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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2023

The Board is pleased to announce the audited consolidated results of the Group for the year ended December 31, 2023, together with the comparative figures for the year ended December 31, 2022.

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

FINANCIAL HIGHLIGHTS

	For the year ended December 31,		
	2023	2022	Year-on-year change
	RMB'000	*RMB'000*	
Revenue	**1,244,723**	1,066,157	16.7%
Gross profit	**420,717**	373,995	12.5%
Profit before tax	**271,671**	247,144	9.9%
Profit for the year	**263,935**	236,593	11.6%
Total comprehensive income for the year	**221,373**	257,465	(14.0%)
Basic and diluted earnings per share *(RMB cents)*	**14.6**	14.8	(1.4%)
Non-IFRS Measure:			
Adjusted net profit* (unaudited)	**273,971**	257,711	6.3%

* Adjusted net profit was derived from profit for the year adjusted by adding listing expenses and share-based payments. Share-based payments are non-cash in nature.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Business Update

As a major provider of the AR/VR content and services sector in China, we have been committed to providing high quality AR/VR content and comprehensive AR/VR marketing services and creation platforms for customers.

In 2023, amidst a complex and volatile external environment, all our members worked together and firmly grasped the industry's technological trends and era-defining opportunities. We strove to enhance the quality of our content production and service levels, optimize our internal management models and focus on providing customers with multi-scenario, cross-ecosystem and comprehensive AR/VR content and services.

Our financial performance continued to grow with momentum during the Reporting Period. We achieved a revenue of RMB1,244.7 million in 2023, representing an increase of 16.7% as compared to the previous year. The gross profit of the Company was RMB420.7 million during the Reporting Period, representing an increase of 12.5% as compared to the previous year. Profit for the year amounted to RMB263.9 million, representing an increase of 11.6% as compared to the previous year.

During the Reporting Period, all business segments of the Company developed comprehensively.

AR/VR marketing services

The AR/VR marketing services business continues to be our primary source of revenue for 2023. Through collaborations with media platforms and their agents, we primarily provided AR/VR marketing services to our advertising customers. The total revenue from AR/VR marketing services in 2023 amounted to RMB845.1 million, representing an increase of 24.0% as compared to the previous year.

During the Reporting Period, we continued to provide high-quality AR/VR marketing services to our customers, and revenue from domestic marketing business increased by 9% year-on-year to RMB745.6 million. As a result of the optimization of our advertising customer base and the centralization of our advertising traffic platform, our advertising customer base has become more centralized, and the monthly average number of advertisement products promoted remained stable as compared to 2022. In response to this trend, we focused on delivering higher quality content and utilized an efficient AR/VR content creation platform to provide our customers with comprehensive AR/VR marketing solutions which boasts higher conversion rates and stronger user stickiness. The number of long-tail media institutions reached also increased from 4,378 in 2022 to 4,780 in 2023, representing a year-on-year increase of 9.2%.

We also expanded our AR/VR marketing services overseas for the first time in 2023, providing marketing services to overseas customers based on our mature AR/VR content creation and traffic distribution platform. During the Reporting Period, our overseas marketing business recorded a revenue of RMB99.6 million. We served four foreign advertising agencies with a coverage of 374 overseas long-tail media institutions, marking the first step in successfully taking our AR/VR marketing services overseas.

	As at/for the year ended December 31,	
Operating Metrics	**2023**	2022
AR/VR marketing services — Domestic		
Revenue — Domestic *(RMB in millions)*	**745.6**	681.8
Number of advertising customers	**24**	27
Monthly average number of advertising products promoted	**69**	72
Average spending per advertising customer *(RMB in thousands)*	**31,064**	25,251
Number of long-tail media institutions	**4,780**	4,378
AR/VR marketing services — Overseas*		
Revenue — Overseas *(RMB in millions)*	**99.6**	—
Number of advertising customers	**4**	—
Monthly average number of advertising products promoted	**25**	—
Average spending per advertising customer *(RMB in thousands)*	**24,891**	—
Number of long-tail media institutions	**374**	—

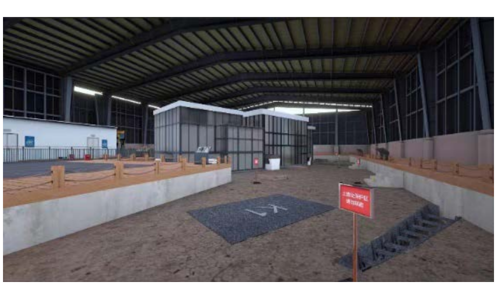
* *The Group's overseas AR/VR marketing services business commenced in 2023 and therefore no relevant operating data is available for 2022.*

AR/VR content

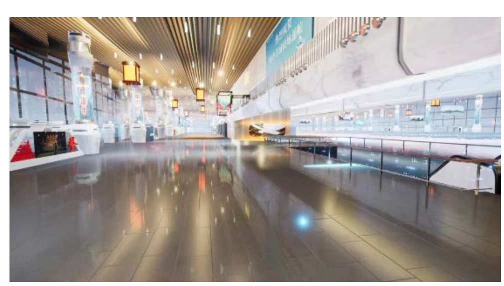
We primarily utilize our self-developed AR/VR development engine to offer bespoke AR/VR content according to the needs of customers from various industries, including entertainment, gaming, education, and technology, bringing end users a diversified and immersive experience in a virtual world. Our AR/VR content business recorded a revenue of RMB334.0 million in 2023. The number of AR/VR content business customers increased from 58 in 2022 to 75 in 2023. The number of AR/VR content projects we carried out increased from 149 in 2022 to 170 in 2023. Our business development team actively expanded business resources and content scenarios over the past year, further diversifying our customer base.

	As at/for the year ended December 31,		
Operating Metrics	**2023**	2022	Change
AR/VR content			
Number of customers	**75**	58	+29%
Number of projects	**170**	149	+14%

In 2023, we focused our business on online AR/VR content development, creating online virtual content and platforms for several customers, including a well-known PRC Internet company (which operates the largest internet search platform in the country) and a major PRC telecommunications operator. In addition, we endeavored to explore new scenarios and experiences for offline AR/VR content. We collaborated with a Chinese state-owned airport group to create a "Digital Twin Airport Media Marketing Platform" (數字孿生機場傳媒營銷平台) for a city airport, using the actual geographical data and metaverse digital space technology of the airport. This collaboration not only improved the airport's offline service capabilities, but also created an immersive travel experience integrating "airport services, commercial services and unique cultural and tourism elements". As such, the level of digital services and operational efficiency of the airport were enhanced. Furthermore, we organized a "VR + Archaeology" exhibition for an AAAAA scenic spot in Sichuan Province. With the use of virtual technology, the exhibition enabled visitors to immerse in the enigmatic site, providing them with an immersive experience to explore the allure of ancient Sichuan civilization up-close.



The "VR + Archaeology" exhibition of an AAAAA scenic spot

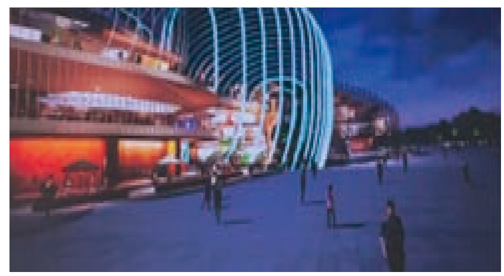


Digital twin platform of a city airport

During the Reporting Period, we also closely cooperated with the government and corporate customers in the downstream sectors to introduce a series of benchmark projects for the same. For example, we launched an online tourism exhibition center for an international tourism center in a city in Fujian Province, creating a new brand of cultural tourism for the city. The center provides tourists with new ways to explore the city's scenic spots, understand its history and participate in its future development.

We also built a metaverse city exhibition hall for a city in Zhejiang Province which integrates a diverse range of functional needs such as planning exhibitions, investment promotion services and commercial conferences. Combined with the content and highlights of the future science and technology city project, it has become the central exhibition building to attract investments in the local vicinity.

