7%
Profit before tax	122,577	106,600	15.0%
Profit for the period	116,316	82,236	41.4%
Total comprehensive income for the period	84,213	82,236	2.4%
Basic earnings per share			
<i>(RMB cents)</i>	6.4	5.4	18.5%

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Business Update

As a major provider of the AR/VR content and services sector in China, Flowing Cloud has been committed to providing better quality of AR/VR content and more comprehensive AR/VR marketing services and creation platforms for customers.

In the first half of 2023, faced with difficulties and challenges, such as the slower-than-expected recovery of the macro demand and severe and complex external environment, all members of the Company maximized the efforts to seize the opportunities arising from the booming development of the digital economy and the metaverse industry. We focused on improving the quality and efficiency of content production, further improved our marketing and SaaS service standards, continued to increase investment in R&D, and constantly explored new scenarios, new business formats and new models, thus achieving a leap in the Company's product and service quality, content production efficiency and business scenarios in all aspects. At the same time, the Company continued to optimize its internal governance and promote reform and innovation. Excellent results have been achieved in talent system building and management model optimization. In the first half of 2023, the Company made progress in all aspects of work with sound operating results. The quality of business development continued to improve, laying a solid foundation for the annual goals.

During the Reporting Period, the Company realized revenue of RMB599.0 million, representing an increase of 26.6% as compared with the same period last year. The gross profit of the Company was RMB196.1 million, representing an increase of 32.7% as compared with the same period last year, and the gross profit margin was 32.7%. Profit for the period amounted to RMB116.3 million, representing an increase of 41.4% as compared with the same period last year and profit margin for the period was 19.4%.

All business segments of the Company continued to grow during the Reporting Period.

Revenue from AR/VR marketing services amounted to RMB424.8 million, representing an increase of 25.3% as compared with the same period last year. The increase in revenue was mainly due to the increase in the number of products and the average spending per advertising customer of AR/VR marketing services. During the Reporting Period, the gross profit margin of AR/VR marketing services business was 22.86%, which remained at the equilibrium as compared with 22.93% for the same period last year.

Operating Metrics	1H 2023	1H 2022	<i>Change</i>
AR/VR marketing services			
Number of advertising customers	24	26	-7.7%
Monthly average number of advertising products promoted	93	76	+22.4%
Average spending per advertising customers (<i>RMB in thousands</i>)	17,700	13,039	+35.7%
Contract renewal rate	66.7%	65.4%	+2.0%

Revenue from AR/VR content services was RMB146.6 million, representing an increase of 29.8% as compared with the same period last year. The increase in revenue from AR/VR content services was mainly due to the general increase in the number of our customers and number of projects. During the Reporting Period, the gross profit margin of AR/VR content services business increased slightly from 51.47% in the first half of 2022 to 53.91% in the first half of 2023.

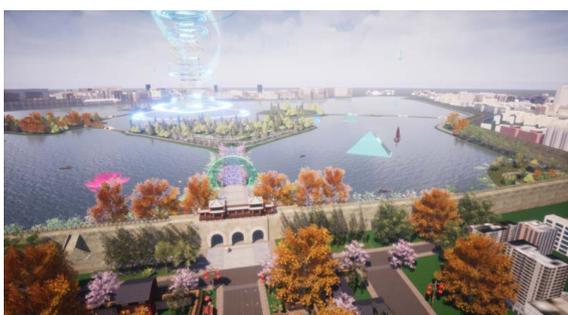
Operating Metrics	1H 2023	1H 2022	<i>Change</i>
AR/VR content services			
Number of customers	35	23	+52.2%
Number of projects	73	52	+40.4%
Average price of projects (<i>RMB in thousands</i>)	2,009	2,173	-7.5%

Revenue from AR/VR SaaS services amounted to RMB26.9 million, representing an increase of 35.7% as compared with the same period last year. The increase in revenue was mainly due to the increase in the number of our users and the number of projects. During the Reporting Period, the gross profit margin of AR/VR SaaS services business increased from 58.95% in the first half of 2022 to 75.56% in the first half of 2023. The significant year-on-year increase in gross profit margin was mainly driven by the scale effect brought by the increase in the number of users.

Operating Metrics	1H2023	1H2022	<i>Change</i>
AR/VR SaaS			
Number of registered users	8,778	5,858	+49.8%
Number of paid subscribers	3,030	1,395	+117.2%
Number of customized projects	175	149	+17.4%
Average daily active users	2,360	2,094	+12.7%

With regard to the overseas business, the Company’s AR/VR marketing services have tapped into the overseas market and realized revenue of RMB42.8 million in the first half of 2023.

In the first half of the year, the Company continued to focus on To B and G-end customers, and completed a series of AR/VR content service projects with excellent quality and strong influence. For instance, the Company built the first literature-themed urban-level universe ecological platform in Nanjing, i.e. the Cultural Hub Metaverse (文樞元宇宙), and integrated the urban spirit of Nanjing into the innovative technology of the metaverse, demonstrating the modern image of the “ancient city and new beauty”. We also created the “Online Run” challenge for the 2023 C&D Xiamen Marathon, breaking the time and space constraints for participants of traditional sports events, and providing more runners with healthy, convenient and green marathon experience.



Left: Nanjing’s “Cultural Hub Metaverse” Ecological Platform
 Right: 2023 Xiamen Marathon “Online Run” Event

While the original “To B” business developed steadily, the Company actively made efforts in the development of the “To C” content operation by leveraging its advantages in digital content creation and operation and has achieved positive results during the Reporting Period. The Company explored the AR/VR content services for individual consumers. Relying on its strong image design and IP operation capabilities, the Company has carried out metaverse digital live streaming on the mainstream social media platforms. Currently, the digital character account of “Li Hao Duck (李好鴨)”, which was incubated and operated by the Company, has obtained nearly three million fans on a leading short video live streaming platform in China within three months. In the second half of 2023, the Company plans to successively launch and operate several digital character accounts with millions of fans to form a digital MCN matrix, laying a foundation for future monetization models such as live streaming, rewarding and advertiser orders. At the same time, in operating digital character, the Company continued to refine the digital character operation solutions and provided the digital character commercial operation services for B-end customers. For example, the Company has created and operated the digital character image for a large domestic AAAAA scenic spot, carrying out our extensive online marketing there.



Left: The Company has created and operated the digital character image for a large domestic AAAAA scenic spot



Right: The Company designed and operated the digital character “Li Hao Duck (李好鴨)”

In the first half of 2023, we continued to improve the Company’s talent management and benefit system, and linked the Company’s growth targets with employees’ personal development goals to enhance their sense of belonging and achievement. On July 14, 2023, the Company granted a total of 72,497,000 share options to certain employees of the Company under the Post-IPO Share Option Scheme. The Company believes that granting such share options will improve the talent incentive system and encourage employees to make greater contributions to the Company in the future.

Future Outlook

Industry

The metaverse industry is undergoing rapid development. According to the research forecast of Bain & Company in August 2023, the market size of the metauniverse industry is likely to reach US\$700 billion to US\$900 billion by 2030, of which the content and content creation tools that provide users with virtual experience will account for approximately 70% of the market size. As one of the important directions of the digital economy, the metaverse has been highly valued by the PRC Government in recent years. In February 2023, the PRC Government issued the *Overall Layout Plan of Digital China Construction* (《數字中國建設整體佈局規劃》), which marks China's entry into a new stage of digital economy development, providing high-quality soil for the rapid growth of the metaverse industry. Meanwhile, the local governments in Beijing, Shanghai, Shenzhen and Zhengzhou have also successively introduced relevant policies to encourage the development of metaverse. The metaverse industry has entered the blooming phase.

