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Flowing Cloud Technology Ltd

飛天雲動科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6610)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2024

The Board is pleased to announce the unaudited interim results of the Group for the six months ended June 30, 2024, together with the comparative figures for the six months ended June 30, 2023.

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

FINANCIAL HIGHLIGHTS

	For the six months ended June 30		Change
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)	
Revenue	448,013	598,956	-25.2%
Gross profit	125,239	196,059	-36.1%
Profit before tax	74,435	122,577	-39.3%
Profit for the period	63,473	116,316	-45.4%
Total comprehensive income for the period	45,054	84,213	-46.5%
Basic earnings per share (RMB cents)	3.5	6.4	-45.3%

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Business Update

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

In the first half of 2024, in the face of the difficult situation of a general downturn in domestic enterprise-side demand and a lack of effective stimulation of the market economy, the Company actively expanded its overseas markets to ensure stable development of the B-end market, which mainly focuses on marketing services. On the other hand, the Company insisted on taking technological research and development as the lead, users' demand as the guide and standardized products as the stepping stones to overcome difficulties of the market downturn, achieving significant breakthroughs and great progress in the C-end market where virtual human live streaming is blooming.

To give full play to the bridging role of capital, the Company participated in its first industry fund, and the main investment directions of this fund include the “metaverse and artificial intelligence” and other digital economic tracks, which are compatible with the Company's existing business and development directions. In the future, the Company will make full use of various capital means, including investment, to build XR and AIGC 3D content ecosystems and establish connections among companies in the digital content industry. In addition, in order to adapt to the increasingly competitive environment, the Company has attached great importance to the construction of organizations, and the cultivation of its talent teams, and upgraded various business subsegments with a more market-oriented organizational structure and incentive approach, and released the new “missions, visions and values” during the period, which procured the team to contribute and overcome hardships together.

During the Reporting Period, the Company realized revenue of RMB448.0 million, representing a decrease of 25.2% as compared with the same period last year. The Company's gross profit margin was 28.0%, with gross profit amounted to RMB125.2 million, representing a decrease of 36.1% as compared with the same period last year. The Company's profit margin for the period was 14.2%, with a profit for the period amounted to RMB63.5 million, representing a decrease of 45.4% as compared with the same period last year.

During the Reporting Period, traditional business segments of the Company continued to develop.

AR/VR marketing services

Revenue from AR/VR marketing services amounted to RMB322.9 million, representing a decrease of 24.0% as compared with the same period last year.

Considering revenue in terms of geographical regions, the domestic AR/VR marketing business realized revenue of RMB253.8 million, representing a period-on-period decrease of 33.6% as compared to RMB382.0 million of the same period last year. The decrease in revenue from such business segment was mainly attributable to the impact of the macro-economy and the general reduction in marketing budgets of domestic advertising customers. At the same time, the Company actively explored overseas markets and realized revenue of RMB69.0 million from overseas AR/VR marketing business, representing a period-on-period increase of 61.2% as compared to the revenue of RMB42.8 million of the same period last year.

Operating Metrics	1H2024	1H2023	Change
AR/VR marketing services			
Number of advertising customers	16	24	-33.3%
Monthly average number of advertising products promoted	143	93	53.8%
Average spending per advertising customer (RMB'000)	20,178	17,700	14.0%
Contract renewal rate	75.0%	66.7%	12.4%

AR/VR content services

During the Reporting Period, revenue from AR/VR content services was RMB106.5 million, representing a period-on-period decrease of 27.3%, which was mainly attributable to the decrease in the project unit price due to market competition, but the number of projects undertaken by the Company increased to 86 from 73 in the same period last year. During the Reporting Period, the Company further explored content production technologies and processes based on spatial computing platforms and utilized MR hardware such as Apple Vision Pro to provide more extensive and immersive experiences for end users. In addition, the Company also released the VR large-space comprehensive solution during the Reporting Period, and applied it in the sectors of digital cultural tourism as well as exhibition.

Operating Metrics	1H2024	1H2023	Change
AR/VR content services			
Number of customers	28	35	-20.0%
Number of projects	86	73	17.8%
Average price of projects (RMB'000)	1,239	2,009	-38.3%

AR/VR SaaS services

In the first half of 2024, revenue from AR/VR SaaS services amounted to RMB14.3 million, representing a period-on-period decrease of 46.9%. The decrease in revenue was mainly due to the simultaneous decrease in the number of paid subscribers and the number of customized projects.

Operating Metrics	1H2024	1H2023	Change
AR/VR SaaS			
Number of registered users	8,062	8,778	-8.2%
Number of paid subscribers	1,259	3,030	-58.4%
Number of customized projects	58	175	-66.9%
Average daily active users	2,479	2,360	5.0%

During the Reporting Period, the Company continued to focus on government and enterprise customers and completed several high-quality AR/VR content service projects.

The Company was invited to attend and co-established the “Mekong Tourism Alliance”, which built a solid connection for cultural tourism cooperation amongst six countries located along the Lancang River and Mekong River including China and Myanmar, etc. As one of the major launch of the Alliance, the Company provided a full package of digital content production services for the “Love for Mekong River” project, and co-created an immersive cinema project in Yunnan Province, which explores and showcases the features of cultural tourism of the Lancang River and Mekong River regions.

Against the background of the promotion of digital cultural tourism by the State, the Company cooperated with a national archaeological park to carry out the digital construction of the museum at the archaeological site, which will be developed into a large-scale cultural tourism complex integrating archaeological study tour and family vacation. The Company fully leveraged on its strengths in the field of digital technology in the metaverse to provide tourists with personalized tour services through AI technology and digital human guide, allowing every meta-tourist to gain unique tour experience.



The Company will continue to promote the application and innovation of XR and AI technologies in digital cultural tourism and digital display, so as to bring a more immersive travel experience to tourists and contribute new strengths to the prosperity of the regional economy.

