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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)

### ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2022

The Board is pleased to announce the audited consolidated results of the Group for the year ended December 31, 2022, together with the comparative figures for the year ended December 31, 2021.

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,		Year-on-year change
	2022 RMB'000	2021 RMB'000	
<b>Revenue</b>	<b>1,066,157</b>	595,290	79.1%
<b>Gross profit</b>	<b>373,995</b>	175,516	113.1%
<b>Profit before tax</b>	<b>247,144</b>	87,142	183.6%
<b>Profit for the year</b>	<b>236,593</b>	71,719	229.9%
<b>Total comprehensive income for the year</b>	<b>257,465</b>	71,719	259.0%
<b>Basic and diluted earnings per share</b> <i>(RMB cents)</i>	<b>14.8</b>	5.2	184.6%
<b>Non-IFRS Measure:</b>			
<b>Adjusted net profit* (unaudited)</b>	<b>257,711</b>	105,596	144.1%

\* Adjusted net profit was derived from profit for the year adjusted by adding fair value changes on financial liabilities designated as at FVTPL, interest expense on other financial liabilities and listing expenses. Fair value changes on financial liabilities designated as at FVTPL and interest expense on other financial liabilities are non-cash in nature.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Business Update

We are a major provider of the AR/VR content and services market in China. In 2022, we achieved excellent business performance and results, with simultaneous growth in our various business segments.

In 2022, we provided a variety of services in connection with AR/VR, mainly including (i) AR/VR marketing services, (ii) AR/VR content, and (iii) AR/VR SaaS. We reached a record high revenue of RMB1,066.2 million in 2022, representing an increase of 79.1% as compared to the previous year. The growth is mainly attributable to the increase in the revenue generated from the AR/VR marketing services and AR/VR content businesses. The overall growth of our revenue was driven by our business expansion as a result of AR/VR gaining popularity.

Our gross profit increased by 113.1% to RMB374.0 million in 2022, representing a gross profit margin of 35.1%. The increase in the gross profit margin was driven by our business expansion and ability to maintain operational efficiency. Our profit for the year increased by 229.9% to RMB236.6 million in 2022. Basic and diluted earnings per share was RMB14.8 cents in 2022, as compared to RMB5.2 cents in 2021.

On October 18, 2022, we were successfully listed on the Main Board of the Stock Exchange, raising net proceeds of approximately HK\$531.9 million. Such funds would enable us to (i) enhance our R&D capabilities and improve our services and products, (ii) enhance our sales and marketing function, (iii) fund for selected mergers, acquisitions, and strategic investments, (iv) develop our Feitian Metaverse platform, and (v) meet our working capital and general corporate purposes.

Driven by favorable policies and the increasing popularity of AR/VR technology and AR/VR equipment, the application of AR/VR solutions are growing in various industries. We believe that, by leveraging our advantages and experiences in the industry, we will be able to capture market opportunities and attain long-term development and growth.

### *AR/VR marketing services*

The AR/VR marketing services business was our primary source of revenue for the year ended December 31, 2022. Working with media platforms and their agents, we primarily provided AR/VR marketing services to our advertising customers.

Revenue from our AR/VR marketing services business increased by 81.2% from RMB376.3 million in 2021 to RMB681.8 million in 2022, primarily due to the increase in the number of advertising customers with respect to our AR/VR marketing services business, the number of advertising products we promoted, and the average spending per advertising customer, driven by our continued business focus on AR/VR marketing services. The gross margin of the AR/VR marketing services business increased from 21.7% in 2021 to 22.8% in 2022.

The following table sets forth certain key operating data of the AR/VR marketing services business:

	<b>As at/for the year ended</b>	
	<b>December 31,</b>	
	<b>2022</b>	2021
Number of advertising customers <sup>(1)</sup>	<b>27</b>	24
Monthly average number of advertising products promoted <sup>(2)</sup>	<b>72</b>	49
Average spending per advertising customers (RMB in thousands) <sup>(3)</sup>	<b>25,251</b>	15,681
Contract renewal rate <sup>(4)</sup>	<b>63.0%</b>	50.0%

*Notes:*

- (1) It refers to the number of customers who purchased our AR/VR marketing services during the year.
- (2) It refers to sum of the number of advertising products we promoted in our AR/VR marketing services business in each month for a year divided by the number of months during the year. The monthly average number of advertising products we promoted increased from 49 in 2021 to 72 in 2022, mainly driven by the increasing demand of our customers due to our continuous enhancement of AR/VR marketing services, as well as the increase in our advertising products from the entertainment and Internet industries in 2022 driven by the growing market demands.
- (3) It refers to the total revenue generated from our AR/VR marketing services business for a year, divided by the total number of advertising customers for the same year. The average spending per advertising customer increased from RMB15.7 million in 2021 to RMB25.3 million in 2022, mainly due to the combined effect of (i) the increase in the average number of advertising products we promoted for both our existing and new customers — the average number of advertising products we promoted for our existing customers increased from 5.2 in 2021 to 6.2 in 2022 (excluded duplicated advertising products by month), and (ii) the increase in the average promotional duration of the advertising products we promoted from 133.2 days in 2021 to 164.7 days in 2022.

- (4) It refers to the number of AR/VR marketing services contracts from recurring customers during the year divided by the total number of AR/VR marketing services contracts during the year. The contracts from recurring customers included contracts renewed automatically upon expiry in accordance with the annual framework agreements entered into with our advertising customers. The contract renewal rate of our AR/VR marketing services increased in 2022, as compared to that in 2021, mainly because more customers repeatedly engaged us in recognition of the services we provided.

### ***AR/VR content***

Utilizing our self-developed AR/VR development engines, our AR/VR content business offers customized content according to the needs of customers. We provide AR/VR content to customers from various industries, including entertainment, gaming, education and technology, and bring end users a diversified and immersive experience in a virtual world.

Revenue from our AR/VR content business increased by 108.3% from RMB161.4 million in 2021 to RMB336.2 million in 2022, primarily due to (i) the increase in the number of AR/VR content projects we carried out, and (ii) the increase in the amount of fees we charged to our customers. Our number of customers with respect to AR/VR content business increased from 46 in 2021 to 58 in 2022. The number of AR/VR content projects we carried out increased from 95 in 2021 to 149 in 2022. The gross margin of the AR/VR content business increased from 46.2% in 2021 to 55.9% in 2022.

During the Reporting Period, we completed a number of AR/VR content projects for major customers. For example, the “Feitian Building”, jointly built by us and an Internet technology group operating one of the largest search engines in China, officially landed in the metaverse platform of such Internet technology group. We provided technical content support during the construction of the first city in such metaverse platform and the implementation of the brand project. Meanwhile, we have also built a rich metaverse space for other customers on the metaverse platform of such Internet technology group, and the types of customers include automobiles, culture and tourism, education, etc.



We have also built a metaverse commercial street, immersive consumption scenes, etc. for one of the largest Internet e-commerce platforms in China.



In terms of culture and tourism industry, we have also cooperated with a national museum in China to develop a system for visitors to see themselves in different ancient costumes through AR technologies, as if they had been travelling back to ancient times. We have also cooperated with an AAAA tourist attraction in Guangxi Province to build its online metaverse scenic spot, which reproduced the real scene of the offline scenic spot and allowed visitors to have an in-depth tour by having the virtual IP digital human explaining the whole process.



Implementation of AR/VR application in the business-end represented by AR/VR education content is accelerating. For the education industry, we continued to optimize the VR courseware customized for a middle-school geography course for an education business subsidiary under an Internet technology group operating one of the largest search engines in China. By simply wearing a VR device, students can learn in a visual and interactive way, thereby providing an immersive learning environment to motivate students to learn and enhance their learning efficiency.