A tourism exhibition center
in a city in Fujian Province



A metaverse city exhibition hall
in Zhejiang Province

AR/VR SaaS services

Based on our extensive experience in developing AR/VR content and service projects, we have developed a standardized, simplified-code and user-friendly AR/VR SaaS platform. Our AR/VR SaaS platform provides our small-and medium-sized customers with a range of online AR/VR interactive content design, development and distribution tools and empowers our customers to create platforms that offer experiences such as exhibition, showcase, live-streaming and marketing, with the goal to improve the participation level and experience of their end users. In 2023, our AR/VR SaaS service business recorded revenue of RMB57.6 million, representing a significant year-on-year increase of 31.7%.

We continuously iterate and upgrade our SaaS platform, with ongoing optimizations in the development process and improvements in delivery quality. These efforts aim to promote the platform as the choice for more small-and medium-sized AR/VR content developers. During the Reporting Period, the number of paid users of our AR/VR SaaS platform increased by 103% year-on-year to 9,283, and the number of customized AR/VR SaaS projects increased to 402, representing an increase of 26% as compared to 2022.

	As at/for the year ended December 31,		
Operating Metrics	**2023**	2022	Change
AR/VR SaaS services			
Number of registered users	**41,880**	23,991	+75%
Number of paid subscribers	**9,283**	4,570	+103%
Number of customized AR/VR SaaS projects	**402**	320	+26%
Average monthly active users	**10,028**	8,288	+21%
Peak monthly active users	**11,172**	9,835	+14%

Exploring new business

The Company is continuously exploring new directions for development and is capitalizing on technological and industry trends to create new points of business growth. In 2023, recognizing the substantial demand for C-end content from consumers, we ventured into the development and operation services of digital characters for the first time, and secured a leading position in this emerging field. We not only successfully created popular digital characters such as Li Hao Duck (李好鴨) and Mo Xiaoyu (莫小余), but also provided a full-range digital character solution that includes production, live operation and commercial monetization for customers from different industries, including a famous AAAAA scenic spot in China. During the Reporting Period, our digital character matrix amassed nearly 5.0 million fans and upwards of 20 million likes. In the future, we plan to initiate the commercialization process by leveraging the fan economy, establishing commercial partnerships, engaging in live streaming e-commerce, and exploring other methods.

In 2023, we also expanded into new consumer C-end content fields such as "XR + Content". For example, we launched dozens of short dramas on the WeChat mini-program platform. As our first step in expanding into the "XR + Drama Content" field, the short drama business brought us valuable industry experience. Moreover, we collaborated with a strategic partner to co-produce the XR version of a concert by a well-known Chinese girl group. In the future, we will continue to explore the application of content offerings for XR headsets, bringing immersive XR content entertainment experiences to end users.

Future Outlook

Overview of the Industry in which the Company operated during the Reporting Period

The industry in which we operate has received significant attention and support from national policies. According to the 2024 Government Work Report of the State Council, the Chinese government proposed to further promote the innovative development of the digital economy. An array of policies has been formulated for this purpose, including policies to support the high-quality development of the digital economy, deepen the research and application of big data, AI and other technologies, and facilitate the digitization of services. Also included in these policies are the initiatives to build smart cities and digital villages, improve the data foundation system, encourage the development, openness and exchange of data, cautiously establish digital infrastructure ahead of time, and develop a computing power industry ecosystem. We believe that the strong support from the Chinese government for digital technology and the digital industry will place our industry on the "fast track" of growth. The potential market size of the industry will further expand, and we will benefit from the rapid development of technology and the continuous improvement of the industry ecosystem.

Moreover, the release of new hardware platforms will greatly boost the demand for AR/VR content. In September 2023, Meta launched its next-generation virtual reality headset, Quest 3, which is believed by the market to represent a significant improvement over its predecessor in terms of interaction smoothness and viewing experience. In February 2024, Apple released its first mixed-reality headset device, Apple Vision Pro, which first launched for sale in the United States. This device elevates computing power and user experience to a new level using spatial computing algorithms. According to the latest report by market research firm IDC, shipments of AR/VR headsets reached 8.1 million units in 2023. Driven by the Quest 3 and Vision Pro headsets, the global shipment volume of AR/VR headsets is expected to increase by 46.4% year-over-year in 2024. We believe that the interaction and viewing experience upgrades brought by new devices will lead to an explosive growth in the demand for AR/VR content and marketing.

Outlook of the Company

We believe that the improvement in the effectiveness and speed of AR/VR content dissemination will facilitate the resurgence in three-dimensional understanding among humans. As such, we will remain committed to developing AR/VR content and services as our principal line of business. While consolidating our existing business, we will explore new businesses, new formats and new directions in an effort to expand the business landscape of the Company.

We will use our existing business as a foundation and continue to expand into different industry applications. Taking the cultural and tourism sector as an example: In 2023, with the relaxation of domestic COVID-19 control policies in China, the cultural and tourism industry experienced a rapid recovery. In addition, as consumption patterns of residents continue to improve, traditional offline sightseeing models can no longer meet the growing demands of consumers. As such, we have actively seized market transformation opportunities and have already contacted and extended our coverage to a number of well-known domestic cultural and tourism scenic spots. In the future, we will empower these customers with new technologies and formats, and provide comprehensive digital upgrade solutions for cultural and tourism scenic spots through VR large-space exhibitions, cultural and tourism metaverse platforms as well as other methods, to help clients attract more customers and increase their willingness to spend.

We will continue to expand our presence in the C-end XR content space by capitalizing on the demand increase for C-end content brought about by hardware upgrades. In 2023, we made great strides in the C-end digital human live streaming space. With the popularization of AR/VR hardware such as the Meta Quest 3 and Apple Vision Pro in the C-end market, the demand for C-end content will see major growth. Flowing Cloud will rely on the computational power and display effect upgrades brought by new hardware platforms to create a series of high-quality C-end content projects. For example, we are developing a digital character live streaming solution for MR devices that can seamlessly integrate virtual elements with real scenes, creating more diverse visual effects. Furthermore, by utilizing sensor matrix and spatial computing algorithms, we aim to achieve a more natural and realistic interactive experience. These efforts will upgrade users' viewing and interaction experiences, and enrich specific scenarios such as cultural and tourism live streaming and e-commerce live streaming. In addition, we will continue to explore the application of content tracks on the XR head unit to bring an immersive XR content entertainment experience to end-users. At the same time, we will accelerate the commercialization of our live streaming business through various means such as fan economy, commercial cooperation and live streaming sales.

We believe that the second growth curve for the Company will come from the development of new technologies such as AI. In the past year, the application of new technologies, represented by large AI models, has significantly enriched content creation tools and reduced the cost of content production. We have also extensively applied generative AI models to the digital content production process of the Company. Looking to the future, on the one hand, we will actively embrace new technologies and use large models such as ChatGPT and Wenxin Yiyan, as well as 2D/3D content creation tools like Stable Diffusion and Sora, to reduce content creation costs and improve project delivery efficiency. On the other hand, by combining our industry and project experience accumulated so far, we will further develop and iterate our self-developed AI vertical models. With these models, we can more efficiently and specifically generate 3D models, 3D scenes, and the scripts and live broadcasting plans needed for the development and operation of digital characters. We will also gradually make these vertical models available to the outside world in the form of SaaS platforms or solutions, helping our customers achieve high-quality digital content production. In addition, we also plan to cooperate with local governments and leading enterprises to jointly explore cooperation in the construction, operation and arithmetic deployment of AI arithmetic centers, which will, on the one hand, provide sufficient arithmetic resources for the Company's exploration in the field of AI big models, and, on the other hand, will also realize infrastructure sharing with other companies upstream and downstream of the industrial chain, helping us to build the AI content production industrial cluster centered on Flowing Cloud.

