飞天云动
FLOWING CLOUD

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 REPORT

2022

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Lei *(Chairman and Chief Executive Officer)*
Mr. Li Yanhao
Ms. Xu Bing
Mr. Li Yao

Independent Non-executive Directors

Mr. Jiang Yi
Mr. Tan Deqing
Ms. Wang Beili

JOINT COMPANY SECRETARIES

Mr. Li Yao
Ms. Chan Sau Ling

AUDIT COMMITTEE

Ms. Wang Beili *(Chairlady)*
Mr. Jiang Yi
Mr. Tan Deqing

REMUNERATION COMMITTEE

Mr. Tan Deqing *(Chairman)*
Mr. Wang Lei
Ms. Wang Beili

NOMINATION COMMITTEE

Mr. Tan Deqing *(Chairman)*
Mr. Jiang Yi
Ms. Wang Beili

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
Registered Public Interest Equity Auditor
35/F, One Pacific Place
88 Queensway
Hong Kong

AUTHORIZED REPRESENTATIVES

Mr. Wang Lei
Ms. Chan Sau Ling

REGISTERED OFFICE

89 Nexus Way
Camana Bay
Grand Cayman
KY1-9009
Cayman Islands

CORPORATE HEADQUARTERS

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Guangqulu No. 3
Chaoyang District
Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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Camana Bay
Grand Cayman
KY1-9009
Cayman Islands

HONG KONG SHARE REGISTRAR

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17/F, Far East Finance Centre
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Hong Kong

LEGAL ADVISOR

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Edinburgh Tower, 33/F
The Landmark
15 Queen's Road Central
Central
Hong Kong

COMPLIANCE ADVISOR

Shenwan Hongyuan Capital (H.K.) Limited
Level 6
Three Pacific Place
1 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

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Xicheng District
Beijing
PRC

Bank of Nanjing Co.
Beijing Branch
Yongxing Garden Hotel
101 Fucheng Road
Haidian District
Beijing
PRC

STOCK CODE

6610

COMPANY WEBSITE

www.flowingcloud.com

Financial Highlights

	For the year ended December 31, 2022 *RMB'000*	2021 *RMB'000*	Year-on-year change
Revenue	**1,066,157**	595,290	79.1%
Gross profit	**373,995**	175,516	113.1%
Profit before tax	**247,144**	87,142	183.6%
Profit for the year	**236,593**	71,719	229.9%
Total comprehensive income for the year	**257,465**	71,719	259.0%
Basic and diluted earnings per share *(RMB cents)*	**14.8**	5.2	184.6%
Non-IFRS Measure:			
Adjusted net profit* (unaudited)	**257,711**	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.

Four Years' Financial Summary

	Year ended December 31,			
	2022	2021	2020	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Operating results				
Revenue	**1,066,157**	595,290	338,598	250,942
Gross profit	**373,995**	175,516	104,704	75,325
Profits before tax	**247,144**	87,142	70,371	48,346
Profit for the year	**236,593**	71,719	60,252	41,879
Total comprehensive income for the year	**257,465**	71,719	60,252	41,879
Non-IFRS Measure:				
Adjusted net profit* (unaudited)	**257,711**	105,596	61,609	41,879

	As at December 31,			
	2022	2021	2020	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Financial position				
Non-current assets	**248,823**	40,236	28,289	13,307
Current assets	**1,278,627**	543,279	362,311	203,672
Current liabilities	**300,525**	134,201	211,016	97,814
Net current assets	**978,102**	409,078	151,295	105,858
Non-current liabilities	**1,520**	2,744	167	—
Net assets	**1,225,405**	446,570	179,417	119,615

* 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.

Chairman's Statement

Dear Shareholders,

Flowing Cloud has been committed to providing customers with better AR/VR content and services and a more convenient and efficient creation platform to help the development of the Metaverse industry. On behalf of the Board of Directors, I am pleased to present our first post-Listing annual report to share with you the development of Flowing Cloud during 2022 and its outlook for the future.

Over the past year, we have overcome many difficulties and successfully listed on the Hong Kong Stock Exchange. At the same time, our Board and senior management led our staff to execute our strategy in a complex and volatile market, resulting in significant year-on-year growth in both revenue and profit. At the business level, we have continued to broaden our business horizons, applying our content and services to various industries such as cultural tourism and e-commerce; at the technical level, we have continued to increase our investment in research and development, achieving significant improvements in the efficiency and quality of 3D content production; at the management level, we have continued to improve our internal management standards, obtaining significant optimization of the processes and efficiency in our corporate governance.