### *AR/VR SaaS*

Leveraging the experiences we accumulated in the AR/VR content and services businesses, we provide standardized solutions on our AR/VR SaaS platform. Our AR/VR SaaS platform provides our customers with a range of online AR/VR interactive content design, development and distribution tools and empowers our customers to create activities that offer experiences such as exhibition, showcase, live-streaming and marketing, with the goal to improve the level and extent of participation of their end users. Our AR/VR SaaS business grew at a fast pace in 2022. The revenue from our AR/VR SaaS business increased by 112.3% from RMB20.6 million in 2021 to RMB43.7 million in 2022, primarily because of the increase in the number of customers who subscribed to our customized AR/VR SaaS projects. The gross margin of the AR/VR SaaS business increased from 54.7% in 2021 to 68.3% in 2022.

During the Reporting Period, we carried out more than 320 customized AR/VR SaaS projects. As at December 31, 2022, we achieved around twofold increase in the number of our AR/VR SaaS registered users and the number of our AR/VR SaaS paid subscribers.

The following table sets forth certain key operating data of the AR/VR SaaS business:

	<b>As at/for the year ended</b>	
	<b>December 31,</b>	
	<b>2022</b>	2021
Number of registered users	<b>23,991</b>	12,265
Number of paid subscribers <sup>(1)</sup>	<b>4,570</b>	2,015
Number of customized AR/VR SaaS projects	<b>320</b>	142
Average daily active users	<b>2,314</b>	1,688
Average monthly active users	<b>8,288</b>	4,551
Peak monthly active users <sup>(2)</sup>	<b>9,835</b>	6,601

*Notes:*

- (1) It refers to users who entered into subscription agreements with us and paid for the use of our AR/VR SaaS platform.
- (2) It refers to the peak value of monthly active users during the relevant year.

### ***Research and Development***

As a technology-driven AR/VR content and services company, we continuously strengthen our research and development ability. Our research and development currently has a focus on technology development and content development. In 2022, we incurred research and development expense of RMB48.5 million, representing 4.5% of our revenue, as compared to RMB21.7 million in 2021, representing 3.6% of our revenue. As at December 31, 2022, we had a research and development team of 56 full-time employees, representing approximately 46.7% of our employees, among which 27 were engineers and 22 were designers. We are committed to strengthen our research and development and plan to continue to upgrade our research and development system to explore potential demands of customers, while further improving our quality of service to enhance our operation and marketing abilities.

## Future Outlook

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

At the end of 2022, with pandemic prevention and control measures fully lifted in China, the real economy gradually revived. At the same time, the important role of the digital economy in industrial development was fully recognized at the national level. The construction of “Digital China” is an important engine for promoting Chinese-style modernization. As the important media and presentation forms of digitization, augmented reality (AR) and virtual reality (VR) will play a significant role in the construction of “Digital China”. In October 2022, the Ministry of Industry and Information Technology and four other ministries and commissions jointly issued the *Action Plan for the Integration and Development of Virtual Reality and Industrial Application (2022–2026)* (《虛擬現實與行業應用融合發展行動計劃2022-2026年》), which highlights: achieving breakthroughs in core software and hardware for virtual reality to improve the resilience of the industry chain, integrating virtual reality industrial application with innovation to build a new ecological development scenario, adopting virtual reality new business form to promote the new consumption of culture and economy, so as to provide a strong support for the construction of manufacturing power, network power and culture power in China and "Digital China", in order to meet people's increasing demand for a better quality of life. By 2026, the overall scale of China's virtual reality industry (including relevant hardware, software and applications) will exceed RMB350 billion and the sales volume of virtual reality terminals will exceed 25 million sets. Further, 100 “backbone enterprises” with strong innovation capabilities and industry influence will be cultivated, ten agglomeration areas with regional influence and leadership in the development of virtual reality ecology will be built, and ten industrial public service platforms will be created. There will be breakthroughs in the key application fields of the virtual reality, such as industrial production, cultural tourism, integrated media, education and training, sports and health, business and trade creativity and smart city. Ten types of virtual audio-visual production application demonstration will be conducted, ten “virtual reality+” integrated application pilot cities and parks will be built, and at least 20 characteristic application scenarios will be formed and 100 integrated application pioneer cases will be generated.

In February 2023, the Central Committee of the Communist Party of China and the State Council issued the *Overall Layout Plan of Digital China Construction* (《數字中國建設整體佈局規劃》), which marks China's entry into a new stage of digital productivity development, with the metaverse being an important bridge. It will comprehensively promote the digital, intelligent and virtualized transformation of the economy and society, continuously stimulate innovation, promote new consumption in the economy using the new business form of virtual reality, and create new potential for the development of the market as a whole. 2022 to 2026 represents the key five years for China to construct a “Digital China”. The revolution in science and technology and the progress of industrial reform



around the world have provided the fundamental basis for the rapid development of the metaverse industry.

With the overseas listing of the first metaverse concept stock and the rapid development of metaverse-related industries, the metaverse concept is rapidly gaining traction. Domestic and overseas major companies have been gradually releasing new generation hardware carriers in various fields, such as the field of vision, with the first mixed reality (MR) headset device expected to be released this year. These developments are gradually evolving into universal hardware devices like TVs, computers and mobile phones. At the same time, the cost of high-quality equipment is gradually reduced due to the continuous development of the VR industry. It is expected that there will be a rapid increase in the demand for metaverse content.

### *Outlook of the Company*

We believe that the human cognition is in the trend of returning to a 3D model. Initially, human beings use the eyes to visualize 3D objects. However, with the large database of 3D information and to improve the information interaction efficiency under the condition of limited transmission medium and speed, people choose to use low-dimensional information such as pictures, graphics, words and sounds for information interaction. That said, with the rapid development of social science and technology, especially with the emergence of mobile communication technologies such as 5G, the speed of information exchange and the transmission efficiency of 3D content are greatly improved, and the form of interactive information content gradually returns to the more realistic, richer and larger information volume such as 3D. Therefore, we believe that the trend of information transformation from 2D content to 3D content is clear. In addition, with the emergence of new technologies such as ChatGPT and AIGC, the efficiency of content production will be greatly improved, thereby providing a solid support for the metaverse construction. In the future, while consolidating our existing businesses, we will actively expand the business layout of the Company in the following aspects around our current main business and industry potential direction:

#### *I. Further exploration of more metaverse application scenarios*

We will continue to provide AR/VR services and solutions to customers in various industries, strive to explore more metaverse application scenarios to enrich our industry solutions, including e-commerce, education, culture and travel, commerce, industry, smart cities, etc., and bring diversified and immersive experience of the virtual world to end users. Our technology, brand and reputation in the metaverse content industry will be an important basis for our business development.

E-commerce: Metaverse scene will provide an immersive consumption experience to consumers, which more closely resembles reality and can effectively improve consumption conversion rate;

Culture and travel: We have cooperated with an AAAAA-level scenic spot in China to reproduce its historical landscape by using VR technology, thereby allowing tourists to gain a deep understanding of the history of the scenic spot and develop a new digital consumption scenario. Following the conclusion of this project, we expect to expand to key scenic spots nationwide;

Education: We will provide richer solution products to various customers in the education industry, including AR products, VR classrooms, VR courseware, etc.;

Live-streaming: We have cooperated with some of the largest live-streaming platforms in China to provide comprehensive digital human operation solutions for customers to create, cultivate and use avatars; and

Digital collections: We provide creation and strategic planning services for digital collections and are exploring the possibility of producing and distributing digital assets, so as to refine and transform brand value.