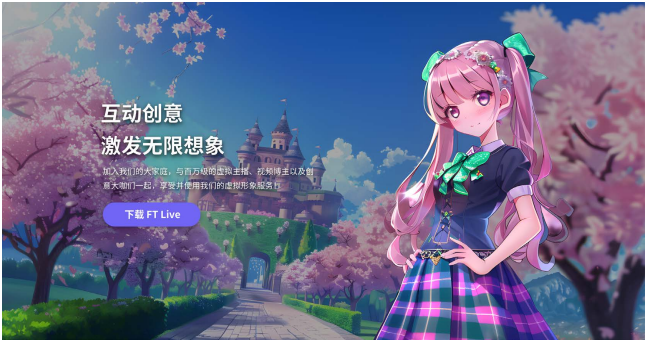
In addition to the above representative business cases at the B-end, the Company is also actively developing and launching products and services at the C-end.

Operation of virtual human live streaming and the virtual human union

In the face of slowing growth in users and traffic, all major live streaming platforms consider virtual human live streaming as a new blue ocean market. To cater to the market and platform demands, the Company self-developed a virtual human live streaming control platform “FT Live”. The virtual Youtuber (“**VTuber**”), as the “man inside” of the real-time driven virtual human, can be paired with the live streaming control platform to achieve prompt live streaming. Also, due to the adoption of a monocular camera hardware configuration, the hardware cost threshold for virtual human live streaming is greatly reduced.

With the fast ramp-up of market demand, the Company has started to build a virtual human live streaming union on top of its self-operated virtual human live streaming accounts since last year. It is expected that the number of VTubers in the Company’s union will increase significantly by the end of 2024.

The Company will not only use the live streaming control platform “FT Live” in its own unions, but also simultaneously open it up to other live streaming unions or individual VTubers who intend to try virtual human live streaming. The purpose of opening the live streaming control platform is to build a 3D digital asset trading platform, to consolidate the VTuber resources across the entire market on the one hand, and to open the platform’s built-in virtual human creation tools for free on the other hand, with a view to building a PUGC virtual human assets trading economic system.



XR games

The Company is actively developing applications on new hardware platforms. For example, for Apple Vision Pro, we have launched several paid casual games and applications in overseas application stores, including a darts game. Such game applies 3D graphics rendering technology to ensure that the scenes, darts and target boards are created with lifelike details, harmonious and saturated colors, and natural light and shadow effects, bringing players the dual enjoyment of visual effects and game entertainment.

FUTURE OUTLOOK

Industry Overview

Policies

During the Reporting Period, relevant state departments launched a series of policies to encourage the development of metaverse, artificial intelligence and other new quality productive forces, including increasing investment in digital infrastructure, promoting digital technology innovation, setting up special funds and providing tax incentives, etc.

The State Council pointed out in the “Report on the Work of the Government 2024” that it is necessary to further promote the innovative development of digital economy, formulate policies to support the high-quality development of digital economy, actively promote digital industrialization and industrial digitalization, and promote the in-depth integration of digital technology and physical economy.

Seven ministries and commissions, including the Ministry of Industry and Information and Technology, jointly issued the “Implementation Opinions on Promoting Future Industrial Innovation and Development”, proposing the need to deepen the integration of new-generation information technology and manufacturing industry, accelerate the reconstruction of industrial chain structure, process and model, and develop new applications for future manufacturing. By utilizing the advantages of central enterprises of their rich scenarios, the construction of diversified future manufacturing scenarios can be

expedited. The accelerated promotion of emerging scenarios such as industrial metaverse and bio-manufacturing may drive the transformation and upgrading of the manufacturing industry through scenarios innovation.

Explore core business

The Company will continue to focus on the AR/VR content and services business to further improve the quality of content and services standards and increase its market share. Through continuous innovation and optimization of our products and services, we will ensure that our customers receive the most advanced technical support and the best user experience.

B-end business

In the face of the continuing economic downturn in China, the Company will continue to expand its overseas markets, further expand its overseas business and seek for more cooperation opportunities in Europe, the Middle East and other regions. The Company will participate in numerous professional exhibitions in Europe in the third quarter, in order to open the gateway to the European market, and at the same time actively explore business cooperation opportunities in the Middle East and other regions.

C-end business

Virtual human live streaming and virtual human union

Through the business framework of “virtual human live streaming control platform — virtual human union — virtual human digital assets trading platform”, the Company will lead the new wave of virtual human live streaming development with the support of the domestic live streaming platform and provide new growth momentum for the Company through diversified commercial monetization means.

Enhance 3D assets R&D with AIGC

The Company will adopt AIGC technology to enhance the efficiency of its own 3D digital asset production pipelines and invest in outstanding companies in the AIGC and XR content tracks through industry funds, so as to deeply integrate more advanced artificial intelligence technologies to provide customers with higher cost-effective products and services.

Continuous deployment of MR content

The Company will continue to deploy MR content track, including XR games, VR large-space, etc. to proactively try out new technologies and application directions, and continue to iteratively calculate for products and services.

Flowing Cloud will march into the future at a determined pace, constantly explore new development opportunities and strive to become a leader in the industry. The Company believes that through continuous efforts and innovation, it will be able to move forward steadily in the complex and changing market environment and create greater value for its customers and the society.

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 decreased by 25.2% from RMB598.9 million for the six months ended June 30, 2023 to RMB448.0 million for the six months ended June 30, 2024, mainly attributable to the decrease in the revenue generated from the AR/VR marketing services and AR/VR content businesses.