We will continue planning of the overseas business. In 2023, our AR/VR marketing business took the first successful step overseas and achieved certain promising results. We firmly believe that the industry experience and project materials accumulated by the Company in the AR/VR field can propel us to rapidly expand overseas markets. As such, we will continue to adhere to our overseas strategy, while continuing to expand and cultivate our team with an overseas focus, to further strengthen and expand our overseas business.

We will explore the Web3.0 space. In the initial stage, we will adopt an investment strategy to deepen our presence in the Web3.0 space. Our broad investment targets include, but are not limited to, public blockchain, layer 2 networks (Layer 2), decentralized finance (Defi), non-homogeneous token (NFT) and blockchain gaming (GameFi). These investment objectives have been chosen to ensure that we fully understand and keep abreast of the latest developments in the Web3.0 space. At the same time, we will develop unique XR applications and experiences by combining XR technology with core Web3.0 technology.

We will continue to expand the metaverse ecosystem. We plan to join forces with local governments and other publicly listed companies in the same field to launch a metaverse industry fund, which will primarily invest in outstanding start-ups in the fields of AR/VR content and services, AIGC applications and digital characters. Leveraging the leading and synergistic roles of listed companies, we aim to create an industry ecosystem with interconnected technology resources, business leads and shared development results. We expect the industry fund to not only bring investment returns to the Company but also create more business opportunities and industry experience, benefiting a wide range of upstream and downstream enterprises of the industrial chain.

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 16.7% from RMB1,066.2 million for the year ended December 31, 2022 to RMB1,244.7 million for the year ended December 31, 2023, mainly attributable to the increase in the revenue generated from the AR/VR marketing services. 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 for the years indicated:

	For the year ended December 31,			
	2023		2022	
	RMB'000	*%*	*RMB'000*	*%*
AR/VR marketing services	**845,124**	**68.0**	681,796	64.0
AR/VR content	**334,026**	**26.8**	336,196	31.5
AR/VR SaaS	**57,556**	**4.6**	43,713	4.1
Others*(Note)*	**8,017**	**0.6**	4,452	0.4
Total	**1,244,723**	**100.0**	1,066,157	100.0

Note: Other businesses comprise digital character development and operation services, short drama production and operation business, non-AR/VR technical services and promotion 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 24.0% from RMB681.8 million for the year ended December 31, 2022 to RMB845.1 million for the year ended December 31, 2023. During the Reporting Period, affected by the lower-than-expected market demand and the centralization of advertising traffic platforms, there was a slight decrease in the number of advertising customers and the average monthly number of advertising products we promoted compared to 2022. Nonetheless, by leveraging the delivery of higher-quality content and efficient AR/VR content creation platform, we provided customers with more effective AR/VR marketing solutions which resulted in higher conversion rates and improved customer stickiness. We enhanced the collaboration with leading advertising channels, with the average payment per channel increasing by 68.7% to RMB51.9 million, and the number of long-tail media institutions increased from 4,378 in 2022 to 4,780 in 2023. In addition, we expanded our AR/VR marketing services overseas in 2023 and leveraged our established AR/VR content creation and traffic distribution platform experience in providing marketing services to overseas customers. During the Reporting Period, we provided services to 4 overseas advertising agencies, reaching 374 international long-tail media institutions.

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 years indicated:

	For the year ended December 31,			
	2023		2022	
	RMB'000	*%*	*RMB'000*	*%*
Gaming	**106,429**	**12.6**	145,110	21.3
Entertainment	**190,008**	**22.5**	125,668	18.4
Internet	**165,514**	**19.6**	141,578	20.8
Culture and tourism	**132,164**	**15.6**	109,458	16.1
E-commerce	**83,959**	**9.9**	77,101	11.3
Real estate	**36,515**	**4.3**	14,716	2.2
Automobiles	**51,920**	**6.1**	23,044	3.4
Commercial services	**25,560**	**3.0**	13,839	2.0
Healthcare	**15,756**	**1.9**	7,700	1.1
Finance	**10,701**	**1.3**	7,980	1.2
Live streaming	**5,479**	**0.6**	11,372	1.7
Education	**21,119**	**2.6**	4,230	0.5
Total	**845,124**	**100.0**	681,796	100.0

Industries such as culture and tourism, entertainment and e-commerce industries, are focusing increasingly on the application of AR/VR solutions due to the demand to strengthen the experience of end users and restitute offline experience. Our revenue from the culture and tourism industry increased from RMB109.5 million in 2022 to RMB132.2 million in 2023 because we were able to expand our customer base. Our revenue from the e-commerce industry increased from RMB77.1 million to RMB84.0 million during the same period because our major customers in the e-commerce industry increased spending with us by placing more AR/VR advertisements on various media platforms.

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 slightly decreased by 0.6% from RMB336.2 million for the year ended December 31, 2022 to RMB334.0 million for the year ended December 31, 2023, primarily due to a slight decrease in the average price of AR/VR content projects. Our number of customers with respect to AR/VR content business increased from 58 in 2022 to 75 in 2023. The number of AR/VR content projects we carried out increased from 149 in 2022 to 170 in 2023, due to the increase in the number of customers and diversification of content application scenario.

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 years indicated:

	For the year ended December 31,			
	2023		2022	
	RMB'000	*%*	*RMB'000*	*%*
Entertainment	**139,539**	**41.8**	139,763	41.6
Gaming	**108,415**	**32.5**	124,982	37.2
Education	**69,159**	**20.7**	50,747	15.1
Science and technology, culture and tourism, and others	**16,913**	**5.0**	20,704	6.1
Total	**334,026**	**100.0**	336,196	100.0

Our revenue from the entertainment and gaming industries decreased from RMB264.7 million in 2022 to RMB248.0 million in 2023, mainly due to reduction in AR/VR content projects budgets of our major customers from the entertainment and gaming industries as their revenue decreased.

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 31.7% from RMB43.7 million for the year ended December 31, 2022 to RMB57.6 million for the year ended December 31, 2023, primarily because of the increase in the number of customers who subscribed to our customized AR/VR SaaS projects.

Others

The Group's revenue from the other businesses in 2023 were generated from promotion services, advertising agency services and short drama operation, and historically technical services. Revenue from the other businesses increased by 80.1% from RMB4.5 million for the year ended December 31, 2022 to RMB8.0 million for the year ended December 31, 2023, primarily due to our active exploration of new businesses, revenue from the digital character development and operation services, and short drama production and operation 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, 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 19.0% from RMB692.2 million for the year ended December 31, 2022 to RMB824.0 million for the year ended December 31, 2023, primarily driven by the increase in the traffic acquisition costs in relation to our AR/VR marketing services business in line with the growth of our AR/VR marketing services, slightly offset by a decrease in our subcontracting and development costs due to a decline in revenue from our AR/VR content business, and a decrease in our use of materials costs attributable to a decrease in 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 years indicated:

	For the year ended December 31,			
	2023		2022	
	RMB'000	*%*	*RMB'000*	*%*
Traffic acquisitions costs	**647,293**	**78.6**	523,108	75.6
Subcontracting and development costs	**105,593**	**12.8**	106,125	15.3
Others*(Note)*	**71,120**	**8.6**	62,929	9.1
Total	**824,006**	**100.0**	692,162	100.0

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 RMB526.1 million for the year ended December 31, 2022 to RMB654.8 million for the year ended December 31, 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 years indicated:

	For the year ended December 31,			
	2023		2022	
	RMB'000	*%*	*RMB'000*	*%*
Gaming	**81,634**	**12.5**	112,173	21.3
Internet	**127,482**	**19.5**	109,160	20.7
Entertainment	**146,313**	**22.4**	97,066	18.5
Culture and tourism	**101,426**	**15.5**	84,032	16.0
E-commerce	**64,977**	**9.9**	59,588	11.4
Automobiles	**40,561**	**6.2**	17,742	3.4
Real estate	**28,347**	**4.3**	11,216	2.1
Commercial services	**20,276**	**3.1**	10,679	2.0
Live streaming	**4,824**	**0.7**	8,905	1.7
Finance	**8,821**	**1.3**	6,202	1.2
Healthcare	**12,908**	**2.0**	6,025	1.1
Education	**17,188**	**2.6**	3,313	0.6
Total	**654,757**	**100.0**	526,101	100.0

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 different industries.