At the same time, we are also actively exploring the applications of metaverse solutions in industrial, urban and commercial aspects, which are expected to be applied to more industries.

## *II. Increasing investment in scientific research and reserve growth impetus*

Over the past year, we had made consistent and steady improvements according to the previous plan and achieved satisfactory results. We will continue to invest in R&D and continue to iterate our basic tools — engines and SaaS platform according to standardized and platform-oriented thinking, strive to consolidate and strengthen our core technologies in the industry, and continue to develop new technologies, improve our competitiveness in the industry, and maintain or even improve our existing technological position. In addition, we have carried out extensive cooperation with large platform-based technology companies and closely followed the technology development trend. For example, we have gained access to an AI chat robot program launched by a Chinese Internet technology group. On the one hand, we will apply the leading intelligent dialogue technology achievements to the metaverse content market, on the other hand, we will also invest in the research and development of AIGC, train AIs through 3D model data accumulated by us, create AIs to generate 3D models, make videos through AI texts, and fully exploit the market potential of AIGC.

### *III. Expanding the talent team*

We will expand our business in key industries by establishing new business group and business unit to better meet the needs of customers in the industry. We will also introduce high-end talents and form an expanding and professional R&D team and strong talent pool. After years of project experience accumulation, independent cultivation and introduction of talents, we have maintained a high level of competitiveness in terms of team and talent pool.

According to the needs of management or business development, we will improve the existing talent classification training mechanism, make full use of the training mode of diversified forms, multiple channels, level subdivision and competency-based, create a good environment for talent growth, maintain talent vitality and achieve sustainable and healthy development.

### *IV. Creating metaverse ecosystem*

Through upstream and downstream business cooperation, technical cooperation or industrial investment, the metaverse ecosystem with us as the content production center is built in multiple dimensions. As part of our overall growth strategy, we continue to seek acquisitions and investment opportunities to optimize our business ecosystem and expand our business scale, so as to seize every opportunity to build a metaverse ecosystem.

### *V. Expansion of overseas business*

In 2023, we may break into the overseas market. With our accumulated experience in the field of AR/VR content and services, we will explore overseas market in the field of Web3.0. At the same time, we are actively cultivating teams with international vision to lay a good foundation for expanding our business overseas.

## 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 79.1% from RMB595.3 million for the year ended December 31, 2021 to RMB1,066.2 million for the year ended December 31, 2022, mainly attributable to the increase in the revenue generated from the AR/VR marketing services and AR/VR content businesses. The overall growth of the revenue was driven by our business expansion as a result of AR/VR gaining popularity.

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

	For the year ended December 31,			
	2022		2021	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
AR/VR marketing services	<b>681,796</b>	<b>64.0</b>	376,341	63.2
AR/VR content	<b>336,196</b>	<b>31.5</b>	161,395	27.1
AR/VR SaaS	<b>43,713</b>	<b>4.1</b>	20,588	3.5
Sales of IPs	—	—	4,472	0.8
Others <sup>(Note)</sup>	<b>4,452</b>	<b>0.4</b>	32,494	5.4
<b>Total</b>	<b><u>1,066,157</u></b>	<b><u>100.0</u></b>	<b><u>595,290</u></b>	<b><u>100.0</u></b>

*Note:* Other businesses comprise text message services, promotion services, technical services, artist endorsement services, games and games-related business.

## *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 81.2% from RMB376.3 million for the year ended December 31, 2021 to RMB681.8 million for the year ended December 31, 2022, primarily due to the increase in the number of advertising customers with respect to our AR/VR marketing services business, the number of advertising products we promoted, and the average spending per advertising customer, driven by our continued business focus on AR/VR marketing services. The number of our advertising customers increased from 24 in 2021 to 27 in 2022. The average spending per advertising customer increased significantly from RMB15.7 million in 2021 to RMB25.3 million in 2022, mainly due to the increasing demand of our existing and new customers as the average number of advertising products we promoted for each customer increased and the average promotional duration of advertising products we promoted increased. The monthly average number of advertising products we promoted for our advertising customers increased from 49 in 2021 to 72 in 2022 driven by the increasing demand of our customers due to our continuous enhancement of AR/VR marketing services, as well as the increase in our advertising products from the entertainment and Internet industries in 2022 driven by the growing market demands.

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:

	<b>For the year ended December 31,</b>			
	<b>2022</b>		<b>2021</b>	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Gaming	145,111	21.3	173,112	45.9
Entertainment	125,668	18.4	31,830	8.5
Internet	141,578	20.8	76,120	20.2
Culture and tourism	109,458	16.1	33,788	9.0
E-commerce	77,101	11.3	20,907	5.6
Real estate	14,717	2.2	—	—
Automobiles	23,044	3.4	7,420	2.0
Business services	13,839	2.0	2,242	0.6
Healthcare	7,701	1.1	2,301	0.6
Finance	7,980	1.2	16,091	4.3
Live-streaming	11,372	1.7	4,224	1.1
Education	4,230	0.6	8,306	2.2
<b>Total</b>	<b>681,796</b>	<b>100.0</b>	<b>376,341</b>	<b>100.0</b>

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 reconstitute offline experience. Our revenue from the culture and tourism industry increased from RMB33.8 million in 2021 to RMB109.5 million in 2022 because we were able to expand our customer base. Our revenue from the e-commerce industry increased from RMB20.9 million to RMB77.1 million 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 increased by 108.3% from RMB161.4 million for the year ended December 31, 2021 to RMB336.2 million for the year ended December 31, 2022, primarily due to (i) the increase in the number of AR/VR content projects we carried out, and (ii) the increase in the amount of fees we charged to our customers. Our number of customers with respect to AR/VR content business increased from 46 in 2021 to 58 in 2022. The number of AR/VR content projects we carried out increased from 95 in 2021 to 149 in 2022, driven by the increasing demand for AR/VR products for different scenarios during lock-down and social distancing due to the outbreak of COVID-19, including social function, VR games and entertainment, virtual meetings and online exhibitions.

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

	<b>For the year ended December 31,</b>			
	<b>2022</b>		<b>2021</b>	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Entertainment	<b>139,763</b>	<b>41.6</b>	66,751	41.4
Gaming	<b>124,982</b>	<b>37.2</b>	58,876	36.4
Education	<b>50,747</b>	<b>15.1</b>	24,151	15.0
Technology	<b>13,627</b>	<b>4.1</b>	7,286	4.5
Others	<b>7,076</b>	<b>2.1</b>	4,331	2.7
<b>Total</b>	<b><u>336,196</u></b>	<b><u>100.0</u></b>	<b><u>161,395</u></b>	<b><u>100.0</u></b>

Our revenue from the entertainment and gaming industries increased from RMB125.6 million in 2021 to RMB264.7 million in 2022, mainly due to (i) our major customer from the entertainment and gaming industries increased spending with us, and (ii) the increase in the number of customers from the entertainment and gaming industries.

### ***AR/VR SaaS***

The Group generates revenue from the AR/VR SaaS business primarily through the provision of customized AR/VR SaaS products and customers' subscriptions to the standardized AR/VR SaaS services. The revenue from the AR/VR SaaS business increased by 112.3% from RMB20.6 million for the year ended December 31, 2021 to RMB43.7 million for the year ended December 31, 2022, primarily because of the increase in the number of customers who subscribed to our customized AR/VR SaaS projects.

### ***Sales of IPs***

The Group generated revenue from the sales of IPs business primarily through licensing out IPs it purchased from third parties for the year ended December 31, 2021. The revenue from the IP business decreased from RMB4.5 million for the year ended December 31, 2021 to nil for the year ended December 31, 2022, due to the suspension of such business by the Group as we shifted our business focus mainly to use IPs to support our AR/VR businesses going forward rather than licensing out IPs.