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

	For the six months ended June 30,			
	2024		2023	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
	(Unaudited)		(Unaudited)	
AR/VR marketing services	322,850	72.0	424,794	70.9
AR/VR content	106,539	23.8	146,636	24.5
AR/VR SaaS	14,295	3.2	26,928	4.5
Others ^(Note)	4,329	1.0	598	0.1
Total	<u>448,013</u>	<u>100.0</u>	<u>598,956</u>	<u>100.0</u>

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

AR/VR marketing services

The Group generates revenue from the AR/VR marketing services business primarily through provision of AR/VR marketing services to its advertising customers. The revenue from AR/VR marketing services business decreased by 24.0% from RMB424.8 million for the six months ended June 30, 2023 to RMB322.9 million for the six months ended June 30, 2024, mainly due to the decrease in the number of AR/VR marketing services advertising customers. Nonetheless, we have been committed to exploring the needs of our customers. The monthly average number of advertising products promoted for our advertising customers increased from 93 in the first half of 2023 to 143 in the first half of 2024.

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

	For the six months ended June 30,			
	2024		2023	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
	(Unaudited)		(Unaudited)	
Entertainment	28,906	9.0	91,132	21.5
Internet	52,194	16.2	74,499	17.5
E-commerce	13,351	4.1	63,327	14.9
Culture and tourism	42,143	13.1	61,234	14.4
Gaming	119,779	37.0	53,889	12.7
Automobiles	11,669	3.6	26,542	6.2
Others	54,808	17.0	54,171	12.8
Total	<u>322,850</u>	<u>100.0</u>	<u>424,794</u>	<u>100.0</u>

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 decreased by 27.3% from RMB146.6 million for the six months ended June 30, 2023 to RMB106.5 million for the six months ended June 30, 2024, mainly due to the decrease in the number of customers and project unit price per customer due to intensified market competition. Nonetheless, we proactively explored and fulfilled the needs of customers. The number of AR/VR content projects increased from 73 in the first half of 2023 to 86 in that of 2024, driven by the increasing demand for AR/VR products for different scenarios, including social functions, VR games and entertainment, virtual meetings and online exhibitions.

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

	For the six months ended June 30,			
	2024		2023	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
	(Unaudited)		(Unaudited)	
Entertainment	9,434	8.9	56,314	38.4
Gaming	78,522	73.7	45,231	30.9
Education	8,355	7.8	28,217	19.2
Others	10,228	9.6	16,874	11.5
Total	<u>106,539</u>	<u>100.0</u>	<u>146,636</u>	<u>100.0</u>

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 decreased by 46.9% from RMB26.9 million for the six months ended June 30, 2023 to RMB14.3 million for the six months ended June 30, 2024, mainly due to the decrease in the number of our paid subscribers and the number of customized projects.

Others

The Group's revenue from the other businesses were generated from promotion services and texting services, advertising agency services and short drama operation, and historically technical services. Revenue from the other businesses increased by 623.9% from RMB0.6 million for the six months ended June 30, 2023 to RMB4.3 million for the six months ended June 30, 2024, primarily due to our active exploration of new businesses, revenue from the digital character development and operation services, short drama production and operation business, and education services.

Cost of Revenue

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

The cost of revenue decreased by 19.9% from RMB402.9 million for the six months ended June 30, 2023 to RMB322.8 million for the six months ended June 30, 2024, primarily driven by the decrease in the traffic acquisition costs in relation to our AR/VR marketing services business, and the decrease in the subcontracting and development costs in relation to our AR/VR content business, in line with the decline of our AR/VR marketing services and AR/VR content businesses and the decrease in our use of materials costs due to the decrease in the customer demand for PGC video materials.

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

	For the six months ended June 30,			
	2024		2023	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
	(Unaudited)		(Unaudited)	
Traffic acquisitions costs	258,716	80.2	326,315	81.0
Subcontracting and development costs	53,013	16.4	52,423	13.0
Others	11,045	3.4	24,159	6.0
Total	<u>322,774</u>	<u>100.0</u>	<u>402,897</u>	<u>100.0</u>

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

AR/VR marketing services

The cost of revenue from the AR/VR marketing services business decreased from RMB327.7 million for the six months ended June 30, 2023 to RMB258.7 million for the six months ended June 30, 2024, primarily due to the decrease in our traffic acquisitions costs driven by the decline of our AR/VR marketing services business.

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

	For the six months ended June 30,			
	2024		2023	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
	(Unaudited)		(Unaudited)	
Entertainment	22,831	8.8	70,526	21.5
Internet	40,782	15.8	57,373	17.5
E-commerce	10,397	4.0	49,054	15.0
Culture and tourism	32,943	12.7	47,071	14.4
Gaming	98,633	38.1	41,221	12.6
Automobiles	9,288	3.6	20,562	6.3
Others	43,842	17.0	41,885	12.7
Total	<u>258,716</u>	<u>100.0</u>	<u>327,692</u>	<u>100.0</u>

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

AR/VR content

The cost of revenue from the AR/VR content business decreased from RMB67.6 million for the six months ended June 30, 2023 to RMB55.0 million for the six months ended June 30, 2024, primarily due to the decrease in our subcontracting and development costs driven by the decline of our AR/VR content business.

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

	For the six months ended June 30,			
	2024		2023	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(Unaudited)		(Unaudited)	
Entertainment	8,170	14.8	26,950	39.9
Gaming	33,140	60.2	18,991	28.1
Education	4,623	8.4	11,775	17.4
Others	9,110	16.6	9,871	14.6
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Total	<u>55,043</u>	<u>100.0</u>	<u>67,587</u>	<u>100.0</u>

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

Gross Profit and Gross Margin

The gross profit of the Group decreased by 36.1% from RMB196.1 million for the six months ended June 30, 2023 to RMB125.2 million for the six months ended June 30, 2024, primarily due to the significant decrease in our revenue. The gross profit margin of the Group decreased from 32.7% in the first half of 2023 to 28.0% in the first half of 2024. The decrease in the gross profit margin was attributable to the increase in traffic cost of the AR/VR marketing service business. Fierce market competition for AR/VR content and the AR/VR SaaS business resulted in corresponding cost increase and overall decline in gross profit.