AR/VR content

The cost of revenue from the AR/VR content business decreased from RMB148.2 million for the year ended December 31, 2022 to RMB142.0 million for the year ended December 31, 2023, primarily due to the reduction in project development costs by leveraging our extensive industry-related and project experiences as well as the application of AIGC.

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 years indicated:

	For the year ended December 31,			
	2023		2022	
	RMB'000	*%*	*RMB'000*	*%*
Entertainment	**57,980**	**40.8**	71,852	48.5
Gaming	**40,743**	**28.7**	48,422	32.6
Education	**27,541**	**19.4**	20,725	14.0
Science and technology	**10,751**	**7.6**	4,898	3.3
Culture and tourism	**4,995**	**3.5**	—	—
Others	**—**	**—**	2,346	1.6
Total	**142,010**	**100.0**	148,243	100.0

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 different industries.

Gross Profit and Gross Margin

The gross profit of the Group increased by 12.5% from RMB374.0 million for the year ended December 31, 2022 to RMB420.7 million for the year ended December 31, 2023, primarily due to the increase in our revenue. The gross profit margin of the Group decreased from 35.1% in 2022 to 33.8% in 2023. The decrease in the gross profit margin was driven by the change of revenue mix and the increase of AR/VR marketing service as a percentage in revenue.

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

	For the year ended December 31,			
	2023		2022	
		Gross Margin		*Gross Margin*
	RMB'000	***%***	*RMB'000*	*%*
AR/VR marketing services	**190,367**	**22.5**	155,696	22.8
AR/VR content	**192,016**	**57.5**	187,953	55.9
AR/VR SaaS	**45,623**	**79.3**	29,840	68.3
Others*(Note)*	**(7,289)**	**(90.9)**	506	11.4
Total	**420,717**	**33.8**	373,995	35.1

Note: Other businesses mainly comprise digital character development and operation services, short drama production and operation business, non-AR/VR technical services and promotion services.

The gross margin of the AR/VR marketing services business decreased from 22.8% for the year ended December 31, 2022 to 22.5% for the year ended December 31, 2023, primarily because of a slight increase in traffic prices due to the trend of increased concentration of traffic platforms.

The gross margin of the AR/VR content business increased from 55.9% for the year ended December 31, 2022 to 57.5% for the year ended December 31, 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 increased from 68.3% for the year ended December 31, 2022 to 79.3% for the year ended December 31, 2023, primarily because we had less development needs as we gradually accumulated more AR/VR SaaS modules and we benefited from economies of scale with respect to certain costs including staff costs and costs of servers.

The gross margin of other businesses decreased from 11.4% for the year ended December 31, 2022 to (90.9)% for the year ended December 31, 2023, primarily due to the expansion of our digital character development and operation services, and short drama production and operation business, which have not yet achieved profitability.

Other Income

Other income of the Group consists primarily of tax refund, interest income on bank deposits and government grants. Other income increased by 56.7% from RMB4.2 million for the year ended December 31, 2022 to RMB6.5 million for the year ended December 31, 2023, primarily as a result of the increase in interest income on bank deposits.

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

	For the year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Dividend income	**1,448**	—
Tax refund	**2,455**	2,794
Interest income on bank deposits	**2,505**	709
Government grants	**122**	664
Total	**6,530**	4,167

Other Gains and Losses

Other gains and losses of the Group primarily consist of foreign exchange losses, and others which include miscellaneous gains and losses. We recorded other losses of RMB7.3 million in 2022 and other losses of RMB0.5 million in 2023 due to foreign exchange gains and the decrease in donation.

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

	For the year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Foreign exchange gains/(losses)	**449**	(4,528)
Donation	**—**	(2,685)
Others	**(954)**	(123)
Losses	**(505)**	(7,336)

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 RMB4.1 million in 2022 to RMB30.2 million in 2023, primarily due to the increase in our accounts receivables in line with our business expansion.

Distribution and Selling Expenses

The distribution and selling expenses of the Group primarily consist of (i) staff costs, (ii) advertising and marketing costs, (iii) travelling expenses, (iv) office expenses, and (v) others. The distribution and selling expenses increased by 42.0% from RMB13.6 million for the year ended December 31, 2022 to RMB19.3 million for the year ended December 31, 2023, primarily due to: (i) the increase in staff costs due to the increase in our headcounts driven by the expansion of our business and the increase in the average compensation level, and (ii) the increase in promotion expenses as we strengthened our brand and product promotion.

Administrative Expenses

The 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 49.4% from RMB33.2 million for the year ended December 31, 2022 to RMB49.6 million for the year ended December 31, 2023, primarily due to (i) the increase in the staff costs in line with our business expansion, (ii) the increase in our rental and property management expenses, office expenses as we rented more office space due to business expansion, and (iii) the increase in our professional service fees which were not related to the Listing.

Research and Development Expenses

The R&D 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 R&D expenses increased by 5.6% from RMB48.5 million for the year ended December 31, 2022 to RMB51.2 million for the year ended December 31, 2023, primarily due to (i) the increase in the staff costs of our R&D 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 R&D expenditures for the year ended December 31, 2023.

Listing Expenses

We did not incur any listing expenses for the year ended December 31, 2023 because the Listing was completed in 2022.

Finance Costs

The finance costs of the Group primarily include interest expenses on bank borrowings and lease liabilities. The finance costs increased by 48.2% from RMB3.3 million for the year ended December 31, 2022 to RMB4.8 million for the year ended December 31, 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 decreased by 26.7% from RMB10.6 million for the year ended December 31, 2022 to RMB7.7 million for the year ended December 31, 2023, because Beijing Flowing Cloud was qualified to enjoy the preferential tax treatment of "two-year exemption and three-year half payment" for the year ended December 31, 2023 as a software enterprise. The effective tax rate for the year ended December 31, 2023 was 2.8%.

Profit for the Year and Net Profit Margin

As a result of the foregoing, the Group recorded a profit of RMB263.9 million for the year ended December 31, 2023, representing an increase of 11.6% as compared to a profit of RMB236.6 million for the year ended December 31, 2022. The net profit margin of the Group decreased from 22.2% in 2022 to 21.2% in 2023 mainly due to combined impact of factors including the decrease in gross profit margins, increase in impairment loss of assets and share-based payments.

Non-IFRS Measure: Adjusted Net Profit

To supplement the Group's consolidated financial statements presented in accordance with IFRS, the Groups also uses non-IFRS measure, namely adjusted net profit, as an additional financial measure, which is not required by, or presented in accordance with IFRS. The Group believes this non-IFRS measure facilitates comparisons of operating performance from year to year by eliminating potential impacts of certain items. The Group believes that such measure provides useful information to investors and others in understanding and evaluating its consolidated results of operations in the same manner as they help the management. The term "adjusted net profit" is not defined under IFRS. However, the presentation of adjusted net profit may not be comparable to similarly titled measures presented by other companies. The use of non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, the Group's results of operations or financial conditions as reported under IFRS. The presentation of non-IFRS measure should not be construed as an implication that the Group's future results will be unaffected by unusual items.

The Group defines adjusted net profit as profit for the year adjusted by adding listing expenses and share-based payments. Share-based payments are non-cash in nature.

The following table sets forth the reconciliation of profit for the year to adjusted net profit for the years indicated:

	For the year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Reconciliation of profit for the year to adjusted net profit:		
Profit for the year	**263,935**	236,593
Add:		
Share-based payments	**10,036**	—
Listing expenses	**—**	21,118
Non-IFRS measure:		
Adjusted net profit (unaudited)	**273,971**	257,711

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 RMB95.0 million as at December 31, 2023, primarily due to the increase in acquiring of adaptation rights and software in order to support the growth of our AR/VR SaaS business.