### ***Others***

The Group's revenue from the other businesses in 2022 were generated from technical services and promotion services. Revenue from the other businesses decreased by 86.3% from RMB32.5 million for the year ended December 31, 2021 to RMB4.5 million for the year ended December 31, 2022, primarily due to the suspension of our investment in text message services business as it was not significantly synergistic with the Group's overall business.

## Cost of Revenue

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

The cost of revenue increased by 64.9% from RMB419.8 million for the year ended December 31, 2021 to RMB692.2 million for the year ended December 31, 2022, primarily driven by the increase in the traffic acquisition costs in relation to our AR/VR marketing services business, and the increase in the subcontracting and development costs in relation to our AR/VR content business, in line with the growth of our AR/VR marketing services and AR/VR content businesses, but was slightly offset by the decrease in our use of materials costs due to the decrease in the customer demand for PGC video materials.

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

	For the year ended December 31,			
	2022		2021	
	RMB'000	%	RMB'000	%
Traffic acquisitions costs	523,108	75.6	311,497	74.2
Subcontracting and development costs	106,125	15.3	36,878	8.8
Use of materials costs	30,962	4.5	44,481	10.6
IP acquisition costs	—	—	4,302	1.0
Amortization of intangible assets	15,805	2.3	10,560	2.5
Staff costs	6,674	1.0	5,488	1.3
Others <sup>(Note)</sup>	9,489	1.4	6,568	1.6
<b>Total</b>	<b>692,162</b>	<b>100.0</b>	<b>419,774</b>	<b>100.0</b>

*Note:* Other cost of revenue comprises renting of servers and sales commissions to agents in relation to the AR/VR SaaS business.



### *AR/VR marketing services*

The cost of revenue from the AR/VR marketing services business increased from RMB294.8 million for the year ended December 31, 2021 to RMB526.1 million for the year ended December 31, 2022, 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,			
	2022		2021	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Gaming	112,173	21.3	135,786	46.1
Internet	109,160	20.8	59,866	20.3
Entertainment	97,066	18.5	25,080	8.5
Culture and tourism	84,032	16.0	26,098	8.9
E-commerce	59,587	11.3	16,336	5.5
Automobiles	17,742	3.4	5,762	2.0
Real estate	11,216	2.1	—	—
Business services	10,679	2.0	1,755	0.6
Live-streaming	8,904	1.7	3,260	1.1
Finance	6,202	1.2	12,554	4.2
Healthcare	6,025	1.2	1,800	0.6
Education	3,313	0.6	6,511	2.2
<b>Total</b>	<b>526,101</b>	<b>100.0</b>	<b>294,808</b>	<b>100.0</b>

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 increased from RMB86.9 million for the year ended December 31, 2021 to RMB148.2 million for the year ended December 31, 2022, primarily due to the increase in our subcontracting and development costs driven by the growth of our AR/VR content business.

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

	<b>For the year ended December 31,</b>			
	<b>2022</b>		<b>2021</b>	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Entertainment	<b>71,852</b>	<b>48.5</b>	48,767	56.1
Gaming	<b>48,423</b>	<b>32.7</b>	23,014	26.5
Education	<b>20,725</b>	<b>14.0</b>	9,916	11.4
Technology	<b>4,898</b>	<b>3.3</b>	3,494	4.0
Others	<b>2,346</b>	<b>1.6</b>	1,670	1.9
<b>Total</b>	<b><u>148,243</u></b>	<b><u>100.0</u></b>	<b><u>86,861</u></b>	<b><u>100.0</u></b>

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 113.1% from RMB175.5 million for the year ended December 31, 2021 to RMB374.0 million for the year ended December 31, 2022, primarily due to the significant increase in our revenue. The gross profit margin of the Group increased from 29.5% in 2021 to 35.1% in 2022. The increase in the gross profit margin was driven by our business expansion and ability to maintain operational efficiency. We were also able to achieve economies of scale with respect to certain costs, such as subcontracting and development costs and use of material costs, as we were able to benefit from accumulated AR/VR interactive content modules particularly AR/VR SaaS modules, continuous enhancement of our AR/VR development engines and enhanced bargaining power against certain suppliers with our bulk purchases.

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

	For the year ended December 31,			
	2022		2021	
	<i>RMB'000</i>	<i>Gross Margin %</i>	<i>RMB'000</i>	<i>Gross Margin %</i>
AR/VR marketing services	155,696	22.8	81,533	21.7
AR/VR content	187,953	55.9	74,534	46.2
AR/VR SaaS	29,840	68.3	11,255	54.7
Sales of IPs	—	—	170	3.8
Others <sup>(Note)</sup>	506	11.4	8,024	24.7
<b>Total</b>	<b>373,995</b>	<b>35.1</b>	<b>175,516</b>	<b>29.5</b>

*Note:* The other businesses comprise text message services, promotion services, technical services, artist endorsement services, and historically, games and games-related business.

The gross margin of the AR/VR marketing services business increased slightly from 21.7% for the year ended December 31, 2021 to 22.8% for the year ended December 31, 2022, primarily because of our strengthened bargaining power and enhanced negotiation position against our customers as our business grew.

The gross margin of the AR/VR content business increased from 46.2% for the year ended December 31, 2021 to 55.9% for the year ended December 31, 2022, 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 54.7% for the year ended December 31, 2021 to 68.3% for the year ended December 31, 2022, 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.

As the Group suspended the sales of IPs business and no revenue was recorded in 2022, the gross margin of the sales of IPs business was 3.8% for the year ended December 31, 2021 and nil for the year ended December 31, 2022.

The gross margin of other businesses decreased from 24.7% for the year ended December 31, 2021 to 11.4% for the year ended December 31, 2022, primarily due to the suspension of our investment in text message services business as it was not significantly synergistic with the Group's overall business.

### **Other Income**

Other income of the Group consists primarily of tax refund, interest income on bank deposits and government grants. Other income increased by 33.1% from RMB3.1 million for the year ended December 31, 2021 to RMB4.2 million for the year ended December 31, 2022, primarily as a result of the increase in tax refund and government grants.

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

	<b>For the year ended</b>	
	<b>December 31,</b>	
	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Tax refund	<b>2,794</b>	2,133
Interest income on bank deposits	<b>709</b>	828
Government grants	<b>664</b>	169
	<hr/>	<hr/>
<b>Total</b>	<b><u>4,167</u></b>	<b><u>3,130</u></b>

Government grants provided to the Group mainly were subsidies to high and new technology enterprises and subsidies for training.

## 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 gains of RMB0.4 million in 2021 and other losses of RMB7.3 million in 2022, primarily due to the increase in foreign exchange losses due to appreciation of Renminbi.

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

	For the year ended	
	December 31,	
	2022	2021
	RMB'000	RMB'000
Foreign exchange losses	(4,528)	(5)
Donation	(2,685)	—
Others	(123)	452
<b>Total (losses)/gains</b>	<b>(7,336)</b>	<b>447</b>

## 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. We recorded a reversal of provision of impairment of RMB0.9 million in 2021, while our impairment losses under ECL mode, net of reversal was RMB4.1 million in 2022, 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 decreased slightly by 0.6% from RMB13.7 million for the year ended December 31, 2021 to RMB13.6 million for the year ended December 31, 2022, 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 decrease in advertising and marketing costs because there was a one-off expenditure of RMB3.2 million related to the promotion of our AR/VR SaaS platform in 2021.