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

	For the six months ended June 30,			
	2024		2023	
	<i>RMB'000</i> (Unaudited)	<i>Gross Margin</i> %	<i>RMB'000</i> (Unaudited)	<i>Gross Margin</i> %
AR/VR marketing services	64,134	19.9	97,103	22.9
AR/VR content	51,496	48.3	79,049	53.9
AR/VR SaaS	9,249	64.7	20,347	75.6
Others ^(Note)	360	8.3	(440)	-73.5
Total	<u>125,239</u>	<u>28.0</u>	<u>196,059</u>	<u>32.7</u>

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

The gross margin of the AR/VR marketing services business decreased slightly from 22.9% for the six months ended June 30, 2023 to 19.9% for the six months ended June 30, 2024, primarily because of the increase in purchased traffic cost.

The gross margin of the AR/VR content business decreased slightly from 53.9% for the six months ended June 30, 2023 to 48.3% for the six months ended June 30, 2024, primarily because of the increase in AR/VR content business cost due to the increased R&D investment of projects as a result of fierce market competition.

The gross margin of the AR/VR SaaS business decreased from 75.6% for the six months ended June 30, 2023 to 64.7% for the six months ended June 30, 2024, primarily because the number of our paid subscribers decreased during the Reporting Period.

The gross margin of other businesses turned from gross loss margin of 73.5% for the six months ended June 30, 2023 to gross profit margin of 8.3% for the six months ended June 30, 2024, primarily because of the revenue from our previously promoted short-video mini program project and the revenue from live short video streaming with our digital character images.

Other Income

Other income of the Group consists primarily of dividend income, interest income on bank deposits, tax refund and government grants. Other income decreased by 97.0% from RMB3.6 million for the six months ended June 30, 2023 to RMB0.1 million for the six months ended June 30, 2024, primarily as a result of the lack of dividend income and the decrease in interest income on bank deposits.

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

	For the six months ended	
	June 30,	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividend income	—	1,418
Interest income on bank deposits	54	1,138
Tax refund	54	1,028
Government grants	2	50
	<hr/>	<hr/>
Total	<u>110</u>	<u>3,634</u>

Other Gains and Losses

Other gains and losses of the Group primarily consist of foreign exchange loss/gain, and others which include miscellaneous gains and losses. We recorded other losses of RMB1.8 million in the first half of 2023 and other gains of RMB1.8 million in the first half of 2024, primarily due the positive foreign exchange gains due to depreciation of Renminbi.

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

	For the six months ended	
	June 30,	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Foreign exchange gain/(loss)	612	(1,054)
Others	1,197	(718)
Total gains/(losses)	<u>1,809</u>	<u>(1,772)</u>

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

Impairment losses under the ECL model, net of reversal refer to the net impairment losses recognized or reversed in respect of trade receivables. An impairment loss under ECL mode of RMB19.6 million was recognized in the first half of 2023, and a reversal of RMB0.6 million was made in the first half of 2024, primarily due to better collection of accounts receivables.

Distribution and Selling Expenses

Distribution and selling expenses of the Group consist of (i) staff costs, (ii) advertising and marketing costs, (iii) travelling expenses, (iv) office expenses, and (v) other selling expenses. The distribution and selling expenses increased by 49.6% from RMB5.8 million for the six months ended June 30, 2023 to RMB8.7 million for the six months ended June 30, 2024, primarily due to the recognition of option expenses.

Administrative Expenses

Administrative expenses of the Group primarily consist of (i) staff costs which include wages, bonuses and benefits for administrative personnel, (ii) rental and property management expenses, and (iii) professional service fees in relation to our financing activities which were not related to the Listing. The administrative expenses increased by 41.5% from RMB19.6 million for the six months ended June 30, 2023 to RMB27.7 million for the six months ended June 30, 2024, primarily due to the recognition of option expenses.

Research and Development Expenses

Research and development expenses of the Group primarily consisted of (i) staff costs of R&D personnel, (ii) outsourced R&D expenses mainly in relation to outsourced interactive content modules for our Feitian Metaverse platform, and (iii) amortization expenses in relation to intelligent software purchased. The research and development expenses decreased by 49.2% from RMB28.2 million for the six months ended June 30, 2023 to RMB14.4 million for the six months ended June 30, 2024, primarily due to the recognition of outsourced R&D expenses in line with the delivery of the Feitian Metaverse platform project. The Group did not capitalize any research and development expenses for the six months ended June 30, 2024.

Finance Costs

Finance costs of the Group primarily include interest expenses on bank borrowings and lease liabilities. The finance costs increased by 22.1% from RMB2.1 million for the six months ended June 30, 2023 to RMB2.6 million for the six months ended June 30, 2024, primarily due to the increase in the interest expenses on our bank borrowings in line with the increase of our borrowings.

Income Tax Expense

The income tax expense of the Group increased by 75.1% from RMB6.3 million for the six months ended June 30, 2023 to RMB11.0 million for the six months ended June 30, 2024, mainly due to the expiry of the preferential tax treatment period of “two-year exemption and three-year half payment” for Beijing Flowing Cloud as a software enterprise by the end of 2023, and the 50% reduction in income tax at 12.5% since 2024. The effective tax rate for the six months ended June 30, 2024 was 14.7%.

Profit for the Period and Net Profit Margin

As a result of the foregoing, the Group recorded a profit of RMB63.5 million for the six months ended June 30, 2024, representing a decrease of 45.4% as compared to a profit of RMB116.3 million for the six months ended June 30, 2023. The net profit margin of the Group decreased from 19.4% in the first half of 2023 to 14.2% in the first half of 2024 mainly due to our declined gross profit margin and the increase in income tax expense.

Intangible Assets

The intangible assets of the Group consist of (i) adaptation rights for novels, IP images and cartoon characters, and (ii) software. The intangible assets decreased from RMB95.0 million as at December 31, 2023 to RMB79.3 million as at June 30, 2024, primarily due to a lack of new purchases of adaptation rights and software.