Product and technological innovation of upstream and downstream industries of metaverse also injected more momentum to the development of the metaverse industry. In June 2023, Apple launched the first “mixed reality” headset product, which achieved innovative breakthroughs in performance, application scenarios and user experience. We expect that Apple MR products will catalyze the demand for downstream AR/VR content and applications, and the industry in which the Company operates is expected to grow at a rapid pace.

During the Reporting Period, the generative artificial intelligence (AIGC) developed rapidly, and domestic and foreign manufacturers successively launched and optimized their own artificial intelligence models. We believe that AIGC can not only significantly reduce the cost of metaverse 3D modelling, solve the technical bottleneck of the current implementation of metaverse, but also stimulate more metaverse applications and interactive scenarios, improve user interactive experience, and promote the rapid development of the industry.

The Company

Flowing Cloud has been committed to creating higher quality 3D content and services for the metaverse. Looking forward, the Company will continue to firmly implement its own development strategy, adhere to innovation-driven development, and focus on the core needs of customers, firmly grasp the development trend of the industry, and continuously improve its comprehensive competitiveness.

We actively embrace the technological development trend of the industry and continue to increase investment in scientific research. In the first half of 2023, the Company's R&D expenses amounted to RMB28.2 million, representing a year-on-year increase of 69.0%. In the future, we will continue to strengthen our R&D capabilities, expand and improve our R&D team, and facilitate the transformation and application of R&D results. We continue to enhance AIGC's automatic content production capability in our self-developed engine FT-Engine. Currently, the large-scale application of high-quality generation of text, image and audio content have been achieved, and we have also made significant progress in AI-generated videos and 3D models. The working time in the planning scheme, art line drawing, original painting design, as well as dubbing, sound effects and other project aspects can be cut short by more than half, and the overall development cycle of the project can be shortened by 10–20%, with a significant improvement in work efficiency. We have also trained subdivided AI mini-models for cultural tourism, entertainment and other vertical fields, and applied the AI mini-models of the vertical fields to different scenarios such as live broadcasting, customer service, training, etc. in the form of digital character, so as to provide customers with immersive and humanized interactive experiences, and to push the models to be upgraded continuously through the feedback of the relevant data to form a closed-loop chain of “data-training-application”. We will also open up our AI capabilities through SaaS model to help more partners realize rapid, high-quality production of digital content and help us take the lead in the metaverse track.

We will continue to expand the application scenarios of metaverse. Currently, our solutions for the metaverse industry mainly focus on e-commerce, culture and travel, live-streaming, education and so forth. In the future, we will focus on tapping new fields such as digital collection, industrial metaverse, urban metaverse, and business metaverse. We endeavor to empower more industries and customer groups through new technologies, new applications and new scenarios of metaverse. Taking digital collections as an example, we will take 3D content production and AR/VR technology precipitation as the cornerstone, empower the existing strong business network and meta-universe eco-platform, and combine with leading technologies such as motion capture and blockchain to create interactive, functional and playable digital collection products.

We will continue to improve and optimize the existing product line. Aiming at the diversified customer needs in key industries, the Company integrates and plans the existing business expansion and product development system with standardized and product-oriented thinking, so as to provide customers with abundant metaverse solutions and strong product support for business expansion. At the same time, through the practice of a large number of projects and customer feedback, the Company constantly optimizes its products, and thus enhance the competitiveness of its products.

We will also continue to expand and improve our talent team system. During the Reporting Period, the Company's personnel structure and talent quality have been significantly optimized. In the future, we will continue to enrich our talent team based on the key areas and directions of the Company's development. We will also continue to improve our existing management structure with a view to establishing a business development system centered on business scenarios and a product-centered production and research team. We will persistently strengthen our training system to improve the technical level and comprehensive quality of our employees and enhance team cohesion through regular training, internal sharing and team building. We are also committed to providing our employees with better training, management, incentive and welfare systems. We aim to share the growth of the Company with our employees through the compensation system and share option program, so as to make ourselves one of the competitive employers in the industry.

We will also continue to expand our overseas business. In the first half of 2023, our overseas business expansion has achieved initial success. In the future, we will continue to expand our overseas business and form an overseas strategic layout based on AR/VR business with Web3.0 as the core growth point.

FINANCIAL REVIEW

Revenue

The Group generated revenue primarily from the provision of AR/VR marketing services and the sale of AR/VR content. The revenue increased by 26.6% from RMB473.1 million for the six months ended June 30, 2022 to RMB599.0 million for the six months ended June 30, 2023, mainly attributable to the increase in the revenue generated from the AR/VR marketing services and AR/VR content businesses. The overall growth of the revenue was driven by our business expansion as a result of AR/VR gaining popularity.

The following table sets forth a breakdown of the revenue by service or product type in absolute amounts and as a percentage of the total revenue for the periods indicated:

	For the six months ended June 30,			
	2023		2022	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
	(Unaudited)		(Unaudited)	
AR/VR marketing services	424,794	70.9	339,014	71.7
AR/VR content	146,636	24.5	112,981	23.9
AR/VR SaaS	26,928	4.5	19,848	4.2
Others ^(Note)	598	0.1	1,281	0.2
Total	<u>598,956</u>	<u>100.0</u>	<u>473,124</u>	<u>100.0</u>

Note: Other businesses comprise promotion services, advertising agency services and short drama operation, and historically technical services.

AR/VR marketing services

The Group generates revenue from the AR/VR marketing services business primarily through provision of AR/VR marketing services to its advertising customers. The revenue from AR/VR marketing services business increased by 25.3% from RMB339.0 million for the six months ended June 30, 2022 to RMB424.8 million for the six months ended June 30, 2023, mainly due to the increase in the number of products and the average spending per advertising customer of AR/VR marketing services. The monthly average number of advertising products we promoted for our advertising customers increased from 76 in the first half of 2022 to 93 in that of 2023 driven by the increasing demand of our customers due to our continuous enhancement of AR/VR marketing services, as well as the increase in our advertising products from the entertainment and Internet industries in the first half of 2023 driven by the growing market demands. The average spending per advertising customer increased from RMB13.0 million in the first half of 2022 to RMB17.7 million in that of 2023, mainly due to the increasing demand of our existing and new customers as the average number of advertising products we promoted for each customer increased and the average promotional duration of advertising products we promoted increased.

The following table sets forth a breakdown of the revenue from the AR/VR marketing services business by customer industry in absolute amounts and as a percentage of the total revenue from the AR/VR marketing services business for the periods indicated:

	For the six months ended June 30,			
	2023		2022	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
	(Unaudited)		(Unaudited)	
Entertainment	91,132	21.5	65,711	19.4
Internet	74,499	17.5	66,815	19.7
E-commerce	63,327	14.9	30,798	9.1
Culture and tourism	61,234	14.4	55,394	16.3
Gaming	53,889	12.7	94,091	27.8
Automobiles	26,542	6.2	2,685	0.8
Others	54,171	12.8	23,520	6.9
Total	<u>424,794</u>	<u>100.0</u>	<u>339,014</u>	<u>100.0</u>

Industries such as entertainment, e-commerce, automobiles and education, industries, are focusing increasingly on the application of AR/VR solutions due to the demand to strengthen the experience of end users and reconstitute offline experience. Our revenue from the e-commerce industry increased from RMB30.8 million to RMB63.3 million because our major customers in the e-commerce industry increased spending with us by placing more AR/VR advertisements on various media platforms. Our revenue from the automobiles industry increased from RMB2.7 million in the first half of 2022 to RMB26.5 million in that of 2023 because we were able to expand our customer base.