## **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 52.9% from RMB21.7 million for the year ended December 31, 2021 to RMB33.2 million for the year ended December 31, 2022, 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 research and development expenses of the Group primarily consisted of (i) staff costs of R&D personnel, (ii) outsourced R&D expenses mainly in relation to outsourced interactive content modules for our Feitian Metaverse platform, and (iii) amortization expenses in relation to intelligent software purchased. The research and development expenses increased by 123.3% from RMB21.7 million for the year ended December 31, 2021 to RMB48.5 million for the year ended December 31, 2022, primarily due to (i) the increase in the staff costs of our research and development personnel, and (ii) the increase in the outsourced R&D expenses in line with the development and growth of our Feitian Metaverse platform. The Group did not capitalize any research and development expenditures for the year ended December 31, 2022.

## **Listing Expenses**

We incurred listing expenses of RMB21.1 million in 2022 in relation to the Global Offering (as defined in the Prospectus).

## **Finance Costs**

The finance costs of the Group primarily include interest expenses on bank borrowings and lease liabilities. The finance costs increased by 38.2% from RMB2.4 million for the year ended December 31, 2021 to RMB3.3 million for the year ended December 31, 2022, primarily due to the increase in the interest expenses on our bank borrowings and our lease liabilities as a result of our increase in bank borrowings and lease of new office premises, which are in line with our business expansion.

## **Income Tax Expense**

The income tax expense of the Group primarily decreased by 31.6% from RMB15.4 million for the year ended December 31, 2021 to RMB10.6 million for the year ended December 31, 2022, 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, 2022 as a software enterprise. The effective tax rate for the year ended December 31, 2022 was 4.27%.

## **Profit for the Year and Net Profit Margin**

As a result of the foregoing, the Group recorded a profit of RMB236.6 million for the year ended December 31, 2022, representing an increase of 229.9% as compared to a profit of RMB71.7 million for the year ended December 31, 2021. The net profit margin of the Group increased from 12.0% in 2021 to 22.2% in 2022 mainly due to our improved gross profit margin and the decrease in income tax expense.

## **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 fair value changes on financial liabilities designated as at FVTPL, interest expense on other financial liabilities and listing expenses. Fair value changes on financial liabilities designated as at FVTPL and interest expense on other financial liabilities are non-cash in nature. As at December 31, 2021, all of the financial liabilities designated as at FVTPL and other financial liabilities measured at amortized cost had been converted into equity.

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

	<b>For the year ended</b>	
	<b>December 31,</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
<b>Reconciliation of profit for the year to adjusted net profit:</b>		
Profit for the year	<b>236,593</b>	71,719
Add:		
Fair value changes on financial liabilities designated as at FVTPL	—	21,075
Interest expense on other financial liabilities	—	515
Listing expenses	<b>21,118</b>	12,287
	<hr/>	<hr/>
<b>Non-IFRS measure:</b>		
<b>Adjusted net profit (unaudited)</b>	<b><u>257,711</u></b>	<b><u>105,596</u></b>

### **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 RMB29.3 million as at December 31, 2021 to RMB47.9 million as at December 31, 2022, primarily due to the increase in acquiring of adaptation rights and software in order to support the growth of our AR/VR SaaS business and our Feitian Metaverse platform.

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

	<b>As at December 31,</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Adaptation rights	<b>41,658</b>	29,161
Software	<b>6,276</b>	113
	<hr/>	<hr/>
<b>Total</b>	<b><u>47,934</u></b>	<b><u>29,274</u></b>



## 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 RMB10.5 million as at December 31, 2021 to RMB1.7 million as at December 31, 2022, 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) the decrease in the incremental sales commissions to agents in relation to our AR/VR SaaS business as we expanded our AR/VR SaaS business.

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

	<b>As at December 31,</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
<b>Current</b>		
Incremental costs to obtain contracts	977	3,803
Costs to fulfill contracts	349	5,693
	<u>1,326</u>	<u>9,496</u>
<b>Total</b>	<b><u>1,326</u></b>	<b><u>9,496</u></b>
	<b>As at December 31,</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
<b>Non-current</b>		
Incremental costs to obtain contracts	28	1,005
Costs to fulfill contracts	358	—
	<u>386</u>	<u>1,005</u>

Incremental costs to obtain contracts capitalized relate to the incremental sales commissions paid to agents whose selling activities resulted in customers entering into sale and purchase agreements for the Group's SaaS service. Contract costs are recognized as part of cost of revenue in the consolidated statement of profit or loss in the period in which revenue from the related SaaS services is recognized. The amount of capitalized costs recognized in profit or loss during the year ended December 31, 2022 was RMB3.8 million (2021: RMB2.4 million). There was no impairment in relation to these costs capitalized during the year (2021: nil).

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 consolidated statement of profit or loss in the period in which revenue from the related AR/VR content is recognized. The amount of capitalized costs recognized in profit or loss during the year ended December 31, 2022 was RMB31.0 million (2021: RMB44.5 million). There was no impairment in relation to these costs capitalized during the year (2021: nil).

## 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 RMB161.9 million as at December 31, 2021 to RMB375.5 million as at December 31, 2022, 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:

	<b>As at December 31,</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Trade receivables	<b>386,568</b>	168,856
Less: allowance for credit losses	<b>(11,050)</b>	(7,000)
	<hr/>	<hr/>
Total trade receivables	<b>375,518</b>	161,856
	<hr/>	<hr/>
Share issue costs	—	3,645
Rental and other deposits	<b>1,374</b>	393
Amounts due from shareholders	—	7
Other receivables	<b>245</b>	806
Less: allowance for credit losses	<b>(59)</b>	(578)
Software license within one year	<b>6,733</b>	—
Others	<b>3,455</b>	—
	<hr/>	<hr/>
	<b>11,748</b>	4,273
	<hr/>	<hr/>
<b>Total</b>	<b>387,266</b>	166,129
	<hr/> <hr/>	<hr/> <hr/>

## 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 RMB153.4 million as at December 31, 2021 to RMB485.5 million as at December 31, 2022, primarily due to (i) 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, and (ii) the increase in prepayments for outsourcing service in connection with our AR/VR content business.

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

	<b>As at December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Prepayments for purchasing advertising traffic	<b>429,972</b>	138,436
Prepayments for outsourcing service	<b>31,131</b>	13,969
Others	<b>24,431</b>	970
<b>Total</b>	<b><u>485,534</u></b>	<b><u>153,375</u></b>

## 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) other payables and accruals. The trade payables mainly were the amounts due to the Group's suppliers for subcontracting and development costs and cost of raw materials.

The trade and other payables increased from RMB75.3 million as at December 31, 2021 to RMB139.6 million as at December 31, 2022, primarily due to (i) the increase in our trade payables in line with our business expansion, and (ii) 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.

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

	<b>As at December 31,</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	<b>RMB'000</b>
Trade payables	<b>72,429</b>	44,263
Employee compensation payable	<b>4,897</b>	3,049
Other tax payable	<b>57,073</b>	21,683
Accrued listing expenses	<b>314</b>	3,841
Accrued share issue costs	<b>56</b>	2,426
Other payables and accruals	<b>4,855</b>	78
	<hr/>	<hr/>
<b>Total</b>	<b><u>139,624</u></b>	<b><u>75,340</u></b>

### **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 RMB21.1 million as at December 31, 2021 to RMB67.7 million as at December 31, 2022. We recognized revenue amounting to RMB18.2 million for the year ended December 31, 2022, which relates to the contract liabilities balance at the beginning of the year.