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

	As at June 30, 2024	As at December 31, 2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	
Adaptation rights	42,299	50,425
Software	37,011	44,570
Total	<u>79,310</u>	<u>94,995</u>

Contract Costs

The contract costs of the Group comprise (i) incremental costs to obtain contracts capitalized in relation to the incremental sales commissions paid to agents whose selling activities resulted in customers entering into agreements for the AR/VR SaaS business, and (ii) costs to fulfill contracts capitalized in relation to the setup cost to provide AR/VR content. The contract costs of the Group increased from RMB0.1 million as at December 31, 2023 to RMB0.4 million as at June 30, 2024, primarily due to purchasing of PGC video projects.

Incremental costs to obtain contracts capitalized relate to the incremental sales commissions paid to agents whose selling activities resulted in customers entering into sale and purchase agreements for the Group's SaaS service. Contract costs are recognized as part of cost of revenue in the consolidated statement of profit or loss in the period in which revenue from the related SaaS services is recognized. There was no impairment in relation to these costs capitalized during the six months ended June 30, 2024 (June 30, 2023: same).

Costs to fulfill contracts capitalized relate to the setup cost to provide the AR/VR content. Contract costs are recognized as part of cost of revenue in the condensed consolidated statement of profit or loss in the period in which revenue from the related AR/VR content is recognized. There was no impairment in relation to these costs capitalized during the six months ended June 30, 2024 (June 30, 2023: same).

Trade and Other Receivables and Deposits

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

The trade receivables increased slightly from RMB565.8 million as at December 31, 2023 to RMB576.0 million as at June 30, 2024, in line with our business development.

Prepayments

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

The prepayments increased from RMB594.0 million as at December 31, 2023 to RMB920.3 million as at June 30, 2024, primarily due to the increase in prepayments for purchasing of traffic from media platforms and their agents in connection with the AR/VR marketing services.

Trade and other payables

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

The trade and other payables decreased from RMB148.1 million as at December 31, 2023 to RMB143.5 million as at June 30, 2024, in line with our business development.

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 increased from RMB13.1 million as at December 31, 2023 to RMB15.7 million as at June 30, 2024.

Bank Borrowings

The bank borrowings of the Group comprise short-term borrowings from commercial banks in the PRC denominated in Renminbi. The bank borrowings increased from RMB95.0 million as at December 31, 2023 to RMB115.0 million as at June 30, 2024, primarily due to operational funding needs in line with our business expansion.

Lease Liabilities

The lease liabilities of the Group were secured by rental deposits and were unguaranteed. Our lease liabilities decreased from RMB3.4 million as at December 31, 2023 to RMB2.9 million as at June 30, 2024.

Contingent Liabilities

As at June 30, 2024, the Group did not have any material contingent liabilities.

Liquidity and Capital Resources

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

As at June 30, 2024, the Group had bank balances and cash of RMB135.0 million denominated in Renminbi, United States dollars and Hong Kong dollars and net current assets.

Capital Expenditures

The capital expenditures of the Group for the Reporting Period amounted to RMB3.6 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 June 30, 2024, the Group had no charge of assets.

Gearing Ratio

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

Foreign Exchange Risk Management

The Group mainly operates in the PRC with most transactions settled in Renminbi, and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars and Hong Kong dollars. As at June 30, 2024, the Group had bank balances denominated in Renminbi, United States dollars and Hong Kong dollars. Except for certain bank balances denominated in foreign currencies, the Group did not have significant foreign currency exposure from its operations as at June 30, 2024. The Group currently does not have any foreign currency hedging transactions. However, the management monitors the foreign exchange exposure and will consider hedging significant foreign exchange exposure of the Group should the need arise.

Financial Instrument

The Group did not have any financial instruments for hedging purposes as at June 30, 2024.

Treasury Policy

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended June 30, 2024

	Notes	Six months ended June 30,	
		2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Revenue	4	448,013	598,956
Cost of revenue		<u>(322,774)</u>	<u>(402,897)</u>
Gross profit		125,239	196,059
Other income		110	3,634
Other gains and losses	5	1,809	(1,772)
Impairment losses under expected credit loss model, net of reversal	6	620	(19,611)
Distribution and selling expenses		(8,701)	(5,817)
Administrative expenses		(27,725)	(19,593)
Research and development expenses		(14,350)	(28,221)
Finance costs		<u>(2,567)</u>	<u>(2,102)</u>
Profit before tax	7	74,435	122,577
Income tax expense	8	<u>(10,962)</u>	<u>(6,261)</u>
Profit for the period		<u>63,473</u>	<u>116,316</u>
Other comprehensive expense:			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value loss on investments in equity instruments at fair value through other comprehensive income (“FVTOCI”)		(18,784)	(32,103)
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>365</u>	<u>—</u>
		<u>(18,419)</u>	<u>(32,103)</u>
Total comprehensive income for the period		<u>45,054</u>	<u>84,213</u>

		Six months ended June 30,	
	<i>Notes</i>	2024	2023
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Profit/(loss) for the period attributable to:			
Owners of the Company		63,473	116,319
Non-controlling interests		<u>—</u>	<u>(3)</u>
		<u>63,473</u>	<u>116,316</u>
Total comprehensive income/(expense)			
for the period attributable to:			
Owners of the Company		45,054	84,216
Non-controlling interests		<u>—</u>	<u>(3)</u>
		<u>45,054</u>	<u>84,213</u>
Basic earnings per share (<i>RMB cents</i>)	<i>10</i>	<u>3.5</u>	<u>6.4</u>
Diluted earnings per share (<i>RMB cents</i>)	<i>10</i>	<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At June 30, 2024