Looking ahead, we believe the Company will continue to benefit from technological changes and industry development under the trend of building a "Digital China". We will deepen the application of more Metaverse scenarios, continue to increase investment in research and development, constantly iterate content creation tools, and improve talent training and growth system; at the same time, we will also strengthen investment and cooperation in both upstream and downstream of the industry chain, improve the Metaverse ecosystem, and plan to gradually explore overseas markets. The Company will steadily promote the implementation of new technologies and new businesses; we will make full use of AIGC, LLM and other tools to help developers create a variety of virtual scenarios and interactive content in a very short period of time and greatly improve creation efficiency, thus consolidating our leading position in AR/VR content and services.

Last but not least, I would like to take this opportunity to extend my gratitude to our Shareholders, investors, business partners and customers for your continued support, care and trust, as well as to our Board, management and staff for your efforts in developing the Company. In the future, we will continue to strive to achieve a further leap in our business, create a grand blueprint for the Metaverse industry, thus sharing the long-term return on the Company's development with the most majority of our Shareholders.

Chairman
Wang Lei

March 20, 2023

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:

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

	As at/for the year ended December 31,	
	2022	2021
Number of registered users	**23,991**	12,265
Number of paid subscribers(1)	**4,570**	2,015
Number of customized AR/VR SaaS projects	**320**	142
Average daily active users	**2,314**	1,688
Average monthly active users	**8,288**	4,551
Peak monthly active users(2)	**9,835**	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	
	RMB'000	**%**	*RMB'000*	%
AR/VR marketing services	**681,796**	**64.0**	376,341	63.2
AR/VR content	**336,196**	**31.5**	161,395	27.1
AR/VR SaaS	**43,713**	**4.1**	20,588	3.5
Sales of IPs	**—**	**—**	4,472	0.8
Others(Note)	**4,452**	**0.4**	32,494	5.4
Total	**1,066,157**	**100.0**	595,290	100.0

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:

	For the year ended December 31,			
	2022		2021	
	RMB'000	**%**	*RMB'000*	%
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
Total	**681,796**	**100.0**	376,341	100.0

Industries such as culture and tourism, entertainment and e-commerce industries, are focusing increasingly on the application of AR/VR solutions due to the demand to strengthen the experience of end users and restitute offline experience. Our revenue from the culture and tourism industry increased from 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:

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

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(Note)	**9,489**	**1.4**	6,568	1.6
Total	**692,162**	**100.0**	419,774	100.0

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	
	RMB'000	**%**	*RMB'000*	%
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
Total	**526,101**	**100.0**	294,808	100.0

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

AR/VR content

The cost of revenue from the AR/VR content business 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:

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

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

Gross Profit and Gross Margin

The gross profit of the Group increased by 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	
		Gross Margin		Gross Margin
	RMB'000	**%**	*RMB'000*	%
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(Note)	**506**	**11.4**	8,024	24.7
Total	**373,995**	**35.1**	175,516	29.5

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:

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

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
Total (losses)/gains	**(7,336)**	447

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:

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

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:

	As at December 31,	
	2022	2021
	RMB'000	*RMB'000*
Adaptation rights	**41,658**	29,161
Software	**6,276**	113
Total	**47,934**	29,274

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:

	As at December 31,	
	2022	2021
	RMB'000	*RMB'000*
Current		
Incremental costs to obtain contracts	**977**	3,803
Costs to fulfill contracts	**349**	5,693
Total	**1,326**	9,496

	As at December 31,	
	2022	2021
	RMB'000	*RMB'000*
Non-current		
Incremental costs to obtain contracts	**28**	1,005
Costs to fulfill contracts	**358**	—
	386	1,005

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:

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

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:

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

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:

	As at December 31,	
	2022	2021
	RMB'000	*RMB'000*
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
Total	**139,624**	75,340

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:

	As at December 31,	
	2022	2021
	RMB'000	*RMB'000*
Non-current	**1,520**	2,744
Current	**4,368**	3,019
Total	**5,888**	5,763

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, 2022, 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.

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 (a joint stock limited liability company incorporated in the PRC whose H shares are listed in the Main Board of the Stock Exchange, Stock Code: 1596) ("**Yichen**"). Yichen is principally engaged in research and development, manufacturing and sales of rail fastening system products, welding wire and railway sleeper products. As at December 31, 2022, the Group held 31,426,000 shares, representing approximately 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 annual report, no dividend was received by the Company. 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 annual report.

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

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.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Wang Lei (汪磊), aged 40, was appointed as the Director on June 24, 2021. He was appointed as the chairman of the Board, chief executive officer and re-designated as the executive Director on December 13, 2021. He is primarily responsible for the strategic development, overall operation and management and major decision making of the Group. Mr. Wang joined the Group as a general manager of Ophyer Technology on April 1, 2009. Mr. Wang also holds various positions with other members of the Group.