AR/VR content

The Group generates revenue from the AR/VR content business primarily through offering customized content to customers. The revenue from the AR/VR content business increased by 29.8% from RMB113.0 million for the six months ended June 30, 2022 to RMB146.6 million for the six months ended June 30, 2023, mainly due to the general increase in the number of our customers and number of projects. Our number of customers with respect to AR/VR content business increased from 23 in the first half of 2022 to 35 in that of 2023. The number of AR/VR content projects we carried out increased from 52 in the first half of 2022 to 73 in that of 2023, driven by the increasing demand for AR/VR products for different scenarios, including social function, VR games and entertainment, virtual meetings and online exhibitions.

The following table sets forth a breakdown of the revenue from the AR/VR content business by customer industry in absolute amounts and as a percentage of the total revenue from the AR/VR content business for the periods indicated:

	For the six months ended June 30,			
	2023		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(Unaudited)		(Unaudited)	
Entertainment	56,314	38.4	37,386	33.1
Gaming	45,231	30.9	49,274	43.6
Education	28,217	19.2	18,003	15.9
Others	16,874	11.5	8,318	7.4
Total	<u>146,636</u>	<u>100.0</u>	<u>112,981</u>	<u>100.0</u>

Our revenue from the entertainment and gaming industries increased from RMB86.7 million in the first half of 2022 to RMB101.5 million in that of 2023, mainly due to (i) our major customer from the entertainment and gaming industries increased spending with us, and (ii) the increase in the number of customers from the entertainment and gaming industries.

AR/VR SaaS

The Group generates revenue from the AR/VR SaaS business primarily through the provision of customized AR/VR SaaS products and customers' subscriptions to the standardized AR/VR SaaS services. The revenue from the AR/VR SaaS business increased by 35.7% from RMB19.8 million for the six months ended June 30, 2022 to RMB26.9 million for the six months ended June 30, 2023, mainly due to the increase in the number of our users and the number of projects.

Others

The Group's revenue from the other businesses were generated from promotion services, advertising agency services and short drama operation, and historically technical services. Revenue from the other businesses decreased by 53.3% from RMB1.3 million for the six months ended June 30, 2022 to RMB0.6 million for the six months ended June 30, 2023, primarily due to the suspension of our investment in non-AR/VR technical services as it was not significantly synergistic with the Group's overall business.

Cost of Revenue

The cost of revenue of the Group primarily consists of (i) traffic acquisition costs, which mainly represent costs the Group pays to media platforms or their agents to purchase advertising traffic in connection with the AR/VR marketing services, (ii) subcontracting and development costs, which mainly represent outsourced service costs to third party service providers in connection with the design of arts elements including animations, special effects and illustrations in its AR/VR interactive content and AR/VR SaaS products, its games and games-related business, and the provision of certain non-core technical support, and (iii) use of materials costs, which represent the costs of PGC video materials in connection with the AR/VR content business.

The cost of revenue increased by 23.8% from RMB325.4 million for the six months ended June 30, 2022 to RMB402.9 million for the six months ended June 30, 2023, primarily driven by the increase in the traffic acquisition costs in relation to our AR/VR marketing services business, and the increase in the subcontracting and development costs in relation to our AR/VR content business, in line with the growth of our AR/VR marketing services and AR/VR content businesses, but was offset by the decrease in our use of materials costs due to the decrease in the customer demand for PGC video materials.

The following table sets forth a breakdown of the cost of revenue by nature in absolute amount and as a percentage of the total cost of revenue for the periods indicated:

	For the six months ended June 30,			
	2023		2022	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
	(Unaudited)		(Unaudited)	
Traffic acquisitions costs	326,315	81.0	259,465	79.7
Subcontracting and development costs	52,423	13.0	33,747	10.4
Others ^(Note)	24,159	6.0	32,180	9.9
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>402,897</u>	<u>100.0</u>	<u>325,392</u>	<u>100.0</u>

Note: Other cost of revenue comprises use of material costs, amortization of intangible assets, staff costs and renting of servers.

AR/VR marketing services

The cost of revenue from the AR/VR marketing services business increased from RMB261.3 million for the six months ended June 30, 2022 to RMB327.7 million for the six months ended June 30, 2023, primarily due to the increase in our traffic acquisitions costs driven by the growth of our AR/VR marketing services business.

The following table sets forth a breakdown of the cost of revenue from the AR/VR marketing services business by customer industry in absolute amounts and as a percentage of the total cost of revenue from the AR/VR marketing services business for the periods indicated:

	For the six months ended June 30,			
	2023		2022	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
	(Unaudited)		(Unaudited)	
Entertainment	70,526	21.5	50,801	19.4
Internet	57,373	17.5	51,509	19.7
E-commerce	49,054	15.0	23,717	9.1
Culture and tourism	47,071	14.4	42,378	16.2
Gaming	41,221	12.6	72,664	27.8
Automobiles	20,562	6.3	2,066	0.8
Others	41,885	12.7	18,126	7.0
Total	<u>327,692</u>	<u>100.0</u>	<u>261,261</u>	<u>100.0</u>

The fluctuations in the cost of revenue from the AR/VR marketing services business in different industries are driven by the fluctuations in the revenue for the AR/VR marketing services business in the corresponding industries.

AR/VR content

The cost of revenue from the AR/VR content business increased from RMB54.8 million for the six months ended June 30, 2022 to RMB67.6 million for the six months ended June 30, 2023, primarily due to the increase in our subcontracting and development costs driven by the growth of our AR/VR content business.

The following table sets forth a breakdown of the cost of revenue from the AR/VR content business by customer industry in absolute amounts and as a percentage of the total cost of revenue from the AR/VR content business for the periods indicated:

	For the six months ended June 30,			
	2023		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(Unaudited)		(Unaudited)	
Entertainment	26,950	39.9	24,374	44.5
Gaming	18,991	28.1	19,020	34.7
Education	11,775	17.4	7,697	14.0
Others	9,871	14.6	3,739	6.8
Total	<u>67,587</u>	<u>100.0</u>	<u>54,830</u>	<u>100.0</u>

The fluctuations in the cost of revenue from the AR/VR content business in different industries are driven by the fluctuations in the revenue for the AR/VR content business in the corresponding industries.

Gross Profit and Gross Margin

The gross profit of the Group increased by 32.7% from RMB147.7 million for the six months ended June 30, 2022 to RMB196.1 million for the six months ended June 30, 2023, primarily due to the significant increase in our revenue. The gross profit margin of the Group increased from 31.2% in the first half of 2022 to 32.7% in that of 2023. The increase in the gross profit margin was driven by our business expansion and ability to maintain operational efficiency. We were also able to achieve economies of scale with respect to certain costs, such as subcontracting and development costs and use of material costs, as we were able to benefit from accumulated AR/VR interactive content modules particularly AR/VR SaaS modules, continuous enhancement of our AR/VR development engines and enhanced bargaining power against certain suppliers with our bulk purchases.