	<i>Notes</i>	At June 30, 2024 <i>RMB'000</i> (Unaudited)	At December 31, 2023 <i>RMB'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		6,965	8,756
Right-of-use assets		4,217	4,002
Intangible assets	<i>11</i>	79,310	94,995
Equity instruments at FVTOCI	<i>12</i>	93,671	112,456
Deferred tax assets		8,848	8,412
		193,011	228,621
CURRENT ASSETS			
Trade and other receivables and deposits	<i>13</i>	576,042	565,784
Contract costs		365	111
Prepayments	<i>14</i>	920,282	593,970
Restricted bank deposits		—	120
Bank balances and cash		134,973	332,668
		1,631,662	1,492,653
CURRENT LIABILITIES			
Trade and other payables	<i>15</i>	143,495	148,076
Notes payable		25,000	—
Lease liabilities		2,948	2,495
Bank borrowings	<i>16</i>	115,000	95,000
Contract liabilities		15,667	13,061
Income tax payable		13,074	9,510
		315,184	268,142
NET CURRENT ASSETS		1,316,478	1,224,511

		At June 30, 2024 RMB'000 (Unaudited)	At December 31, 2023 RMB'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,509,489</u>	<u>1,453,132</u>
NON-CURRENT LIABILITY			
Amount due to controlling shareholders	<i>17</i>	6,000	—
Lease liabilities		<u>—</u>	<u>900</u>
		<u>6,000</u>	<u>900</u>
NET ASSETS		<u>1,503,489</u>	<u>1,452,232</u>
CAPITAL AND RESERVES			
Share capital	<i>18</i>	128	128
Share premium		521,249	521,249
Reserves		<u>979,382</u>	<u>928,125</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		1,500,759	1,449,502
Non-controlling interests		<u>2,730</u>	<u>2,730</u>
TOTAL EQUITY		<u>1,503,489</u>	<u>1,452,232</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

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

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

2. BASIS OF PREPARATION

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

3. MATERIAL ACCOUNTING POLICIES

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

Other than change in accounting policies resulting from application of amendments to International Financial Reporting Standards (“**IFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2024 are the same as those presented in the Group’s annual consolidated financial statements for the year ended December 31, 2023.

Adoption of new and revised IFRSs

In the current period, the Group has adopted all the new and revised IFRSs that are relevant to its operations and effective for its accounting period beginning on January 1, 2024. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's condensed consolidated financial statements and amounts reported for the current periods and prior years.

The Group has not applied the new and revised IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

4. REVENUE AND SEGMENTAL INFORMATION

Disaggregation of revenue from contracts with customers

	Six months ended June 30,	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
AR/VR marketing service business	322,850	424,794
AR/VR content business	106,539	146,636
AR/VR software as a service ("SaaS") service	14,295	26,928
Others	4,329	598
	<u>448,013</u>	<u>598,956</u>
Timing of revenue recognition		
A point in time	438,463	587,528
Over time	9,550	11,428
	<u>448,013</u>	<u>598,956</u>

Segment information

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

Geographical information

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

	Six months ended June 30,	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Mainland, People's Republic of China (the "PRC")	378,064	556,186
Hong Kong	69,949	42,770
	<u>448,013</u>	<u>598,956</u>

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

	At	At
	June 30,	December 31,
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Mainland, the PRC	75,526	90,755
Hong Kong	14,966	16,998
	<u>90,492</u>	<u>107,753</u>

5. OTHER GAINS AND LOSSES

	Six months ended June 30,	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Foreign exchange gain/(loss)	612	(1,054)
Others	1,197	(718)
	<u>1,809</u>	<u>(1,772)</u>

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

	Six months ended June 30,	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Reversal of impairment losses/(impairment losses) recognized on trade receivables	620	(19,611)

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended June 30, 2024 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2023.

7. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Six months ended June 30,	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	2,010	611
Depreciation of right-of-use assets	2,569	2,160
Amortization of intangible assets (included in cost of revenue, research and development expenses)	15,784	12,784
Amortization of software license within one year (included in research and development expenses)	885	3,673
Total depreciation and amortization	21,248	19,228

8. INCOME TAX EXPENSE

	Six months ended June 30,	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current income tax	11,399	9,111
Deferred tax	(437)	(2,850)
	10,962	6,261

Beijing Flowing Cloud has obtained the Software Enterprise Qualification during the year ended December 31, 2022. As at June 30, 2023 and June 30, 2024, the management assessed and concluded that, Beijing Flowing Cloud could continuously fulfil the requirements for qualifying tax incentives for software enterprises for the year ended December 31, 2023 and the year ending December 31, 2024. Therefore, Beijing Flowing Cloud was considered to be entitled the tax exemption for the six months ended June 30, 2023 and is considered to enjoy 50% reduction for the current period.

9. DIVIDENDS

No dividends were paid, declared or proposed during the six months ended June 30, 2024 (six months ended June 30, 2023: nil). The directors of the Company have determined that no dividend will be paid in respect of the six months ended June 30, 2024 (six months ended June 30, 2023: nil).

10. EARNINGS PER SHARE

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

	Six months ended June 30,	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	<u>63,473</u>	<u>116,319</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>1,807,224</u>	<u>1,810,000</u>

During the six months ended June 30, 2024 and 2023, there were no potential ordinary share outstanding with diluted impact.

11. INTANGIBLE ASSETS

During the six months ended June 30, 2024, the Group did not acquire any softwares or intellectual properties (six months ended June 30, 2023: softwares of RMB32,354,000 and intellectual properties of RMB14,151,000). Intellectual properties refer to the Group's adaptation right for production of AR/VR SaaS pattern plates, AR/VR contents and games which are based on certain fictions, animation images and games acquired from the owners of these intellectual properties. These intangible assets have a term of 3 to 5 years.