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

	As at December 31,	
	2023	2022
	RMB'000	*RMB'000*
Adaptation rights	**50,425**	41,658
Software	**44,570**	6,276
Total	**94,995**	47,934

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 decreased from RMB1.7 million as at December 31, 2022 to RMB0.1 million as at December 31, 2023, primarily due to (i) the decrease in the setup costs in relation to our AR/VR content business as the customer accepted a number of AR/VR content projects in relation to which the costs to fulfill contracts were recognized, and (ii) changes to the settlement method of contract costs being the adoption of net amount settlement, where 60% of the revenue is confirmed directly without factoring in costs within the contract cost.

Trade and Other Receivables and Deposits

The 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 rental and other deposits and other receivables.

The trade receivables increased from RMB375.5 million as at December 31, 2022 to RMB561.5 million as at December 31, 2023, in line with the growth of our businesses.

The following table sets forth a breakdown of the trade and other receivables as at the dates indicated:

	As at December 31,	
	2023	2022
	RMB'000	*RMB'000*
Trade receivables	**602,740**	386,568
Less: allowance for credit losses	**(41,226)**	(11,050)
Total trade receivables	**561,514**	375,518
Rental and other deposits	**760**	1,374
Other receivables	**334**	245
Less: allowance for credit losses	**(59)**	(59)
Software license within one year	**—**	6,733
Others	**3,235**	3,455
	4,270	11,748
Total	**565,784**	387,266

Prepayments

The prepayments of the Group primarily comprise (i) prepayments for purchasing advertising traffic from media platforms and their agents in connection with the AR/VR marketing services, and (ii) prepayments for outsourcing service in connection with the AR/VR content business.

The prepayments increased from RMB485.5 million as at December 31, 2022 to RMB594.0 million as at December 31, 2023, primarily due to the increase in our prepayments for purchasing advertising traffic related to our AR/VR marketing services in line with the overall growth of our AR/VR marketing services business.

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

	As at December 31,	
	2023	2022
	RMB'000	*RMB'000*
Prepayments for purchasing advertising traffic	**570,803**	429,972
Prepayments for outsourcing service	**14,753**	31,131
Others	**8,414**	24,431
Total	**593,970**	485,534

Trade and other payables

The trade and other payables of the Group mainly comprise (i) trade payables, (ii) employee compensation payable, (iii) other tax payable, and (iv) payables for procurement of long-term assets. 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 RMB148.1 million as at December 31, 2023, primarily due to (i) the increase in our employee compensation payable caused by the increased number of employees and the increase in salary and bonus of our personnel in line with our business expansion, (ii) the increase in other tax payable, and (iii) the increase in payables for procurement of long-term assets.

The following table sets forth a breakdown of the trade and other payables as at the dates indicated:

	As at December 31,	
	2023	2022
	RMB'000	*RMB'000*
Trade payables	**69,732**	72,429
Employee compensation payable	**6,170**	4,897
Other tax payable	**61,419**	57,073
Accrued listing expenses	**—**	314
Accrued share issue costs	**—**	56
Payables for procurement of long-term assets	**8,677**	—
Other payables and accruals	**2,078**	4,855
Total	**148,076**	139,624

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 RMB13.1 million as at December 31, 2023. We recognized revenue amounting to RMB67.5 million for the year ended December 31, 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 slightly increased from RMB80.0 million as at December 31, 2022 to RMB95.0 million as at December 31, 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 decreased from RMB5.9 million as at December 31, 2022 to RMB3.4 million as at December 31, 2023. The decrease in lease liabilities resulted from the approaching conclusion of lease agreements and our partial repayment of the liabilities.

The following table sets forth an analysis the lease liabilities as at the dates indicated:

	As at December 31,	
	2023	2022
	RMB'000	*RMB'000*
Non-current	**900**	1,520
Current	**2,495**	4,368
Total	**3,395**	5,888

Contingent Liabilities

As at December 31, 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 December 31, 2023, the Group had bank balances and cash of RMB332.7 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 year ended December 31, 2023 amounted to RMB87.6 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 December 31, 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 December 31, 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 December 31, 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 December 31, 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.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2023

		Year ended December 31,	
	NOTES	**2023**	2022
		RMB'000	*RMB'000*
Revenue	*4*	**1,244,723**	1,066,157
Cost of revenue		**(824,006)**	(692,162)
Gross profit		**420,717**	373,995
Other income		**6,530**	4,167
Other gains and losses		**(505)**	(7,336)
Impairment losses under expected credit loss ("**ECL**") model, net of reversal		**(30,176)**	(4,050)
Distribution and selling expenses		**(19,309)**	(13,602)
Administrative expenses		**(49,577)**	(33,189)
Research and development expenses		**(51,181)**	(48,466)
Listing expenses		**—**	(21,118)
Finance costs	*5*	**(4,828)**	(3,257)
Profit before tax	*6*	**271,671**	247,144
Income tax expense	*7*	**(7,736)**	(10,551)
Profit for the year		**263,935**	236,593
Other comprehensive (expense)/income			
Item that will not be reclassified to profit or loss:			
Fair value (loss)/gain on investments in equity instruments at fair value through other comprehensive income ("**FVTOCI**")		**(41,393)**	20,872
		(41,393)	20,872
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(1,169)**	—
		(1,169)	—
Other comprehensive (expense)/income for the year		**(42,562)**	20,872
Total comprehensive income for the year		**221,373**	257,465

	NOTES	Year ended December 31, **2023** ***RMB'000***	2022 *RMB'000*
Profit/(loss) for the year attributable to:			
Owners of the Company		**263,938**	236,746
Non-controlling interests		**(3)**	(153)
		263,935	236,593
Total comprehensive income/(expense) attributable to:			
Owners of the Company		**221,376**	257,618
Non-controlling interests		**(3)**	(153)
		221,373	257,465
Basic earnings per share *(RMB cents)*	*8*	**14.6**	14.8
Diluted earnings per share *(RMB cents)*	*8*	**14.6**	14.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2023

	NOTES	As at December 31, 2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**8,756**	2,128
Right-of-use assets		**4,002**	5,917
Intangible assets		**94,995**	47,934
Equity instruments at FVTOCI		**112,456**	190,526
Contract costs		**—**	386
Deferred tax assets		**8,412**	1,932
		228,621	248,823
CURRENT ASSETS			
Trade and other receivables and deposits	*10*	**565,784**	387,266
Contract costs		**111**	1,326
Prepayments	*11*	**593,970**	485,534
Restricted bank deposits		**120**	—
Bank balances and cash		**332,668**	404,501
		1,492,653	1,278,627
CURRENT LIABILITIES			
Trade and other payables		**148,076**	139,624
Lease liabilities		**2,495**	4,368
Bank borrowings		**95,000**	80,000
Contract liabilities		**13,061**	67,714
Income tax payable		**9,510**	8,819
		268,142	300,525
NET CURRENT ASSETS		**1,224,511**	978,102
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,453,132**	1,226,925

	NOTES	As at December 31, 2023 RMB'000	2022 RMB'000
NON-CURRENT LIABILITY			
Lease liabilities		**900**	1,520
		900	1,520
NET ASSETS		**1,452,232**	1,225,405
CAPITAL AND RESERVES			
Share capital	*12*	**128**	128
Share premium		**521,249**	521,249
Reserves		**928,125**	701,295
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**1,449,502**	1,222,672
Non-controlling interests		**2,730**	2,733
TOTAL EQUITY		**1,452,232**	1,225,405

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

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 People's Republic of China (the "**PRC**"), respectively.

The Company is an investment holding company and has not carried out any business operations since the date of incorporation. The Company and its subsidiaries (collectively referred to as the "**Group**") are primarily engaged in the provision of augmented reality and virtual reality ("**AR/VR**") marketing services, AR/VR content and relevant services.