The following table sets forth a breakdown of the gross profit by service and product type in absolute amount and gross margins, for the periods indicated:

	For the six months ended June 30,			
	2023		2022	
	<i>Gross</i>		<i>Gross</i>	
	<i>Margin</i>		<i>Margin</i>	
	<i>%</i>		<i>%</i>	
	<i>RMB'000</i>		<i>RMB'000</i>	
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
AR/VR marketing services	97,103	22.9	77,752	22.9
AR/VR content	79,049	53.9	58,150	51.5
AR/VR SaaS	20,347	75.6	11,700	59.0
Others ^(Note)	(440)	-73.5	130	10.1
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>196,059</u>	<u>32.7</u>	<u>147,732</u>	<u>31.2</u>

Note: Other businesses comprise promotion services, advertising agency services and short drama operation, and historically technical services.

We have maintained the gross margin of the AR/VR marketing services business of 22.9% for the six months ended June 30, 2022 and 2023.

The gross margin of the AR/VR content business slightly increased from 51.5% for the six months ended June 30, 2022 to 53.9% for the six months ended June 30, 2023, primarily because of the improvement in content production efficiency due to the increased in R&D investment of projects.

The gross margin of the AR/VR SaaS business significantly increased from 59.0% for the six months ended June 30, 2022 to 75.6% for the six months ended June 30, 2023, primarily because during the Reporting Period, all our subscription agreements were signed directly with agents and the amount was settled net, resulting in a higher gross profit margin.

The gross margin of other businesses turned from gross profit margin of 10.1% for the six months ended June 30, 2022 to gross loss margin of 73.5% for the six months ended June 30, 2023, primarily because upfront costs were incurred at the early stage of our short-video mini program project and live short video streaming with our digital character images.

Other Income

Other income of the Group consists primarily of dividend income, interest income on bank deposits, tax refund and government grants. Other income increased by 162.6% from RMB1.4 million for the six months ended June 30, 2022 to RMB3.6 million for the six months ended June 30, 2023, primarily as a result of the increase in dividend income and interest income on bank deposits.

The following table sets forth a breakdown of other income for the periods indicated:

	For the six months ended	
	June 30,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Dividend income	1,418	—
Interest income on bank deposits	1,138	107
Tax refund	1,028	1,277
Government grants	50	—
	<hr/>	<hr/>
Total	<u><u>3,634</u></u>	<u><u>1,384</u></u>

Other Gains and Losses

Other gains and losses of the Group primarily consist of foreign exchange loss/gain, and others which include miscellaneous gains and losses. We recorded other gains of RMB0.1 million in the first half of 2022 and other losses of RMB1.8 million in the first half of 2023, primarily due to the increase in foreign exchange loss due to appreciation of Renminbi.

The following table sets forth a breakdown of other gains and losses for the periods indicated:

	For the six months ended	
	June 30,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Foreign exchange (loss)/gain	(1,054)	110
Others	(718)	4
Total (losses)/gains	(1,772)	114

Impairment Losses under Expected Credit Loss (“ECL”) model, Net of Reversal

Impairment losses under ECL model, net of reversal represent net impairment losses recognized or reversed in respect of trade receivables. Our impairment losses under ECL mode, net of reversal increased from RMB2.8 million in the first half of 2022 to RMB19.6 million in the first half of 2023, primarily due to the increase in our accounts receivables in line with our business expansion.

Distribution and Selling Expenses

Distribution and selling expenses of the Group consist of (i) staff costs, (ii) advertising and marketing costs, (iii) travelling expenses, (iv) office expenses, and (v) other selling expenses. The distribution and selling expenses slightly decreased by 6.9% from RMB6.2 million for the six months ended June 30, 2022 to RMB5.8 million for the six months ended June 30, 2023, primarily due to the decrease in staff costs and tender service fees.

Administrative Expenses

Administrative expenses of the Group primarily consist of (i) staff costs which include wages, bonuses and benefits for administrative personnel, (ii) rental and property management expenses, and (iii) professional service fees in relation to our financing activities which were not related to the Listing, among others. The administrative expenses increased by 106.0% from RMB9.5 million for the six months ended June 30, 2022 to RMB19.6 million for the six months ended June 30, 2023, primarily due to (i) the increase in our rental and property management expenses, office expenses as we rented more office space due to business expansion, and (ii) the increase in our professional service fees which were not related to the Listing.

Research and Development Expenses

Research and development expenses of the Group primarily consisted of (i) staff costs of R&D personnel, (ii) outsourced R&D expenses mainly in relation to outsourced interactive content modules for our Feitian Metaverse platform, and (iii) amortization expenses in relation to intelligent software purchased. The research and development expenses increased by 69.0% from RMB16.7 million for the six months ended June 30, 2022 to RMB28.2 million for the six months ended June 30, 2023, primarily due to (i) the increase in the staff costs of our research and development personnel, and (ii) the increase in the outsourced R&D expenses in line with the development and growth of our Feitian Metaverse platform. The Group did not capitalize any research and development expenditures for the six months ended June 30, 2023.

Listing Expenses

We did not incur any listing expenses for the six months ended June 30, 2023 because the Listing was completed in 2022.

Finance Costs

Finance costs of the Group primarily include interest expenses on bank borrowings and lease liabilities. The finance costs increased by 56.1% from RMB1.3 million for the six months ended June 30, 2022 to RMB2.1 million for the six months ended June 30, 2023, primarily due to the increase in the interest expenses on our bank borrowings in line with our business expansion.

Income Tax Expense

The income tax expense of the Group primarily significantly decreased by 74.3% from RMB24.4 million for the six months ended June 30, 2022 to RMB6.3 million for the six months ended June 30, 2023, because Beijing Flowing Cloud was qualified to enjoy the preferential tax treatment of “two-year exemption and three-year half payment” as a software enterprise. The effective tax rate for the six months ended June 30, 2023 was 5.2%.

Profit for the Period and Net Profit Margin

As a result of the foregoing, the Group recorded a profit of RMB116.3 million for the six months ended June 30, 2023, representing an increase of 41.4% as compared to a profit of RMB82.2 million for the six months ended June 30, 2022. The net profit margin of the Group increased from 17.4% in the first half of 2022 to 19.4% in the first half of 2023 mainly due to our improved gross profit margin and the decrease in income tax expense.

Intangible Assets

The intangible assets of the Group consist of (i) adaptation rights for novels, IP images and cartoon characters for its own use, and (ii) software. The intangible assets increased from RMB47.9 million as at December 31, 2022 to RMB81.7 million as at June 30, 2023, primarily due to the increase in acquiring of adaptation rights and software in order to support the growth of our marketing platform and our Feitian Metaverse platform.

The following table sets forth a breakdown of the intangible assets as at the dates indicated:

	As at	
	June 30,	December 31,
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	
Adaptation rights	50,864	41,658
Software	30,791	6,276
Total	<u>81,655</u>	<u>47,934</u>

Contract Costs

The contract costs of the Group comprise (i) incremental costs to obtain contracts capitalized in relation to the incremental sales commissions paid to agents whose selling activities resulted in customers entering into agreements for the AR/VR SaaS business, and (ii) costs to fulfill contracts capitalized in relation to the setup cost to provide AR/VR content. The contract costs of the Group increased from RMB1.7 million as at December 31, 2022 to RMB12.7 million as at June 30, 2023, primarily due to purchasing of PGC video projects.