### **Bank Borrowings**

The bank borrowings of the Group comprise short-term borrowings from commercial banks in the PRC denominated in Renminbi. The bank borrowings increased from RMB22.3 million as at December 31, 2021 to RMB80.0 million as at December 31, 2022, primarily due to operational funding needs in line with our business expansion.

## Lease Liabilities

The lease liabilities of the Group, which were secured by rental deposits and unguaranteed. Our lease liabilities remained relatively stable at RMB5.9 million as at December 31, 2022 as compared to RMB5.8 million as at December 31, 2021, the increase in lease liabilities was a result of our lease of new office premises in line with our business expansion.

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

	<b>As at December 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Non-current	<b>1,520</b>	2,744
Current	<b>4,368</b>	3,019
<b>Total</b>	<b><u>5,888</u></b>	<b><u>5,763</u></b>

## Contingent Liabilities

As at December 31, 2022, 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, 2022, the Group had bank balances and cash of RMB404.5 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, 2022 amounted to RMB40.7 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, 2022, 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, 2021, 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, 2022. 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, 2022.

### **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, 2022

	NOTES	Year ended December 31,	
		2022	2021
		RMB'000	RMB'000
Revenue	4	1,066,157	595,290
Cost of revenue		(692,162)	(419,774)
Gross profit		373,995	175,516
Other income		4,167	3,130
Fair value changes on financial liabilities designated as at fair value through profit or loss ("FVTPL")		—	(21,075)
Other gains and losses	5	(7,336)	447
Impairment losses under expected credit loss ("ECL") model, net of reversal		(4,050)	864
Distribution and selling expenses		(13,602)	(13,682)
Administrative expenses		(33,189)	(21,711)
Research and development expenses		(48,466)	(21,703)
Listing expenses		(21,118)	(12,287)
Finance costs	6	(3,257)	(2,357)
Profit before tax	7	247,144	87,142
Income tax expense	8	(10,551)	(15,423)
<b>Profit for the year</b>		<b>236,593</b>	<b>71,719</b>
<b>Other comprehensive income</b>			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value gain on investments in equity instruments at fair value through other comprehensive income ("FVTOCI")		20,872	—
		20,872	—
<b>Total comprehensive income for the year</b>		<b>257,465</b>	<b>71,719</b>

		<b>Year ended December 31,</b>	
	<i>NOTES</i>	<b>2022</b>	2021
		<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>Profit/(loss) for the year attributable to:</b>			
Owners of the Company		<b>236,746</b>	70,202
Non-controlling interests		<b>(153)</b>	1,517
		<u><b>236,593</b></u>	<u>71,719</u>
<b>Total comprehensive income/(expense)</b>			
<b>attributable to:</b>			
Owners of the Company		<b>257,618</b>	70,202
Non-controlling interests		<b>(153)</b>	1,517
		<u><b>257,465</b></u>	<u>71,719</u>
Basic earnings per share ( <i>RMB cents</i> )	9	<u><b>14.8</b></u>	<u>5.2</u>
Diluted earnings per share ( <i>RMB cents</i> )	9	<u><b>14.8</b></u>	<u>5.2</u>



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2022

		As at December 31,	
	NOTES	2022	2021
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		2,128	2,140
Right-of-use assets		5,917	6,492
Intangible assets		47,934	29,274
Equity instruments at FVTOCI		190,526	—
Contract costs		386	1,005
Deferred tax assets		1,932	1,325
		<u>248,823</u>	<u>40,236</u>
CURRENT ASSETS			
Trade and other receivables and deposits	11	387,266	166,129
Contract costs		1,326	9,496
Prepayments	12	485,534	153,375
Bank balances and cash		404,501	214,279
		<u>1,278,627</u>	<u>543,279</u>
CURRENT LIABILITIES			
Trade and other payables	13	139,624	75,340
Lease liabilities		4,368	3,019
Bank borrowings		80,000	22,300
Contract liabilities		67,714	21,091
Income tax payable		8,819	12,451
		<u>300,525</u>	<u>134,201</u>
NET CURRENT ASSETS		<u>978,102</u>	<u>409,078</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,226,925</u>	<u>449,314</u>

		As at December 31,	
	NOTES	2022	2021
		RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Lease liabilities		<u>1,520</u>	<u>2,744</u>
		<u>1,520</u>	<u>2,744</u>
NET ASSETS		<u><b>1,225,405</b></u>	<u>446,570</u>
CAPITAL AND RESERVES			
Share capital	14	128	7
Share premium		521,249	—
Reserves		<u>701,295</u>	<u>443,677</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
		<u>1,222,672</u>	<u>443,684</u>
Non-controlling interests		<u>2,733</u>	<u>2,886</u>
TOTAL EQUITY		<u><b>1,225,405</b></u>	<u>446,570</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

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 and has not carried out any business operations since the date of incorporation. 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 “**BVI**”).

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

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

## 2. GROUP REORGANIZATION AND BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Prior to the incorporation of the Company and the completion of the Reorganization (as defined in the Prospectus), the main operating activities of the Group were carried out by Beijing Ophyer Technology Shares Co., Ltd (“**Ophyer Technology**”) and its subsidiaries, which were established in the People’s Republic of China (the “**PRC**”) (collectively, the “**Consolidated Affiliated Entities**”). Ophyer Technology was owned by Mr. Wang Lei and Mr. Li Yanhao and other shareholders (collectively referred to as “**Ophyer Shareholders**”).

In preparation for the Listing, the Group underwent the Reorganization involving the following steps: (i) incorporating the Company and certain investment holding companies including a wholly-owned subsidiary established in the PRC namely Beijing Flowing Cloud Technology Co., Ltd. (“**WFOE**”), (ii) incorporating investment holding companies by each of the shareholders of Ophyer Technology and each of them subscribing the shares of the Company with the equivalent shareholding percentage of Ophyer Technology and (iii) entering into the Contractual Arrangements as detailed below.

As the shares are proportionately issued to the shareholders of the Company, the Group resulting from the Reorganization, which involves interspersing certain investment holding companies including the Company between Ophyer Technology and the Ophyer Shareholders and execution of the Contractual Arrangements (see definition in the paragraph below), is regarded as a continuing entity. Accordingly, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended December 31, 2021 have been prepared to include the results, changes in equity and cash flows of the companies now comprising the Group as if the group structure upon the completion of the Reorganization had been in existence throughout the year ended December 31, 2021, or since their respective dates of incorporation/establishment, where there is a shorter period.

The Group conducts its business through the Consolidated Affiliated Entities in the PRC due to regulatory restrictions on foreign ownership in the Internet cultural business industry in the PRC. WFOE entered into contractual arrangements with Ophyer Technology and the Ophyer Shareholders on December 16, 2021, and WFOE entered into contractual arrangements with the Consolidated Affiliated Entities on May 6, 2022 (the “**Contractual Arrangements**”). Pursuant to the Contractual Arrangements, WFOE 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 WFOE;
- 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. WFOE may exercise such options at any time until they have 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 WFOE; 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 WFOE 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 RMB861 million as at December 31, 2022 (2021: RMB579 million), and these balances have been reflected in the Group's consolidated financial statements with intercompany balances eliminated.

Total revenue of Ophyer Technology and its subsidiaries, which were involved in the Contractual Arrangements was RMB704 million for the year ended December 31, 2022 (2021: RMB584 million), and these amounts have been reflected in the Group's consolidated financial statements with intercompany transactions eliminated.

### 3. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

The Group has consistently applied the amendments to IFRSs issued by the International Accounting Standards Board (“IASB”), which are mandatorily effective for the Group's annual period beginning on January 1, 2022 for the years ended December 31, 2022 and 2021.

The application of the amendments to IFRSs 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.