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

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

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

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**"). For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and by the Hong Kong Companies Ordinance.

Contractual Arrangements

The Group conducts its business through Beijing Ophyer Technology Shares Co., Ltd ("**Ophyer Technology**") and its subsidiaries, which were established in the PRC (collectively, the "**Consolidated Affiliated Entities**") in the PRC due to regulatory restrictions on foreign ownership in the Internet cultural business industry in the PRC. Ophyer Technology was owned by Mr. Wang Lei and Mr. Li Yanhao and other shareholders (collectively referred to as "**Ophyer Shareholders**"). Beijing Flowing Cloud Technology Co., Ltd., a wholly-owned subsidiary of the Company established in the PRC ("**Beijing Flowing Cloud**"), entered into contractual arrangements with Ophyer Technology and Ophyer Shareholders on December 16, 2021, and Beijing Flowing Cloud entered into contractual arrangements with the Consolidated Affiliated Entities on May 6, 2022 (collectively referred to as the "**Contractual Arrangements**"). Pursuant to the Contractual Arrangements, Beijing Flowing Cloud is able to:

- exercise effective financial and operational control over the Consolidated Affiliated Entities;

- exercise equity holders' voting rights of the Consolidated Affiliated Entities;

- receive substantially all of the economic returns generated by the Consolidated Affiliated Entities in consideration for the business support, technical and consulting services provided by Beijing Flowing Cloud;

- obtain an irrevocable and exclusive right to purchase all or part of equity interests in the Consolidated Affiliated Entities from the respective equity holders at a minimum purchase price permitted under PRC laws and regulations. Beijing Flowing Cloud may exercise such options at any time until it has acquired all equity interests and/or all assets of the Consolidated Affiliated Entities. In addition, the Consolidated Affiliated Entities are not allowed to sell, transfer, pledge or dispose of any assets, or make any distributions to their equity holders without prior consent of Beijing Flowing Cloud; and

- obtain a pledge over the entire equity interest of the Consolidated Affiliated Entities from their equity holders as collateral security for payments of the Consolidated Affiliated Entities due to Beijing Flowing Cloud and to secure performance of the Consolidated Affiliated Entities' obligations under the Contractual Arrangements.

The Group does not have any equity interest in the Consolidated Affiliated Entities. However, as a result of the Contractual Arrangements, the Group has power over the Consolidated Affiliated Entities, has rights to variable returns from its involvement with the Consolidated Affiliated Entities, has the ability to affect those returns through its power over the Consolidated Affiliated Entities and is considered to have control over the Consolidated Affiliated Entities. Consequently, the Company regards the Consolidated Affiliated Entities as indirect subsidiaries. The assets, liabilities, revenue, income and expenses of the Consolidated Affiliated Entities have been included in the Group's consolidated financial statements.

Total assets of Ophyer Technology and its subsidiaries, which were involved in the Contractual Arrangements were RMB920 million as of December 31, 2023 (2022: RMB861 million), and these balances have been reflected in the Group's consolidated financial statements after intragroup eliminations.

Total revenue of Ophyer Technology and its subsidiaries, which were involved in the Contractual Arrangements was RMB625 million for the year ended December 31, 2023 (2022: RMB704 million), and these amounts have been reflected in the Group's consolidated financial statements after intragroup eliminations.

2. APPLICATION OF NEW AND AMENDMENTS TO IFRSs

New and amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to IFRSs issued by 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 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

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

The Group has applied the amendments for the first time in the current year. IAS 1 *Presentation of Financial Statements* 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 has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies set out in Note 3.

Amendments to IFRSs in issue but not yet effective

The Group has not early applied the following amendments to IFRSs that have been issued but are not yet effective:

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[2]
Amendments to IAS 1	Non-current Liabilities with Covenants[2]
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements[2]
Amendments to IAS 21	Lack of Exchangeability[3]

1 Effective for annual periods beginning on or after a date to be determined.
2 Effective for annual periods beginning on or after January 1, 2024.
3 Effective for annual periods beginning on or after January 1, 2025.

The Group expects that the application of all amendments to IFRSs that have been issued but are not yet effective will have no material impact on the consolidated financial statements in the foreseeable future.

3. MATERIAL ACCOUNTING POLICY INFORMATION

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Revenue from contracts with customers

Information about the Group's accounting policies relating to contracts with customers is provided in Note 4.

Foreign currencies

In preparing the financial statements of individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. When a fair value gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is also recognized in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve). At the end of the reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

When share options are exercised, the amount previously recognized in share-based payments reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share-based payments reserve will continue to be held in share-based payments reserve.

Taxation

Income tax expense represents the sum of current and deferred income tax expense.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to the lease liabilities and the related assets separately. The Group recognizes a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized and a deferred tax liability for all taxable temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority.

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be use by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of the reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 *Revenue from Contracts with Customers*. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("**FVTPL**")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

(i) Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the FVTOCI reserve, and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the FVTOCI reserve.

Dividends from these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

Impairment of financial assets

The Group performs impairment assessment under ECL model on financial assets at amortised cost (including trade and other receivables and deposits, bank balances and restricted bank deposits), which are subject to impairment assessment under IFRS 9 *Financial Instruments*. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

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

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

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

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for certain trade receivables are considered on a collective basis taking into consideration the Group's internal credit ratings and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and other receivables where the corresponding adjustment is recognized through a loss allowance account.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. Specifically:

- For financial assets measured at amortized cost, exchange differences are recognized in profit or loss in the "other gains and losses" line item as part of the net foreign exchange gains/(losses);

- For equity instruments measured at FVTOCI, exchange differences are recognized in other comprehensive income in the FVTOCI reserve.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is not reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instruments is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL.

Financial liabilities at amortized cost

Financial liabilities including trade and other payables and bank borrowings are subsequently measured at amortized cost, using the effective interest method.

4. REVENUE AND SEGMENTAL INFORMATION

Disaggregation of revenue from contracts with customers

	Year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Provision of AR/VR marketing service	**845,124**	681,796
Delivery of AR/VR content	**334,026**	336,196
Provision of AR/VR Software as a Service ("**SaaS**") service	**57,556**	43,713
Others	**8,017**	4,452
	1,244,723	1,066,157

Timing of revenue recognition

	Year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
A point in time	**1,222,461**	1,050,723
Over time	**22,262**	15,434
	1,244,723	1,066,157

Performance obligations for contracts with customers and revenue recognition policies

AR/VR marketing service

The Group develops AR/VR interactive content to provide service solutions to customers including the design and placement of advertisements based on such AR/VR content. The Group provides customers with one-stop AR/VR marketing services, including formulating AR/VR service plans, designing AR/VR interactive content, distributing AR/VR interactive content, and collecting, monitoring and optimizing marketing data and feedback, in order to realize the customers' targets such as enhancing brand exposure and improving brand awareness.

The Group recognizes revenue at a point in time when specific services are provided based on the results of the placement of services in relevant platforms which are confirmed with the customers monthly.

AR/VR content

Utilizing the self-developed AR/VR development engines, delivery of AR/VR content offers customized content according to the needs of customers. The Group provides AR/VR content to customers and bring the end users diversified and immersive experiences in a virtual world.

Revenue is recognized at a point in time when control over the customized content has been transferred to the customer.

AR/VR SaaS services

Leveraging the experiences the Group accumulated in provision of AR/VR marketing service and delivery of AR/VR content, the Group provides standardized solutions on the AR/VR SaaS platform. The AR/VR SaaS platform enables customers to generate, publish and utilize AR/VR content.

The Group charges customers for developing customized SaaS content. Revenue from developing customized content is recognized at a point in time when control over the customized content has been transferred to the customer.

Other SaaS services are provided on a subscription basis, and a monthly or annual subscription fee is charged to customers. Revenue generated from subscription fees is recognized over the subscription period on a straight-line basis.

Others

The Group generates revenues from promotion services, technical services, and short drama operation. The Group recognizes revenue at a point in time when specific services are provided or the customized product is delivered to the customer.