The following table sets forth details of the contract costs as at the dates indicated:

	As at	
	June 30,	December 31,
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	
Current		
Incremental costs to obtain contracts	475	977
Costs to fulfill contracts	<u>10,096</u>	<u>349</u>
Total	<u>10,571</u>	<u>1,326</u>
Non-current		
Incremental costs to obtain contracts	—	28
Costs to fulfill contracts	<u>2,101</u>	<u>358</u>
Total	<u>2,101</u>	<u>386</u>

Incremental costs to obtain contracts capitalized relate to the incremental sales commissions paid to agents whose selling activities resulted in customers entering into sale and purchase agreements for the Group's SaaS service. Contract costs are recognized as part of cost of revenue in the consolidated statement of profit or loss in the period in which revenue from the related SaaS services is recognized. There was no impairment in relation to these costs capitalized during the six months ended June 30, 2023 (June 30, 2022: same).

Costs to fulfill contracts capitalized relate to the setup cost to provide the AR/VR content. Contract costs are recognized as part of cost of revenue in the condensed consolidated statement of profit or loss in the period in which revenue from the related AR/VR content is recognized. There was no impairment in relation to these costs capitalized during the six months ended June 30, 2023 (June 30, 2022: same).

Trade and Other Receivables and Deposits

Trade receivables of the Group mainly relate to the amounts due from its customers who purchased AR/VR marketing services, AR/VR content or AR/VR SaaS products. Other receivables and deposits mainly consist of software license within one year, dividends receivable and other receivables.

The trade receivables increased from RMB375.5 million as at December 31, 2022 to RMB518.4 million as at June 30, 2023, in line with the growth of our businesses.

Prepayments

The prepayments of the Group primarily comprise (i) prepayments for purchasing of traffic from media platforms and their agents in connection with the AR/VR marketing services, (ii) prepayments for outsourcing service in connection with the AR/VR content business, (iii) prepayments for setting up our SaaS platform, and (iv) prepayments for intangible assets.

The prepayments slightly increased from RMB485.5 million as at December 31, 2022 to RMB494.9 million as at June 30, 2023, primarily due to the increase in prepayments for intangible assets.

Trade and other payables

The trade and other payables of the Group comprise (i) trade payables, (ii) employee compensation payable, (iii) other tax payable, (iv) payables for long-term assets, and (v) other payables and accruals. The trade payables mainly were the amounts due to the Group's suppliers for subcontracting and development costs and cost of raw materials.

The trade and other payables increased from RMB139.6 million as at December 31, 2022 to RMB183.2 million as at June 30, 2023, in line with our business expansion.

Contract Liabilities

The contract liabilities of the Group mainly arise from the advance payments in relation to AR/VR marketing services, AR/VR content and AR/VR SaaS ordered by the customers while the underlying services or products are yet to be provided. These contract liabilities are not expected to involve any cash outflow.

The contract liabilities decreased from RMB67.7 million as at December 31, 2022 to RMB30.6 million as at June 30, 2023. We recognized revenue amounting to RMB62.1 million for the six months ended June 30, 2023, which relates to the contract liabilities balance at the beginning of the year.

Bank Borrowings

The bank borrowings of the Group comprise short-term borrowings from commercial banks in the PRC denominated in Renminbi. The bank borrowings increased from RMB80.0 million as at December 31, 2022 to RMB102.0 million as at June 30, 2023, primarily due to operational funding needs in line with our business expansion.

Lease Liabilities

The lease liabilities of the Group, which were secured by rental deposits and unguaranteed. Our lease liabilities remained relatively stable at RMB5.8 million as at June 30, 2023 as compared to RMB5.9 million as at December 31, 2022.

Contingent Liabilities

As at June 30, 2023, the Group did not have any material contingent liabilities.

Liquidity and Capital Resources

The Group funded its cash requirements through cash generated from its business operations and bank borrowings, together with the net proceeds from the Global Offering (as defined in the Prospectus). The Group does not anticipate any material changes to the availability of financing to fund its operations in the future.

As at June 30, 2023, the Group had bank balances and cash of RMB376.3 million denominated in Renminbi, United States dollars and Hong Kong dollars and net current assets.

Capital Expenditures

The capital expenditures of the Group for the Reporting Period amounted to RMB57.1 million, which principally consist of expenditures on (i) intangible assets, (ii) right-of-use assets for leased offices, and (iii) property, plant and equipment.

The Group funded these expenditures through a combination of cash generated from its operations and bank borrowings.

Charge of Assets

As at June 30, 2023, the Group had no charge of assets.

Gearing Ratio

Gearing ratio equals net debt divided by total equity as at the end of the period and multiplied by 100%. Net debt equals bank borrowings and lease liabilities less bank balances and cash as at the end of the period. Gearing ratio is not applicable because the Group was in net cash position.

Foreign Exchange Risk Management

The Group mainly operates in the PRC with most transactions settled in Renminbi, and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars and Hong Kong dollars. As at June 30, 2023, the Group had bank balances denominated in Renminbi, United States dollars and Hong Kong dollars. Except for certain bank balances denominated in foreign currencies, the Group did not have significant foreign currency exposure from its operations as at June 30, 2023. The Group currently does not have any foreign currency hedging transactions. However, the management monitors the foreign exchange exposure and will consider hedging significant foreign exchange exposure of the Group should the need arise.

Financial Instrument

The Group did not have any financial instruments for hedging purposes as at June 30, 2023.

Treasury Policy

The Directors will continue to follow the Group's prudent treasury policy to manage its financial resources, with the objective of maintaining its highly liquid position to ensure future growth opportunities would be captured when they arise.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2023

	<i>Notes</i>	Six months ended June 30,	
		2023	2022
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Revenue	4	598,956	473,124
Cost of revenue		<u>(402,897)</u>	<u>(325,392)</u>
Gross profit		196,059	147,732
Other income		3,634	1,384
Other gains and losses	5	(1,772)	114
Impairment losses under expected credit loss model, net of reversal	6	(19,611)	(2,759)
Distribution and selling expenses		(5,817)	(6,234)
Administrative expenses		(19,593)	(9,512)
Research and development expenses		(28,221)	(16,702)
Listing expenses		—	(6,076)
Finance costs		<u>(2,102)</u>	<u>(1,347)</u>
Profit before tax	7	122,577	106,600
Income tax expense	8	<u>(6,261)</u>	<u>(24,364)</u>
Profit for the period		<u>116,316</u>	<u>82,236</u>
Other comprehensive expense:			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value loss on investments in equity instruments at fair value through other comprehensive income (“FVTOCI”)		<u>(32,103)</u>	<u>—</u>
		<u>(32,103)</u>	<u>—</u>
Total comprehensive income for the period		<u>84,213</u>	<u>82,236</u>

		Six months ended June 30,	
	<i>Notes</i>	2023	2022
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Profit/(loss) for the period attributable to:			
Owners of the Company		116,319	82,381
Non-controlling interests		(3)	(145)
		<u>116,316</u>	<u>82,236</u>
Total comprehensive income/(expense)			
for the period attributable to:			
Owners of the Company		84,216	82,381
Non-controlling interests		(3)	(145)
		<u>84,213</u>	<u>82,236</u>
Basic earnings per share (<i>RMB cents</i>)	<i>10</i>	<u>6.4</u>	<u>5.4</u>
Diluted earnings per share (<i>RMB cents</i>)	<i>10</i>	<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2023