#### **New and amendments to IFRSs in issue but not yet effective**

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

IFRS 17	Insurance Contracts <sup>1</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>2</sup>
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback <sup>3</sup>
Amendments to IAS 1	Classification of Liabilities as Current or Non-current <sup>3</sup>
Amendments to IAS 1	Non-current Liabilities with Covenants <sup>3</sup>
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies <sup>1</sup>
Amendments to IAS 8	Definition of Accounting Estimates <sup>1</sup>
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2023.

<sup>2</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2024.

The Group expects that the application of all new and 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.

#### 4. REVENUE AND SEGMENTAL INFORMATION

##### Disaggregation of revenue from contracts with customers

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
AR/VR marketing service business	681,796	376,341
AR/VR content business	336,196	161,395
Sales of IPs	—	4,472
AR/VR SaaS service	43,713	20,588
Others ( <i>Note</i> )	4,452	32,494
	<u>1,066,157</u>	<u>595,290</u>

*Note:* The amounts represented the revenue from text message services, promotion services, technical services, artist endorsement services, games and games related business.

##### Timing of revenue recognition

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
A point in time	1,050,723	589,227
Over time	15,434	6,063
	<u>1,066,157</u>	<u>595,290</u>

##### Performance obligations for contracts with customers

The Group acts as the principal to contracts with customers and therefore recognized revenue earned and costs incurred related to the transactions on a gross basis where the Group is the primary obligor and is responsible for (i) identifying and contracting with individual customers and negotiating with them for the contract price; (ii) identifying and contracting with suppliers (normally the Group made prepayments to suppliers for the advertising traffic to be used for a future period, for example nine months); and (iii) bearing sole responsibility for fulfillment of the services. Such revenue is recognized at a point in time when specific services were provided based on different pricing models (for example, cost per action or cost per click for performance-based smart marketing services as a result of the placement of promotions in relevant traffic platforms). The normal credit term is three to six months upon the date of the Group's receipt of the bills from the customers.

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

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 (2021: RMB430,000) which are expected to be recognized as revenue within two years.

The original expected duration of all other contracts of the Group are 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 reportable operating segment. The chief operating decision maker monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resources allocation and performance assessment. In this regard, no segment information is presented.

## Geographical information

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

## Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group is as follows:

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A	<u>N/A<sup>1</sup></u>	<u>60,686</u>

1. The revenue generated from the customer was less than 10% of the total revenue of the Group for the year ended December 31, 2022.

## 5. OTHER GAINS AND LOSSES

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Foreign exchange losses	(4,528)	(5)
Donation	(2,685)	—
Others	(123)	452
	<u>(7,336)</u>	<u>447</u>

## 6. FINANCE COSTS

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Interest expense on bank borrowings	2,903	1,549
Interest expense on other financial liabilities	—	515
Interest expense on lease liabilities	354	293
	<u>3,257</u>	<u>2,357</u>

## 7. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Depreciation of property, plant and equipment	1,152	570
Depreciation of right-of-use assets	3,539	2,746
Amortization of intangible assets (included in cost of revenue and research and development expenses)	17,923	10,836
Amortization of software license within one year (included in research and development expenses)	612	—
Total depreciation and amortization	<u>23,226</u>	<u>14,152</u>
Staff costs (including the Directors' remuneration):		
Salaries and other benefits	22,424	17,987
Retirement benefits scheme contributions	3,770	2,938
Discretionary bonus	11,488	7,248
Total staff costs	<u>37,682</u>	<u>28,173</u>
Auditors' remuneration	<u>2,600</u>	<u>878</u>



## 8. INCOME TAX EXPENSE

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current enterprise income tax	11,468	15,667
Overprovision in prior year	(310)	—
Deferred tax	(607)	(244)
	<u>10,551</u>	<u>15,423</u>

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,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	247,144	87,142
Tax at the applicable tax rate of 25%	61,786	21,786
Tax effect of expenses not deductible for tax purpose	4,053	5,484
Effect of research and development expenses that are additionally deducted	(6,752)	(1,918)
Effect on concessionary tax rate	(48,813)	(10,731)
Tax effect of deductible temporary differences/tax losses not recognized	1,152	802
Overprovision in prior years	(310)	—
Effect of changes in tax rate applicable to deferred tax assets	(565)	—
Tax charge	<u>10,551</u>	<u>15,423</u>

### 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

No provision for taxation in Hong Kong has been made as the Group's income neither arises in nor is derived from Hong Kong.

## PRC

Under the Law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate applicable for the PRC group entities is 25% for the year ended December 31, 2022 (2021: 25%).

Ophyer Technology was qualified as a High-New Technology Enterprises (“**HNTE**”) since August 10, 2017, and the HNTE status was approved to extend for another three years on December 2, 2020. A preferential income tax rate of 15% would be entitled by Ophyer Technology if certain requirements have been met. For the year ended December 31, 2021, the requirements had been met and Ophyer Technology was subject to a preferential income tax rate of 15%. For the year ended December 31, 2022, the management assessed and concluded that certain requirements of HNTE have not been met and Ophyer Technology could not entitle the preferential income tax rate of 15% and was subject to the income tax rate of 25%.

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, 2022 (2021: 5% or 10%).

During the year ended December 31, 2022, WFOE has fulfilled the requirements for applying tax incentives for software enterprises and could enjoy exemption for the first two years and 50% reduction for the next three years.

## 9. 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,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year attributable to owners of the Company	<u>236,746</u>	<u>70,202</u>
Earnings for the purpose of basic and diluted earnings per share	<u>236,746</u>	<u>70,202</u>

## Number of shares

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,594,288	1,350,154
Effect of dilutive potential ordinary shares:		
Over-allotment options	<u>56</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	<u><u>1,594,344</u></u>	<u><u>1,350,154</u></u>

The weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share has been determined on the assumption that the Reorganization and capitalization issue had been effected since January 1, 2021.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares, including the effect of shares with preferred rights and preferred shares. For the year ended December 31, 2021, the potential ordinary shares were not included in the calculation of diluted earnings per share, as their inclusion would be anti-dilutive. Accordingly, diluted earnings per share for the year ended December 31, 2021 was the same as basic earnings per share.

## 10. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended December 31, 2022, nor has any dividend been proposed since the end of the reporting period (2021: none).

## 11. TRADE AND OTHER RECEIVABLES AND DEPOSITS

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	<b>386,568</b>	168,856
Less: Allowance for credit losses	<b>(11,050)</b>	(7,000)
	<u><b>375,518</b></u>	<u>161,856</u>
Share issue costs	—	3,645
Rental and other deposits	<b>1,374</b>	393
Amounts due from shareholders	—	7
Other receivables	<b>245</b>	806
Less: Allowance for credit losses	<b>(59)</b>	(578)
Software license within one year	<b>6,733</b>	—
Others	<b>3,455</b>	—
	<u><b>11,748</b></u>	<u>4,273</u>
Total trade and other receivables and deposits	<u><b>387,266</b></u>	<u>166,129</u>

As at January 1, 2021, trade receivables from contracts with customers amounted to RMB139,755,000.

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 approximated the respective revenue recognition dates, are as follows:

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	<b>339,345</b>	144,185
6–12 months	<b>33,159</b>	11,697
1–2 years	<b>3,014</b>	5,974
	<u><b>375,518</b></u>	<u>161,856</u>

As at December 31, 2022, included in the Group's trade receivables balance were debtors with aggregate carrying amounts of RMB36,173,000 (2021: RMB17,671,000) which were past due as at the reporting date. Out of the past due balances, RMB3,014,000 (2021: RMB5,974,000) have been past due for 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 ratings. The Group considers that there is no significant change in these customers' credit risk.