Transaction price allocated to the remaining performance obligation for contracts with customers

As at December 31, 2023, the original expected duration of all contracts of the Group were within one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

As at December 31, 2022, the transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) for the contracts of AR/VR SaaS services was RMB206,000 which were expected to be recognized as revenue within two years and the original expected duration of all other contracts of the Group were within one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

Segment information

For management purposes, the Group does not organize into business units based on their services and only has one operating and reportable segment. The chief operating decision maker monitors the operating results of the Group 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

An analysis of the Group's revenue from external customers by geographical market based on where the revenue is derived from is as below:

	Year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Mainland, the PRC	**1,145,156**	1,066,157
Hong Kong	**99,567**	—
	1,244,723	1,066,157

The Group's non-current assets (excluded financial instruments and deferred tax assets) by geographical location of the assets are detailed below:

	As at December 31,	
	2023	2022
	RMB'000	*RMB'000*
Mainland, the PRC	**90,755**	56,365
Hong Kong	**16,998**	—
	107,753	56,365

Information about major customers

During the year ended December 31, 2023, no single customer contributed over 10% of the total revenue of the Group (2022: none).

5. FINANCE COSTS

	Year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Interest expense on bank borrowings	**4,669**	2,903
Interest expense on lease liabilities	**159**	354
	4,828	3,257

6. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment	**2,753**	1,152
Depreciation of right-of-use assets	**4,498**	3,539
Amortization of intangible assets (included in cost of revenue and research and development expenses)	**28,519**	17,923
Amortization of software license within one year (included in research and development expenses)	**6,733**	612
Total depreciation and amortization	**42,503**	23,226
Staff costs		
Salaries and other benefits	**23,547**	22,424
Retirement benefits scheme contributions	**3,657**	3,770
Discretionary bonus	**9,651**	11,488
Equity-settled share-based expense	**10,036**	—
Total staff costs	**46,891**	37,682
Auditors' remuneration	**4,230**	2,600

7. INCOME TAX EXPENSE

	Year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Current tax		
PRC Enterprise Income Tax	**8,802**	11,468
Hong Kong	**3,793**	—
	12,595	11,468
Under/(over) provision in prior year	**1,621**	(310)
Deferred tax	**(6,480)**	(607)
	7,736	10,551

Tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Profit before tax	**271,671**	247,144
Tax at the applicable tax rate of 25% (2022: 25%)	**67,918**	61,786
Tax effect of expenses not deductible for tax purpose	**5,588**	4,053
Effect of research and development expenses that are additionally deducted	**(10,755)**	(6,752)
Effect on concessionary tax rate	**(56,115)**	(48,813)
Tax effect of deductible temporary differences/ tax losses not recognized	**1,999**	1,152
Under/(over) provision in respect of prior years	**1,621**	(310)
Effect of different tax rate of subsidiary operating in other jurisdiction	**(2,031)**	—
Effect of changes in tax rate applicable to deferred tax assets	**(489)**	(565)
Tax charge	**7,736**	10,551

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gains. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

Hong Kong

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

PRC

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of the PRC group entities is 25% for both years.

Certain subsidiaries have been approved as small low-profit enterprises. The entitled subsidiaries are subject to a preferential income tax rate of 5% for the year ended December 31, 2023 (2022: 5%).

Beijing Flowing Cloud has obtained the Software Enterprise Qualification during the year ended December 31, 2022, and has fulfilled the requirements for applying tax incentives for software enterprises, Beijing Flowing Cloud is entitled to enjoy tax exemption for the years ended December 31, 2022 and 2023 and 50% tax reduction for the next three years.

8. EARNINGS PER SHARE

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

Earnings figures are calculated as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Profit for the year attributable to owners of the Company	**263,938**	236,746
Earnings for the purpose of basic and diluted earnings per share	**263,938**	236,746

Number of shares

	Year ended December 31,	
	2023	2022
	RMB'000	*RMB'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,809,866**	1,594,288
Effect of dilutive potential ordinary shares:		
Over-allotment options	**—**	56
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,809,866**	1,594,344

The weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share for the year ended December 31, 2022 has been determined on the assumption that the capitalization issue as disclosed in Note 26 had been effected since January 1, 2022.

The weighted average number of ordinary shares for the year ended December 31, 2023 has been arrived at after adjusting the effect of shares repurchased by the Company during the year.

For the year ended December 31, 2023, the computation of diluted earnings per share does not assume the exercise of the Company's share options because the exercise price of those share options was higher than the average market price for shares.

9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended December 31, 2023, nor has any dividend been proposed since the end of the reporting period (2022: none).

10. TRADE AND OTHER RECEIVABLES AND DEPOSITS

	As at December 31,	
	2023	2022
	RMB'000	*RMB'000*
Trade receivables	**602,740**	386,568
Less: Allowance for credit losses	**(41,226)**	(11,050)
	561,514	375,518
Rental and other deposits	**760**	1,374
Other receivables	**334**	245
Less: Allowance for credit losses	**(59)**	(59)
Software license within one year	**—**	6,733
Others	**3,235**	3,455
	4,270	11,748
Total trade and other receivables and deposits	**565,784**	387,266

As at January 1, 2022, gross amounts of trade receivables from contracts with customers amounted to RMB168,856,000.

The Group usually allows a credit period of three to six months to its customers. Aging of trade receivables, net of allowance for credit losses, is prepared based on the billing date, which approximated the respective revenue recognition dates, are as follows:

	As at December 31,	
	2023	2022
	RMB'000	*RMB'000*
Within 6 months	**374,830**	339,345
6–12 months	**171,893**	33,159
1–2 years	**14,791**	3,014
	561,514	375,518

As at December 31, 2023, included in the Group's trade receivables balance were debtors with aggregate carrying amounts of RMB186,684,000 (2022: RMB36,173,000) which were past due as at the reporting date. Out of the past due balances, RMB14,791,000 (2022: RMB3,014,000) have been past due 180 days or more and are not considered as in default because the amounts were due from a number of independent reputable customers with good credit record. The Group considers that there is no significant change in these customers' credit risk.

11. PREPAYMENTS

	As at December 31, **2023** *RMB'000*	2022 *RMB'000*
Prepayments for purchases of traffic	**570,803**	429,972
Prepayments for outsourcing service	**14,753**	31,131
Prepayments for setting up SaaS platform	**—**	12,565
Prepayments for intangible assets and other current assets	**1,799**	5,929
Other prepayments	**6,615**	5,937
	593,970	485,534

12. SHARE CAPITAL

	Number of ordinary shares	**Nominal value of ordinary shares** *USD*	**Equivalent nominal value of ordinary shares** *RMB*
Ordinary shares of USD0.00001 each			
Authorized:			
At January 1, 2022, December 31, 2022 and 2023	5,000,000,000	50,000	319
Issued:			
At January 1, 2022	**116,117,810**	**1,161**	**7**
Issue of ordinary shares	**271,500,000**	**2,715**	**20**
Capitalization issue	**1,422,382,190**	**14,224**	**101**
At December 31, 2022 and 2023	**1,810,000,000**	**18,100**	**128**

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.

During the year, the Company repurchased its own ordinary shares through The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	**No. of ordinary shares**	**Price per share**		**Aggregate consideration paid**
		Highest	**Lowest**	
		HK$	*HK$*	*HK$'000*
November 2023	1,104,000	1.90	1.78	2,033
December 2023	1,568,000	1.94	1.89	2,993

At December 31, 2023, the above ordinary shares repurchased were not cancelled and were recognized in treasury shares.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

13. SHARE-BASED PAYMENT TRANSACTIONS

The Scheme was adopted pursuant to a resolution passed on September 8, 2022 for the primary purpose of providing incentives to the directors and eligible employees of the Group. On July 14, 2023, the Company granted a total of 72,497,000 share options to eligible grantees, subject to acceptance of the grantees, to subscribe for a total of 72,497,000 ordinary shares of the Company of USD0.00001 each under the Scheme.