	<i>Notes</i>	As at June 30, 2023 <i>RMB'000</i> (Unaudited)	As at December 31, 2022 <i>RMB'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		9,478	2,128
Right-of-use assets		6,378	5,917
Intangible assets		81,655	47,934
Equity instruments at FVTOCI		122,850	190,526
Prepayments for intangible assets		15,000	—
Contract costs		2,101	386
Deferred tax assets		4,782	1,932
		242,244	248,823
CURRENT ASSETS			
Trade and other receivables and deposits	<i>11</i>	527,725	387,266
Contract costs		10,571	1,326
Prepayments	<i>12</i>	479,938	485,534
Restricted bank deposits		120	—
Bank balances and cash		376,340	404,501
		1,394,694	1,278,627
CURRENT LIABILITIES			
Trade and other payables	<i>13</i>	183,178	139,624
Lease liabilities		4,271	4,368
Bank borrowings		102,000	80,000
Contract liabilities		30,564	67,714
Income tax payable		5,784	8,819
		325,797	300,525
NET CURRENT ASSETS		1,068,897	978,102
TOTAL ASSETS LESS CURRENT LIABILITIES		1,311,141	1,226,925

	<i>Notes</i>	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
NON-CURRENT LIABILITY			
Lease liabilities		<u>1,523</u>	<u>1,520</u>
		<u>1,523</u>	<u>1,520</u>
NET ASSETS		<u>1,309,618</u>	<u>1,225,405</u>
CAPITAL AND RESERVES			
Share capital	<i>14</i>	128	128
Share premium		521,249	521,249
Reserves		<u>785,511</u>	<u>701,295</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
		1,306,888	1,222,672
Non-controlling interests		<u>2,730</u>	<u>2,733</u>
TOTAL EQUITY		<u>1,309,618</u>	<u>1,225,405</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Flowing Cloud Technology Ltd (the “**Company**”) was incorporated and registered in the Cayman Islands on June 24, 2021 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The addresses of the registered office and the principal place of business of the Company are 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands and Shop 8, Jingyuan Art Center, Guangqulu No. 3, Chaoyang District, Beijing, the PRC, respectively.

The Company is an investment holding company. The Company and its subsidiaries (hereinafter collectively referred to as the “**Group**”) are primarily engaged in the provision of augmented reality and virtual reality (“**AR/VR**”) marketing services, AR/VR contents and relevant services.

The immediate holding company of the Company is Brainstorming Cafe Limited, which was incorporated in the British Virgin Islands.

The Company was successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited on October 18, 2022 (the “**Listing**”).

The condensed consolidated financial statements are presented in Renminbi (“**RMB**”), which is also the functional currency of the Company.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (the “**IASB**”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as appropriate.

Other than change in accounting policies resulting from application of amendments to International Financial Reporting Standards (“**IFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2023 are the same as those presented in the Group’s annual consolidated financial statements for the year ended December 31, 2022.

Application of amendments to IFRSs

In the current interim period, the Group has applied the following new and amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the Group's annual period beginning on January 1, 2023 for the preparation of the Group's condensed consolidated financial statements:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform — Pillar Two model Rules
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies

The application of the amendments to IFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3.1 Impacts on application of Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies

In addition, the Group will apply Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies which are mandatorily effective for the Group's annual period beginning on January 1, 2023 for the preparation of the Group's consolidated financial statements for the year ending December 31, 2023.

IAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

IFRS Practice Statement 2 Making Materiality Judgements (the "**Practice Statement**") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments in the current period had no material impact on the condensed consolidated financial statements.

4. REVENUE AND SEGMENTAL INFORMATION

Disaggregation of revenue from contracts with customers

	Six months ended June 30,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
AR/VR marketing service business	424,794	339,014
AR/VR content business	146,636	112,981
AR/VR SaaS service	26,928	19,848
Others	598	1,281
	<u>598,956</u>	<u>473,124</u>
Timing of revenue recognition		
A point in time	587,528	466,129
Over time	11,428	6,995
	<u>598,956</u>	<u>473,124</u>

Segment information

For management purposes, the Group does not organize into business units based on their services and only has one reportable operating segment. The chief operating decision maker monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resources allocation and performance assessment. In this regard, no segment information is presented.

Geographical information

The Group is located in the People's Republic of China (the "PRC") and all of the Group's revenue is generated from contracts with customers in the PRC based on the place of establishment of the customers, and all of the Group's non-current assets other than financial instruments and deferred tax assets are located in the PRC. Thus, no geographical information is presented.

5. OTHER GAINS AND LOSSES

	Six months ended June 30,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Foreign exchange (loss)/gain	(1,054)	110
Others	(718)	4
	<u>(1,772)</u>	<u>114</u>

6. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	Six months ended June 30,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Impairment losses recognized on trade receivables	<u>19,611</u>	<u>2,759</u>

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended June 30, 2023 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2022.

7. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Six months ended June 30,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	611	552
Depreciation of right-of-use assets	2,160	1,725
Amortization of intangible assets (included in cost of revenue, research and development expenses)	12,784	8,230
Amortization of software license within one year (included in research and development expenses)	3,673	—
Total depreciation and amortization	<u>19,228</u>	<u>10,507</u>

8. INCOME TAX EXPENSE

	Six months ended June 30,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current income tax	9,111	25,493
Deferred tax	(2,850)	(1,129)
	<u>6,261</u>	<u>24,364</u>

During the year ended December 31, 2022, the management was continuously assessing the possibility of fulfilment the requirements for applying tax incentives for software enterprises for Beijing Flowing Cloud Technology Co., Ltd. (“**Beijing Flowing Cloud**”, a subsidiary of the Company). As at June 30, 2022, the management concluded that there was still uncertainty to determine whether the tax incentives could be obtained based on all the information available at that time. Therefore, for the six months ended June 30, 2022, Beijing Flowing Cloud was subject to the income tax rate of 25%. As at December 31, 2022, Beijing Flowing Cloud fulfilled the requirements for applying tax incentives for software enterprises and could enjoy exemption for the first two years and 50% reduction for the next three years. As at June 30, 2023, the management assessed and concluded that, Beijing Flowing Cloud could continuously fulfil the requirements for qualifying tax incentives for software enterprises for the year ending December 31, 2023. Therefore, Beijing Flowing Cloud is considered to be entitled the tax exemption for the current period.

9. DIVIDENDS

No dividends were paid, declared or proposed during the six months ended June 30, 2023 (Six months ended June 30, 2022: nil). The directors of the Company have determined that no dividend will be paid in respect of the six months ended June 30, 2023 (Six months ended June 30, 2022: nil).

10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Six months ended June 30,	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	<u><u>116,319</u></u>	<u><u>82,381</u></u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u><u>1,810,000</u></u>	<u><u>1,538,500</u></u>

The weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share has been determined on the assumption that the capitalization issue (Note 14) had been effected since January 1, 2022.

During the six months ended June 30, 2023 and 2022, there were no potential ordinary share outstanding with diluted impact.