12. EQUITY INSTRUMENTS AT FVTOCI

	At June 30, 2024 <i>RMB'000</i> (Unaudited)	At December 31, 2023 <i>RMB'000</i> (Audited)
Listed		
— Equity securities	<u>93,671</u>	<u>112,456</u>

During the six months ended June 30, 2023, the Group has disposed certain equity investments at FVTOCI of RMB35,573,000 due to the change of investment strategy and the Group has recognised a total loss of fair value change of RMB32,103,000.

The fair value is determined by the quoted bid prices in an active market and the fair value hierarchy is categorized as Level 1.

13. TRADE AND OTHER RECEIVABLES AND DEPOSITS

	At June 30, 2024 <i>RMB'000</i> (Unaudited)	At December 31, 2023 <i>RMB'000</i> (Audited)
Trade receivables	609,182	602,740
Less: Allowance for credit losses	<u>(40,265)</u>	<u>(41,226)</u>
	<u>568,917</u>	<u>561,514</u>
Rental and other deposits	1,658	760
Other receivables	679	334
Less: Allowance for credit losses	(59)	(59)
Software license within one year	885	—
Others	<u>3,962</u>	<u>3,235</u>
	<u>7,125</u>	<u>4,270</u>
Total trade and other receivables and deposits	<u>576,042</u>	<u>565,784</u>

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

	At June 30, 2024 <i>RMB'000</i> (Unaudited)	At December 31, 2023 <i>RMB'000</i> (Audited)
Within 6 months	342,300	374,830
6–12 months	190,184	171,893
1–2 years	36,433	14,791
	568,917	561,514

14. PREPAYMENTS

	At June 30, 2024 <i>RMB'000</i> (Unaudited)	At December 31, 2023 <i>RMB'000</i> (Audited)
Prepayments for purchases of traffic	880,376	570,803
Prepayments for outsourcing service	36,413	14,753
Prepayments for intangible assets and other non-current assets	1,604	1,799
Other prepayments	1,889	6,615
	920,282	593,970

15. TRADE AND OTHER PAYABLES

	At June 30, 2024 <i>RMB'000</i> (Unaudited)	At December 31, 2023 <i>RMB'000</i> (Audited)
Trade payables	76,245	69,732
Employee compensation payable	4,668	6,170
Other tax payable	52,835	61,419
Payables for long-term assets	8,730	8,677
Other payables and accruals	1,017	2,078
	143,495	148,076

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

	At June 30, 2024 <i>RMB'000</i> (Unaudited)	At December 31, 2023 <i>RMB'000</i> (Audited)
Within 6 months	28,970	36,585
6–12 months	24,421	7,659
1–2 years	4,442	6,648
Over 2 years	18,412	18,840
	76,245	69,732

16. BANK BORROWINGS

	At June 30, 2024 <i>RMB'000</i> (Unaudited)	At December 31, 2023 <i>RMB'000</i> (Audited)
Bank borrowings payable within one year:		
Unsecured	115,000	95,000
	115,000	95,000

During the six months ended June 30, 2024, the Group obtained new bank loans amounting to RMB85,000,000 (six months ended June 30, 2023: RMB75,000,000). As at June 30, 2024, the loans with carrying amount of RMB20,000,000 (December 31, 2023: RMB25,000,000) carry interests at variable market rates ranging from 2.80% to 4.25% (December 31, 2023: 2.80% to 4.45%) and RMB95,000,000 (December 31, 2023: RMB70,000,000) carry interests at fixed market rates ranging from 4.00% to 5.80% (December 31, 2023: 4.00% to 5.80%) and are repayable within one year.

17. AMOUNT DUE TO CONTROLLING SHAREHOLDERS

The amount is unsecured, interest-free and repayable on June 2, 2026.

18. SHARE CAPITAL

	Number of ordinary shares	Nominal value of ordinary shares <i>USD</i>	Equivalent nominal value of ordinary shares <i>RMB'000</i>
Ordinary shares of USD0.00001 each			
Authorised:			
At January 1, 2023, December 31, 2023, January 1, 2024 and June 30, 2024	<u>5,000,000,000</u>	<u>50,000</u>	<u>319</u>
Issued and fully paid:			
At January 1, 2023, December 31, 2023, January 1, 2024 and June 30, 2024	<u>1,810,000,000</u>	<u>18,100</u>	<u>128</u>

Month of repurchases	No. of Ordinary shares	Price per share		Aggregated consideration paid <i>HK\$'000</i>
		Highest <i>HK\$</i>	Lowest <i>HK</i>	
November, 2023	1,104,000	1.90	1.78	2,033
December, 2023	1,568,000	1.98	1.89	2,993
June, 2024	1,182,000	0.62	0.52	689

At June 30, 2024 and December 31, 2023, the above ordinary shares repurchased were not cancelled and were recognized in treasury shares.

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

The Company held a significant investment, with a value of 5% or more of the Group's total assets as at June 30, 2024, in Hebei Yichen Industrial Group Corporation Limited* (河北翼辰實業集團股份有限公司) (a joint stock limited liability company incorporated in the PRC whose H shares are listed in the Main Board of the Stock Exchange, stock code: 1596) (“**Yichen**”). Yichen is principally engaged in research and development, manufacturing and sales of rail fastening system products, welding wire and railway sleeper products. As at June 30, 2024, the Group held 31,101,000 shares of Yichen, representing approximately 3.50% of the total issued share capital of Yichen. The investment costs were approximately HK\$140,781,179. As at June 30, 2024, the fair value of this investment at FVTOCI was RMB93.7 million, representing approximately 5.7% of the Group's total assets as at June 30, 2024. The Group recorded a fair value loss on investments in equity instruments at FVTOCI of RMB18.8 million for the Reporting Period. Based on the 2023 annual report of Yichen, Yichen recorded a revenue of RMB1,196.1 million and net profit of RMB50.3 million. As at the date of this announcement, the Company received a dividend income of HK\$0.3 million. As Yichen mainly produces rail fastening systems, flux cored wires and sleepers widely used in high-speed, heavy-haul, and regular and urban railways, Yichen's manufacturing and research and development processes present many opportunities for AR/VR applications including in the development of the prototypes, three-dimensional display of products, trainings of its employees and digitalization of its production lines. The Company further plans to explore business opportunities including providing AR/VR content and services to Yichen after the investment.