Mr. Wang has over 17 years of experience in the Internet technology industry. Prior to joining the Group, from July 2005 to May 2006, Mr. Wang served as WAP operation manager in Newpalm (China) Information Technology Co., Ltd. (掌中萬維(中國)信息科技有限公司). From June 2006 to January 2009, Mr. Wang served as senior operations director in Beijing Ourpalm Co., Ltd. (北京掌趣科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code 300315).

Mr. Wang received the "Industry Leading Individual Award" at the 7th session of the Beijing Animation Event issued by the Beijing Animation Committee in August 2018.

Mr. Wang obtained his bachelor's degree in automation from the North China University of Technology (北方工業大學) in Beijing, PRC in July 2005, and his master's degree in project management from the Beijing University of Posts and Telecommunications (北京郵電大學) in Beijing, PRC in March 2013.

Mr. Li Yanhao (李艷浩), aged 41, was appointed as the Director on December 13, 2021 and was re-designated as the executive Director on December 13, 2021. He is also a senior vice president and the chief technology officer of the Group, responsible for assisting in overall management and overall R&D and technical management of the Group. Mr. Li joined the Group as a director of Ophyer Technology on March 27, 2009. Mr. Li also holds various positions with other members of the Group.

Mr. Li has over 16 years of experience in software engineering. Prior to joining the Group, form January 2005 to May 2007, Mr. Li served as software engineer in Beijing Chuangli Century Software Co., Ltd. (北京創利世紀軟件有限公司), responsible for mobile game business development. From June 2007 and January 2009, Mr. Li served as software engineer in Aikexin (Beijing) Technology Limited (愛可信(北京)傳媒技術有限公司).

Mr. Li graduated with an undergraduate degree in electronic science and technology from the University of Electronic Science and Technology of China (電子科技大學) in Sichuan, PRC in July 2004.

Ms. Xu Bing (徐冰), aged 40, was appointed as the Director on December 13, 2021 and was re-designated as the executive Director on December 13, 2021. She is also a vice president and chief officer for data of the Company, responsible for assisting in overall management and sales and marketing activities of the Group. Ms. Xu joined the Group as a commercial manager of Ophyer Technology on August 3, 2009. Ms. Xu also holds various positions with other members of the Group.

Ms. Xu has over 15 years of experience in the information technology services industry. Prior to joining the Group, from January 2007 to March 26, 2008, Ms. Xu served as business development manager in Beijing Joyes Tech. Co., Ltd. (北京卓娛互動科技有限公司), responsible for market development related work. From April 2008 to April 2009, Ms. Xu served as terminal cooperation manager in Shanghai Jichuang Network Technology Co., Ltd. (上海積創網絡科技有限公司), responsible for promoting games and cooperating with mobile terminals to provide game content. From April 2009 to August 2009, Ms. Xu served as marketing manager in Yimenlou (Beijing) Technology Co., Ltd. (億門樓(北京)科技有限公司).

Ms. Xu obtained her bachelor's degree in international economics and trading from Jilin University of Finance and Economics (吉林財經大學) (previously known as the Changchun Taxation College (長春稅務學院)) in Jilin, PRC in July 2006.

Mr. Li Yao (李堯), aged 40, was appointed as the Director on December 13, 2021. He was appointed as the joint company secretary to the Board and re-designated as the executive Director on December 13, 2021. He is also a vice president of the Company, responsible for overseeing the daily business operations and assisting in overall management of the Group. Mr. Li Yao joined the Group as deputy general manager and secretary to the board of Ophyer Technology on February 29, 2016. Mr. Li Yao also holds various positions with other members of the Group.

Mr. Li Yao has over 17 years of experience in games and software development. Prior to joining the Group, from December 2004 to December 2007, Mr. Li Yao served as product manager in Ourpalm Co., Ltd. (北京掌趣科技股份有限公司), responsible for games related business. From January 2008 to June 2010, Mr. Li Yao served as mobile games product director in Shanghai Snowfish Tech. Co., Ltd. (上海雪鯉魚計算機科技有限公司), responsible for Java related business. From July 2010 to January 2016, Mr. Li Yao served as general manager in Beijing Fengxinzi Computer Technology Co., Ltd.* (北京風信子計算機科技有限公司) (currently known as (Beijing Planet Wings Sports Culture Co., Ltd.* 北京星球之翼體育文化有限公司)), responsible for marketing and operation of the company.

Mr. Li Yao received the 2018 National Equities Exchange and Quotations Gold Medal for Secretary of the Board (2018年度新三板金牌董秘) issued by the Rhino Star (IPO3.COM) in 2018.