11. TRADE AND OTHER RECEIVABLES AND DEPOSITS

	As at June 30, 2023 <i>RMB'000</i> (Unaudited)	As at December 31, 2022 <i>RMB'000</i> (Audited)
Trade receivables	549,053	386,568
Less: Allowance for credit losses	<u>(30,661)</u>	<u>(11,050)</u>
	518,392	375,518
Rental and other deposits	512	1,374
Other receivables	426	245
Less: Allowance for credit losses	(59)	(59)
Software license within one year	3,060	6,733
Dividends receivable	1,418	—
Others	<u>3,976</u>	<u>3,455</u>
	9,333	11,748
Total trade and other receivables and deposits	<u>527,725</u>	<u>387,266</u>

The Group usually allows a credit period of three to six months to its customers which is interest free with no collateral. Aging of trade receivables, net of allowance for credit losses, is prepared based on the date of the Group's receipt of the bills from the customers, which approximates the respective revenue recognition dates, are as follows:

	As at June 30, 2023 <i>RMB'000</i> (Unaudited)	As at December 31, 2022 <i>RMB'000</i> (Audited)
Within 6 months	424,263	339,345
6–12 months	89,515	33,159
1–2 years	<u>4,614</u>	<u>3,014</u>
	518,392	375,518

12. PREPAYMENTS

	As at June 30, 2023 <i>RMB'000</i> (Unaudited)	As at December 31, 2022 <i>RMB'000</i> (Audited)
Prepayments for purchases of traffic	420,901	429,972
Prepayments for outsourcing service	49,710	31,131
Prepayments for setting up SaaS platform	—	12,565
Prepayments for intangible assets and other current assets	15,000	5,929
Other prepayments	9,327	5,937
	<u>494,938</u>	<u>485,534</u>
Current	479,938	485,534
Non-current	<u>15,000</u>	<u>—</u>

13. TRADE AND OTHER PAYABLES

	As at June 30, 2023 <i>RMB'000</i> (Unaudited)	As at December 31, 2022 <i>RMB'000</i> (Audited)
Trade payables	97,388	72,429
Employee compensation payable	3,472	4,897
Other tax payable	64,116	57,073
Accrued listing expenses	—	314
Accrued share issue costs	—	56
Payables for long-term assets	16,870	—
Other payables and accruals	1,332	4,855
	<u>183,178</u>	<u>139,624</u>

The following is an aged analysis of trade payables presented based on the date of billing documents.

	As at June 30, 2023 RMB'000 (Unaudited)	As at December 31, 2022 RMB'000 (Audited)
Within 6 months	60,241	36,287
6–12 months	10,483	16,107
1–2 years	9,395	2,900
Over 2 years	17,269	17,135
	<u>97,388</u>	<u>72,429</u>

14. SHARE CAPITAL

	Number of ordinary shares	Nominal value of ordinary shares USD	Equivalent nominal value of ordinary shares RMB
Authorised:			
At January 1, 2022, June 30, 2022, January 1, 2023 and June 30, 2023 (USD0.00001 each)	<u>5,000,000,000</u>	<u>50,000</u>	<u>318,785</u>
Issued and fully paid:			
At January 1, 2022 and June 30, 2022	<u>116,117,810</u>	<u>1,161</u>	<u>7,410</u>
At January 1, 2023 and June 30, 2023	<u>1,810,000,000</u>	<u>18,100</u>	<u>127,838</u>

On October 18, 2022, upon completion of the Listing, the Company issued 271,500,000 ordinary shares at par value of USD0.00001 for cash consideration of HKD2.21 per share.

Upon the Listing, a total of 1,422,382,190 ordinary shares have been allotted and issued to shareholders of the Company on the register of members of the Company at the close of business on October 17, 2022 in proportion to their respective shareholdings in the Company. The credit of the share premium of the Company on the share premium account of the Company have been credited as fully paid as a result of the Listing under the capitalization issue.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Company held a significant investment, with a value of 5% or more of the Group's total assets as at June 30, 2023, in Hebei Yichen Industrial Group Corporation Limited (a joint stock limited liability company incorporated in the PRC whose H shares are listed in the Main Board of the Stock Exchange, Stock Code: 1596) (“**Yichen**”). Yichen is principally engaged in research and development, manufacturing and sales of rail fastening system products, welding wire and railway sleeper products. As at June 30, 2023, the Group held 31,426,000 shares of Yichen, representing approximately 3.50% of the total issued share capital of Yichen. The investment costs were approximately HK\$140,781,179. As at June 30, 2023, the fair value of this investment at FVTOCI was RMB122.9 million, representing approximately 7.5% of the Group's total assets as at June 30, 2023. The Group recorded a fair value loss on investments in equity instruments at FVTOCI of RMB30.1 million for the Reporting Period. Based on the 2022 annual report of Yichen, Yichen recorded a revenue of RMB1,258.3 million and net profit of RMB162.2 million. As at the date of this announcement, the Company received dividend income of HK\$1.6 million. As Yichen mainly produces rail fastening systems, flux cored wires and sleepers widely used in high-speed, heavy-haul, and regular and urban railways, Yichen's manufacturing and research and development processes present many opportunities for AR/VR applications including in the development of the prototypes, three-dimensional display of products, trainings of its employees and digitalization of its production lines. The Company further plans to explore business opportunities including providing AR/VR content and services to Yichen after the investment.

Save as disclosed above, there were no significant investments held, nor were there material acquisitions or disposals of subsidiaries, associates or joint ventures by the Group during the Reporting Period.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group intends to utilize the net proceeds raised from the Global Offering (as defined in the Prospectus) according to the plans set out in the section headed “Use of Proceeds from Listing” in this announcement.

Save as disclosed in this announcement, the Group did not have other plans for material investments or capital assets as at the date of this announcement.

EMPLOYEES AND REMUNERATION POLICIES

As at June 30, 2023, the Group had 122 full-time employees, all of them are located in China.

The Group's success depends on its ability to attract, motivate, train and retain qualified personnel. The Group believes it offers its employees competitive compensation packages and an environment that encourages self-development and, as a result, have generally been able to attract and retain qualified personnel and maintain a stable core management team. The Group values its employees and is committed to growing with its own employees.

The Group recruits personnel through professional headhunting companies and recruitment websites. The Group has adopted the Post-IPO Share Option Scheme to link employees' remuneration to their overall performance, and a performance-based remuneration reward system to keep them motivated. The promotion of each employee is not merely based on such employee's position and seniority. The remuneration package of employees generally consists of basic salaries, incentive payments and bonuses. The remuneration policy and package of the employees are periodically reviewed. In general, the Group determines the remuneration package based on the qualifications, position and performance of its employees with reference to the prevailing market conditions.

In addition, the Group places strong emphasis on providing trainings to its employees in order to enhance their professional skills, understanding of our industry and work place safety standards, and appreciation of its value, as well as satisfying customer services. The Group offers different training programs for employees at various positions. For example, the Group offers induction training for newly recruited employees to attend as it strives for consistency and high quality of the services it offers to its customers. In addition, the Group provides trainings specifically catering for different skills and knowledge needed for different positions including product training, business training, finance training and management training. The Group strives to maintain a local talent pool and offer a promotion path for excellent employees in the Group.

USE OF PROCEEDS FROM LISTING

The Company was successfully listed on the Main Board of Stock Exchange on October 18, 2022. After deducting the underwriting commissions, incentives and other offering expenses payable by the Company, the Company obtained the net proceeds from the Global Offering (as defined in the Prospectus) of approximately HK\$531.9 million.