The options shall lapse at the expiry of five years from the date of grant (the "**Option Period**"). The options shall be vested in three tranches: (a) 30% shall be vested on the first anniversary of the date of grant and be exercisable at any time during the period from the first anniversary of the date of grant to the end of the Option Period; (b) 30% shall be vested on the second anniversary of the date of grant and be exercisable at any time during the period from the second anniversary of the date of grant to the end of the Option Period; and (c) 40% shall be vested on the third anniversary of the date of grant and be exercisable at any time during the period from the third anniversary of the date of grant to the end of the Option Period.

Exercise price of the options granted is HK$1.78 per share, which was determined by the directors, being the higher of: (i) the closing price of HK$1.78 per share as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited on the date of grant; (ii) the average closing price of HK$1.734 per share as stated in the daily quotations sheets of The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share, which is USD0.00001.

Details of specific categories of options are as follows:

	Date of grant	Vesting period	Exercise period	Exercise Price
2023 tranch (a)	14/7/2023	14/7/2023–13/7/2024	15/7/2024–13/7/2028	HK$1.78
2023 tranch (b)	14/7/2023	14/7/2023–13/7/2025	14/7/2025–13/7/2028	HK$1.78
2023 tranch (c)	14/7/2023	14/7/2023–13/7/2026	14/7/2026–13/7/2028	HK$1.78

The following table discloses movement of the share options granted during the year:

Option type	Outstanding at 1/1/2023	Granted during year	Exercised during year	Forfeited during year	Expired during year	Outstanding at 31/12/2023
2023 tranch (a)	—	21,749,100	—	(3,249,600)	—	18,499,500
2023 tranch (b)	—	21,749,100	—	(3,249,600)	—	18,499,500
2023 tranch (c)	—	28,998,800	—	(4,332,800)	—	24,666,000
	—	72,497,000	—	(10,832,000)	—	61,665,000
Exercisable at the end of the year						—

At December 31, 2023, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 61,665,000, representing 3.4% of the shares of the Company in issue at that date.

The estimated fair value of the options granted on July 14, 2023 are from HK$0.69 to HK$0.91.

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

	2023
Exercise price	**HK$1.78**
Expected volatility	**54.64%**
Expected life	**5 years**
Risk-free rate	**3.43%**
Expected dividend yield	**0.00%**
Fair value of the options on the date of option grants (HK$)	**0.69–0.91**

Expected volatility was determined by using the historical share price movement of the comparable listed companies over the period close to the expected life.

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Group recognized the total expense of RMB10,036,000 for the year ended December 31, 2023 in relation to share options granted by the Company.

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 December 31, 2023, in Hebei Yichen Industrial Group Corporation Limited (Stock Code: 1596) ("**Yichen**"). Yichen is principally engaged in R&D, manufacturing and sales of rail fastening system products, welding wire and railway sleeper products. As at December 31, 2023, the Group held 31,101,000 shares, representing 3.5% of the total issued share capital of Yichen. The investment costs were approximately HK$140,781,179. As at December 31, 2023, the fair value of this investment at FVTOCI was RMB112.5 million, representing approximately 6.5% of the Group's total assets as at December 31, 2023. The Group recorded a fair value loss on investments in equity instruments at FVTOCI of RMB39.4 million for the year ended December 31, 2023. Based on the interim report of Yichen for the six months ended June 30, 2023, Yichen recorded a revenue of RMB542.6 million and net loss of RMB33.5 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, welding wire products and railway sleeper products widely used in high-speed, heavy-haul, and regular and urban railways, Yichen's manufacturing and R&D 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 year ended December 31, 2023.

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 December 31, 2023, the Group had 142 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 December 31, 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 as at December 31, 2023** *(HK$ million)*	**Unutilized net proceeds as at December 31, 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	22.2	17.4	By the end of 2024
(2) to upgrade and iterate our AR/VR development engines;	42.6	8.0%	28.3	16.1	12.2	By the end of 2024
(3) to improve our operation capabilities;	37.2	7.0%	23.0	7.5	15.5	By the end of 2024
(4) to develop of our AR/VR content business;	37.2	7.0%	24.7	13.6	11.1	By the end of 2024
(5) to develop our AR/VR SaaS business; and	26.6	5.0%	16.3	10.9	5.4	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	18.9	16.5	By the end of 2024
(2) to enhance our brand awareness through online channels; and	26.6	5.0%	15.3	11.0	4.3	By the end of 2024
(3) to strengthen and optimize our sales and marketing network.	53.2	10.0%	47.3	16.3	31	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	15.6	11.3	By the end of 2024
For our working capital and general corporate purposes	53.2	10.0%	30.6	16.5	14.1	By the end of 2024
Total	531.9	100.0%	373.0	151.9	221.1	

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.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended December 31, 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 throughout the year ended December 31, 2023 and up to the date of this announcement, 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.

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 throughout the year ended December 31, 2023 and up to the date of this announcement.

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.flowingcloud.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 and internal control system.

The Audit Committee has jointly discussed with the management and the external auditor of the Company about the accounting principles and policies adopted by the Company, and discussed and reviewed internal control, risk management and financial reporting matters (including the review of the annual results for the year ended December 31, 2023) of the Group. The Audit Committee and the independent auditor considered that the annual results are in compliance with the applicable accounting standards, the Listing Rules and all other application legal requirements. Accordingly, the Audit Committee recommends the Board to approve the audited consolidated financial statements of the Group for the year ended December 31, 2023.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2023 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the audited consolidated financial statements of the Group for the year as approved by the Board of Directors on March 28, 2024. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF THE SECURITIES OF THE COMPANY

During the year ended December 31, 2023, the Company bought back a total of 2,672,000 Shares at prices ranging from HK$1.94 to HK$1.78 per Share on the Stock Exchange, with an aggregate consideration of approximately HK$5,025,620 (excluding commissions and other expenses). Details of the share buy-backs by the Company on the Stock Exchange during the year ended December 31, 2023 are as follows:

Month of repurchase	No. of Shares repurchased	Price per Share Highest	Lowest	Total paid
		HK$	*HK$*	*HK$*
November	1,104,000	1.90	1.78	2,032,760
December	1,568,000	1.94	1.89	2,992,860
	2,672,000			5,025,620

The Board believes that the share buy-backs could reflect the Board's confidence in the Company's long-term business prospects. As at the date of this announcement, 2,672,000 Shares of the bought Shares are yet to be cancelled.

Save as disclosed above, neither the Company, nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities throughout the year ended December 31, 2023.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Board, the Board confirms that the Company has maintained the public float as required by the Listing Rules as at date of this announcement.

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

There is no subsequent event after the Reporting Period which has a material impact on the Group.

ANNUAL GENERAL MEETING

The forthcoming AGM will be held on Tuesday, May 28, 2024. A notice convening the AGM and all other relevant documents will be published and despatched to the Shareholders who have elected to receive printed copies in April 2024.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, May 23, 2024 to Tuesday, May 28, 2024, both days inclusive, in order to determine the eligibility of the Shareholders to attend and vote at AGM, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the AGM, all properly completed transfers documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, May 22, 2024, being the last registration date.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (https://www.hkexnews.hk) and the Company (https://www.flowingcloud.com). The annual report for the year ended December 31, 2023 will be dispatched to the Shareholders who have elected to receive printed copies and published on the above websites in due course.

DEFINITIONS

"5G"	the 5th generation mobile network, a new global wireless standard after 1G, 2G, 3G, and 4G networks
"advertising customer(s)"	advertising customers include advertisers and their agents
"AGM"	the annual general meeting of the Company
"AI"	artificial intelligence
"AIGC"	AI generated content
"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"	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 C1 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", "Flowing Cloud", "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
"IFRS"	International Financial Reporting Standards
"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
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix C3 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 one-year period from January 1, 2023 to December 31, 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 "USD"	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, March 28, 2024

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.