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

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

EMPLOYEES AND REMUNERATION POLICIES

As at June 30, 2024, the Group had 135 full-time employees, all of them are located in China.

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

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

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

USE OF PROCEEDS FROM LISTING

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

The Over-allotment Option (as defined in the Prospectus) was not exercised. The table below sets forth the intended application of the net proceeds and actual usage as at June 30, 2024:

Intended application	Amount of net proceeds (HK\$ million)	Percentage of total net proceeds	Net proceeds brought forward for the Reporting Period (HK\$ million)	Utilized net proceeds for the Reporting Period (HK\$ million)	Unutilized net proceeds as at June 30, 2024 (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%	17.4	12.2	5.2	By the end of 2024
(2) to upgrade and iterate our AR/VR development engines;	42.6	8.0%	12.2	8.0	4.2	By the end of 2024
(3) to improve our operation capabilities;	37.2	7.0%	15.5	12.6	2.9	By the end of 2024
(4) to develop of our AR/VR content business;	37.2	7.0%	11.1	8.0	3.1	By the end of 2024
(5) to develop our AR/VR SaaS business; and	26.6	5.0%	5.4	3.4	2.0	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%	2.5	0	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%	16.5	14.5	2.0	By the end of 2024
(2) to enhance our brand awareness through online channels; and	26.6	5.0%	4.3	3.2	1.1	By the end of 2024
(3) to strengthen and optimize our sales and marketing network.	53.2	10.0%	31.0	19.2	11.8	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%	11.3	8.1	3.2	By the end of 2024
For our working capital and general corporate purposes	53.2	10.0%	14.1	11.1	3.0	By the end of 2024
Total	<u>531.9</u>	<u>100.0%</u>	<u>221.1</u>	<u>100.3</u>	<u>120.8</u>	

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

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended June 30, 2024.

COMPLIANCE WITH THE CORPORATE GOVERNANCE PRACTICES

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

The Board is of the view that the Company has complied with all applicable principles and code provisions of the Corporate Governance Code for the Reporting Period, except for a deviation from the code provision C.2.1 of the Corporate Governance Code, that the roles of Chairman and chief executive officer of the Company are not separated and are both performed by Mr. Wang Lei. With extensive experience in the technology services and game development industry, Mr. Wang Lei is responsible for the strategic development, overall operation and management and major decision-making of the Group and is instrumental to its growth and business expansion since he joined the Group. The Board considers that vesting the roles of Chairman and chief executive officer in the same person is beneficial to the management of the Group. The balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced and visionary individuals. The Board currently comprises four executive Directors (including Mr. Wang Lei) and three independent non-executive Directors and therefore has a fairly strong independence element in its composition. Decisions to be made by the Board require approval by at least a majority of the Directors. Mr. Wang Lei and the other Directors are aware of and undertake to fulfil their fiduciary duties as Directors, which require, among other things, that he/she acts for the benefit and in the best interests of the Company and will make decisions of the Group accordingly. The Board will continue to review the effectiveness of the corporate governance structure of the Company in order to assess whether separation of the roles of Chairman and chief executive officer is necessary. Save as disclosed above, the Company is in compliance with all code provisions as set out in Part 2 of the Corporate Governance Code during the Reporting Period and up to the date of this announcement.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

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

AUDIT COMMITTEE

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

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

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

PURCHASE, SALE OR REDEMPTION OF THE SECURITIES OF THE COMPANY

During the Reporting Period, the Company repurchased a total of 1,182,000 Shares on the Stock Exchange. Details of the share repurchases by the Company on the Stock Exchange during the Reporting Period are as follows:

Month of repurchase	No. of Shares repurchased	Price per Share		Total paid
		Highest	Lowest	
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
June	<u>1,182,000</u>	<u>0.62</u>	<u>0.52</u>	<u>689,140</u>

The Board believes that the share repurchases could reflect the Board's confidence in the Company's long-term business prospects. As at the date of this announcement, a total of 3,854,000 repurchased 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 (including the sale of treasury shares) throughout the Reporting Period.

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

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

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

DEFINITIONS

“advertising customer(s)”	advertising customers include advertisers and their agents
“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
“B-end”	business-end
“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
“C-end”	customer-end

“Company” or “Flowing Cloud”	Flowing Cloud Technology Ltd, an exempted company incorporated in the Cayman Islands with limited liability on June 24, 2021, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 6610)
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix 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”, “our”, “we” or “us”	the Company, its subsidiaries and the Consolidated Affiliated Entities at the relevant time
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IP”	intellectual property
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“Main Board”	the Main Board of the Stock Exchange

“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix C3 to the Listing Rules
“MR”	mixed reality, a blend of physical world and digital world
“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
“PUGC”	professional user-generated content
“R&D”	research and development
“Reporting Period”	the six-month period from January 1, 2024 to June 30, 2024
“Renminbi” or “RMB”	Renminbi Yuan, the lawful currency of China
“SaaS”	software as a service, a software licensing and delivery model in which software is licensed on a subscription basis and is centrally hosted
“Share(s)”	ordinary share(s) with nominal value of US\$0.00001 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“subsidiary” or “subsidiaries”	has the meaning ascribed thereto under the Listing Rules
“United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“United States dollars” or “US\$”	United States dollars, the lawful currency of the United States
“Virtual Live Streaming”	live streaming where real people use technology including motion capture and facial capture to control and animate virtual characters in real-time live streaming online
“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
“XR”	extended reality, a combined term for AR, VR and MR
“%”	percent

* *For identification purpose only*

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

Hong Kong, August 30, 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.