## 12. PREPAYMENTS

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments for purchases of traffic	429,972	138,436
Prepayments for outsourcing service	31,131	13,969
Prepaid listing expenses and share issue costs	—	431
Prepayments for setting up SaaS platform	12,565	—
Prepayments for intangible assets and other current assets	5,929	—
Other prepayments	5,937	539
	<u>485,534</u>	<u>153,375</u>

## 13. TRADE AND OTHER PAYABLES

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	72,429	44,263
Employee compensation payable	4,897	3,049
Other tax payable	57,073	21,683
Accrued listing expenses	314	3,841
Accrued share issue costs	56	2,426
Other payables and accruals	4,855	78
	<u>139,624</u>	<u>75,340</u>

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

	As at December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	36,287	25,080
6–12 months	16,107	2,048
1–2 years	2,900	2,877
Over 2 years	17,135	14,258
	<u>72,429</u>	<u>44,263</u>

The average credit period on purchases of goods or services is three to six months.

## 14. SHARE CAPITAL

	Number of ordinary shares	Nominal value of ordinary shares <i>USD</i>	Equivalent nominal value of ordinary shares <i>RMB</i>
Authorized:			
At June 24, 2021 (date of incorporation), December 31, 2021 and 2022	5,000,000,000	50,000	318,785
Issued:			
At June 24, 2021 (date of incorporation)	100,000	1	6
Issue of ordinary shares	<u>116,017,810</u>	<u>1,160</u>	<u>7,404</u>
At December 31, 2021	<u>116,117,810</u>	<u>1,161</u>	<u>7,410</u>
Issue of ordinary shares	<b>271,500,000</b>	<b>2,715</b>	<b>19,302</b>
Capitalization issue	<u><b>1,422,382,190</b></u>	<u><b>14,224</b></u>	<u><b>101,126</b></u>
At December 31, 2022	<u><b>1,810,000,000</b></u>	<u><b>18,100</b></u>	<u><b>127,838</b></u>

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on June 24, 2021. The initial authorized share capital of the Company was USD50,000 divided into 5,000,000,000 shares with a par value of USD0.00001 each. Upon incorporation, one ordinary share was issued and allotted to an initial subscriber, who subsequently transferred such share to Wanglei Co., Ltd. at the subscription price of USD0.00001 on the same date. The Company issued a total of additional 99,999 ordinary shares to Wanglei Co., Ltd. at the subscription price of USD0.99999 on the same day.

On November 22, 2021 and December 16, 2021, 116,017,810 ordinary shares for a total consideration of USD1,160 equivalent to RMB7,404 were issued by the Company and allotted to the shareholders of Ophyer Technology or the holding entities wholly-owned or designated by such shareholders (as the case may be) to reflect their respective equity interest in Ophyer Technology and the Company before the completion of the Reorganization. The shares were issued but not fully paid as at December 31, 2021 and have been fully paid prior to the Listing.

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

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

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

The Company held a significant investment, with a value of 5% or more of the Group's total assets as at December 31, 2022, in Hebei Yichen Industrial Group Corporation Limited (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 December 31, 2022, the Group held 31,426,000 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, 2022, the fair value of this investment at FVTOCI was RMB153.0 million, representing approximately 10.0% of the Group's total assets as at December 31, 2022. The Group recorded a fair value gain on investments in equity instruments at FVTOCI of RMB25.9 million for the year ended December 31, 2022. Based on the interim report of Yichen for the six months ended June 30, 2022, Yichen recorded a revenue of RMB646.0 million and net profit of RMB74.3 million. As at the date of this announcement, no dividend was received. 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 year ended December 31, 2022.

## **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, 2022, the Group had 120 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, 2022:

Intended application	Amount of net proceeds (HK\$ million)	Percentage of total net proceeds	Utilized net proceeds as at December 31, 2022 (HK\$ million)	Unutilized net proceeds as at December 31, 2022 (HK\$ million)	Expected timetable for the use of unutilized net proceeds
<b>To enhance our R&amp;D capabilities and improve our services and products</b>					
(1) to develop and optimize our algorithms and data analysis capabilities;	53.2	10.0%	13.6	39.6	By the end of 2024
(2) to upgrade and iterate our AR/VR development engines;	42.6	8.0%	14.3	28.3	By the end of 2024
(3) to improve our operation capabilities;	37.2	7.0%	14.2	23.0	By the end of 2024
(4) to develop of our AR/VR content business;	37.2	7.0%	12.5	24.7	By the end of 2024
(5) to develop our AR/VR SaaS business; and	26.6	5.0%	10.3	16.3	By the end of 2024
(6) to procure IPs in support of the growth of our AR/VR content business and AR/VR SaaS business.	16.0	3.0%	10.2	5.8	By the end of 2024
<b>To enhance our sales and marketing function:</b>					
(1) to strengthen our brand image through marketing effort;	53.2	10.0%	17.8	35.4	By the end of 2024
(2) to enhance our brand awareness through online channels; and	26.6	5.0%	11.3	15.3	By the end of 2024
(3) to strengthen and optimize our sales and marketing network.	53.2	10.0%	5.9	47.3	By the end of 2024
<b>For selected mergers, acquisitions, and strategic investments</b>	79.8	15.0%	—	79.8	By the end of 2024
<b>For the development of our Feitian Metaverse platform</b>	53.1	10.0%	26.2	26.9	By the end of 2024
<b>For our working capital and general corporate purposes</b>	53.2	10.0%	22.6	30.6	By the end of 2024
<b>Total</b>	<u>531.9</u>	<u>100.0%</u>	<u>158.9</u>	<u>373.0</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.

## **FINAL DIVIDEND**

The Board does not recommend the payment of a final dividend for the year ended December 31, 2022.

## **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 period from the Listing Date to December 31, 2022, 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 for the period from the Listing Date to December 31, 2022.

## **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 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, 2022) 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, 2022.

## **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, 2022 as set out in the 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 on March 20, 2023. 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 announcement.

## **PURCHASE, SALE OR REDEMPTION OF THE SECURITIES OF THE COMPANY**

During the year ended December 31, 2022, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company.

## **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, June 6, 2023. A notice convening the AGM and all other relevant documents will be published and despatched to the Shareholders in April 2023.

## **CLOSURE OF THE REGISTER OF MEMBERS**

The register of members of the Company will be closed from Wednesday, May 31, 2023 to Tuesday, June 6, 2023, 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 Tuesday, May 30, 2023, 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.floatingcloud.com>). The annual report for the year ended December 31, 2022 will be dispatched to the Shareholders 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 14 to the Listing Rules
“Consolidated Affiliated Entities”	the entities the Group controls through the Contractual Arrangements
“Contractual Arrangements”	the series of contractual arrangements entered into by, among others, Beijing Flowing Cloud, the Consolidated Affiliated Entities and the Registered Shareholders (as defined in the Prospectus), the details of which are set out in the section headed “Contractual Arrangements” in the Prospectus
“Director(s)”	the director(s) of the Company or any one of them
“FVTOCI”	fair value through other comprehensive income
“FVTPL”	fair value through profit or loss
“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
“IFRS”	International Financial Reporting Standards
“IP”	intellectual property
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	October 18, 2022, being the date from which the Shares were listed 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 10 to the Listing Rules
“PGC”	professionally generated content
“Post-IPO Share Option Scheme”	the post-IPO share option scheme conditionally adopted by the Company on September 8, 2022
“Prospectus”	the prospectus issued by the Company dated September 29, 2022
“R&D”	research and development
“Reporting Period”	the one-year period from January 1, 2022 to December 31, 2022
“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 20, 2023

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