The Over-allotment Option (as defined in the Prospectus) was not exercised. The table below sets forth the intended application of the net proceeds and actual usage as at June 30, 2023:

Intended application	Amount of net proceeds (HK\$ million)	Percentage of total net proceeds	Net proceeds brought forward for the Reporting Period (HK\$ million)	Utilized net proceeds for the Reporting Period (HK\$ million)	Unutilized net proceeds as at June 30, 2023 (HK\$ million)	Expected timetable for the use of unutilized net proceeds
To enhance our R&D capabilities and improve our services and products						
(1) to develop and optimize our algorithms and data analysis capabilities;	53.2	10.0%	39.6	9.4	30.2	By the end of 2024
(2) to upgrade and iterate our AR/VR development engines;	42.6	8.0%	28.3	7.0	21.3	By the end of 2024
(3) to improve our operation capabilities;	37.2	7.0%	23.0	3.7	19.3	By the end of 2024
(4) to develop of our AR/VR content business;	37.2	7.0%	24.7	6.6	18.1	By the end of 2024
(5) to develop our AR/VR SaaS business; and	26.6	5.0%	16.3	4.0	12.3	By the end of 2024
(6) to procure IPs in support of the growth of our AR/VR content business and AR/VR SaaS business.	16.0	3.0%	5.8	3.3	2.5	By the end of 2024
To enhance our sales and marketing function:						
(1) to strengthen our brand image through marketing effort;	53.2	10.0%	35.4	10.8	24.6	By the end of 2024
(2) to enhance our brand awareness through online channels; and	26.6	5.0%	15.3	6.7	8.6	By the end of 2024
(3) to strengthen and optimize our sales and marketing network.	53.2	10.0%	47.3	5.1	42.2	By the end of 2024
For selected mergers, acquisitions, and strategic investments	79.8	15.0%	79.8	0	79.8	By the end of 2024
For the development of our Feitian Metaverse platform	53.1	10.0%	26.9	8.5	18.4	By the end of 2024
For our working capital and general corporate purposes	53.2	10.0%	30.6	8.1	22.5	By the end of 2024
Total	531.9	100.0%	373.0	73.2	299.8	

The Company will use the remaining proceeds for the purposes disclosed in the Prospectus. The expected timetable for utilizing the remaining proceeds is based on the best estimates of the future market conditions made by the Group. It may be subject to change based on the current and future development of market conditions.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended June 30, 2023.

COMPLIANCE WITH THE CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standard of corporate governance to safeguard the interests of the Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Board is of the view that the Company has complied with all applicable principles and code provisions of the Corporate Governance Code for the Reporting Period, except for a deviation from the code provision C.2.1 of the Corporate Governance Code, that the roles of Chairman and chief executive officer of the Company are not separated and are both performed by Mr. Wang Lei. With extensive experience in the technology services and game development industry, Mr. Wang Lei is responsible for the strategic development, overall operation and management and major decision-making of the Group and is instrumental to its growth and business expansion since he joined the Group. The Board considers that vesting the roles of Chairman and chief executive officer in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and visionary individuals. The Board currently comprises four executive Directors (including Mr. Wang Lei) and three independent non-executive Directors and therefore has a fairly strong independence element in its composition. Decisions to be made by the Board require approval by at least a majority of the Directors. Mr. Wang Lei and the other Directors are aware of and undertake to fulfil their fiduciary duties as Directors, which require, among other things, that he/she acts for the benefit and in the best interests of the Company and will make decisions of the Group accordingly. The Board will continue to review the effectiveness of the corporate governance structure of the Company in order to assess whether separation of the roles of Chairman and chief executive officer is necessary. Save as disclosed above, the Company is in compliance with all code provisions of the Corporate Governance Code during the Reporting Period and up to the date of this announcement.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by the Directors and the relevant employees.

Having made specific enquiries to all Directors, all of them have confirmed that they have complied with the Model Code during the Reporting Period.

AUDIT COMMITTEE

The Board has established the Audit Committee with written terms of reference in compliance with the requirements of the Corporate Governance Code. The terms of reference of the Audit Committee are set out on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.floatingcloud.com>).

As at the date of this announcement, the Audit Committee comprises three independent non-executive Directors, namely Ms. Wang Beili, Mr. Jiang Yi, and Mr. Tan Deqing, with Ms. Wang Beili serving as the chairlady. The principal duties of the Audit Committee are to review and supervise the financial reporting process, risk management and internal control systems of the Company.

The Audit Committee has reviewed the unaudited condensed consolidated interim results of the Group for the Reporting Period in conjunction with the management and the external auditor of the Company. Based on this review and discussions with the management, the Audit Committee considered that the interim results are in compliance with the applicable accounting standards, the Listing Rules and all other applicable legal requirements.

PURCHASE, SALE OR REDEMPTION OF THE SECURITIES OF THE COMPANY

During the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

On July 14, 2023, the Company granted a total of 72,497,000 options to eligible grantees to subscribe for a total of 72,497,000 Shares under the Post-IPO Share Option Scheme, with an exercise price of HK\$1.78 per Share. Please refer to the Company's announcement dated July 14, 2023 for further details.

Save as disclosed above, there have not been any significant events affecting the Group after the Reporting Period.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (<https://www.hkexnews.hk>) and the Company (<https://www.floatingcloud.com>). The interim report for the Reporting Period will be dispatched to the Shareholders and published on the above websites in due course.

DEFINITIONS

“advertising customer(s)”	advertising customers include advertisers and their agents
“AI”	artificial intelligence
“AR”	augmented reality, an interactive experience of a real-world environment where the objects that reside in the real world are enhanced by computer-generated perceptual information
“Audit Committee”	the audit committee of the Board
“associate”	has the meaning ascribed thereto under the Listing Rules
“Beijing Flowing Cloud”	Beijing Flowing Cloud Technology Co., Ltd.* (北京飛天雲動科技有限公司), a limited company established in the PRC on November 17, 2021 and an indirect wholly-owned subsidiary of the Company
“Board”	the board of Directors of the Company
“Chairman”	the chairman of the Board
“China” or “the PRC”	the People’s Republic of China excluding, for the purposes of this announcement, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Company” or “Flowing Cloud”	Flowing Cloud Technology Ltd, an exempted company incorporated in the Cayman Islands with limited liability on June 24, 2021, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 6610)
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules

“Consolidated Affiliated Entities”	the entities the Group controls through the Contractual Arrangements
“Contractual Arrangements”	the series of contractual arrangements entered into by, among others, Beijing Flowing Cloud, the Consolidated Affiliated Entities and the Registered Shareholders (as defined in the Prospectus), the details of which are set out in the section headed “Contractual Arrangements” in the Prospectus
“Director(s)”	the director(s) of the Company or any one of them
“FVTOCI”	fair value through other comprehensive income
“Group”, “our”, “we” or “us”	the Company, its subsidiaries and the Consolidated Affiliated Entities at the relevant time
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IP”	intellectual property
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“Main Board”	the Main Board of the Stock Exchange
“MCN”	multi-channel network
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
“PGC”	professionally generated content
“Post-IPO Share Option Scheme”	the post-IPO share option scheme conditionally adopted by the Company on September 8, 2022

“Prospectus”	the prospectus issued by the Company dated September 29, 2022
“R&D”	research and development
“Reporting Period”	the six-month period from January 1, 2023 to June 30, 2023
“Renminbi” or “RMB”	Renminbi Yuan, the lawful currency of China
“SaaS”	software as a service, a software licensing and delivery model in which software is licensed on a subscription basis and is centrally hosted
“Share(s)”	ordinary share(s) with nominal value of US\$0.00001 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto under the Listing Rules
“United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“United States dollars” or “US\$”	United States dollars, the lawful currency of the United States
“VR”	virtual reality, the computer generated simulation of a three-dimensional image or environment that can be interacted with in a seemingly real or physical way
“%”	percent

By order of the Board
Flowing Cloud Technology Ltd
Wang Lei
Chairman

Hong Kong, August 28, 2023

As at the date of this announcement, the Board comprises Mr. Wang Lei, Mr. Li Yanhao, Ms. Xu Bing and Mr. Li Yao as executive Directors, and Mr. Jiang Yi, Mr. Tan Deqing and Ms. Wang Beili as independent non-executive Directors.