Mr. Li Yao obtained his diploma in stage lighting and sound engineering from the Beijing Broadcast and Television University (北京廣播電視大學) (subsequently known as Beijing Open University (北京開放大學)) in Beijing, PRC in July 2005, and his bachelor's degree in Chinese literature and linguistics from the Central Broadcast and Television University (中央廣播電視大學) (subsequently known as The Open University of China (國家開放大學)) in Beijing, PRC in January 2011.

Independent Non-Executive Directors

Mr. Jiang Yi (江一), aged 38, was appointed as the independent non-executive Director on September 8, 2022. He is primarily responsible for supervising and providing independent judgement to the Board.

Mr. Jiang has over ten years of experience in the field of corporate services. Since March 2012, he has been serving as the chairman of the board of Zhonglian Hengye (Beijing) Investment Management Co., Ltd.* (中聯恒業(北京)投資管理有限公司), primarily responsible for leading the board and focusing on strategic matter. Since November 2014, He has been serving as the chairman of the board of Qingyun Technology (Beijing) Co., Ltd.* (擎雲科技(北京)有限公司), primarily responsible for leading and supervising the board and the senior management. Since April 2019, he has been serving as the independent non-executive director of HCR Co., Ltd.* (北京慧辰資道資訊股份有限公司), a company listed on the Shanghai Stock Exchange Science and Technology Innovation Board (stock code: 688500), primarily responsible for providing independent opinion and judgement to the company.

Mr. Jiang obtained his bachelor's degree in electronic information engineering from the Wuhan University of Science and Technology (武漢科技大學) in Wuhan, PRC in June 2007.

Mr. Tan Deqing (譚德慶), aged 57, was appointed as the independent non-executive Director on September 8, 2022. He is primarily responsible for supervising and providing independent judgement to the Board.

Mr. Tan has extensive experience in the education sector. Prior to joining the Group, Mr. Tan was a lecturer in Beihua University and a lecturer and associate professor in Qingdao University. Since September 2005, Mr. Tan has been serving as the professor of Southwest Jiaotong University, primarily responsible for teaching strategies, operations research, practical statistics, game theory and data modelling.

Mr. Tan was a director of the 7th and 8th sessions of Leading Organization of Operations Research Society of China and a standing director of the 3rd session of Corporate Operations Research Division of Operations Research Society of China. He is currently a member of the Expert Database of the National Doctoral and Master's Thesis Sampling Commentary.

Mr. Tan obtained his bachelor's degree in mathematics from the Northeast Normal University (東北師範大學) in Jilin, PRC in July 1988, and his master's degree in applied mathematics from Sichuan University (四川大學) in Sichuan, PRC in June 1994. He obtained his doctorate in management from Southwest Jiaotong University (西南交通大學) in Sichuan, PRC in January 2005.

Ms. Wang Beili (王蓓莉), aged 37, was appointed as the independent non-executive Director on September 8, 2022. She is primarily responsible for supervising and providing independent judgement to the Board.

Ms. Wang has over 14 years of experience in finance and accounting. Prior to joining the Group, from August 31, 2007 to November 24, 2013, Ms. Wang served as audit manager in PricewaterhouseCoopers Zhongtian Certified Public Accountants (Special General Partnership), primarily responsible for provision of audit services. From December 2013 to February 2015, Ms. Wang served as finance manager — internal audit in Yum! Brands, Inc., China Division (百勝餐飲), primarily responsible for internal audit related matters. From March 2, 2015 to June 27, 2016, Ms. Wang served as investor relationships senior relationship manager in Zigong Noah Financial Services Co., Ltd. (自貢諾亞金融服務有限公司), primarily responsible for managing investor relationships. Since February 3, 2017, Ms. Wang has been serving as operation director of Investment Department in Shanghai Xin Gong Investment Management Co., Ltd.* (上海信公投資管理有限公司), primarily responsible for the operation of the Investment Department. Since April 2017, Ms. Wang has been serving as executive director and general manager in Fenyi Huiyu Investment Management Co., Ltd.* (分宜匯譽投資管理有限公司), primarily responsible for overall management of the company.

Ms. Wang obtained her bachelor's degree in Business Administration from Fudan University (復旦大學) in Shanghai, PRC in July 2007. In March 2014, she was qualified as a Certified Public Accountant in the PRC.

Other Disclosure Pursuant to Rule 13.51(2) of the Listing Rules

Save as disclosed in this annual report, each of the Directors confirms with respect to himself/herself that he/she (1) did not hold any other positions with the Company and other members of the Group; (2) did not hold other long positions or short positions in the Shares, underlying Shares, debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO); (3) had no other relationship with any Directors, senior management or substantial Shareholders or Controlling Shareholders of the Company except that Mr. Wang and Mr. Li have entered into a concert party agreement according to which they confirm and acknowledged that they have been cooperating and parties acting in concert with respect to the matter of Ophyer Technology (for further details, please see the paragraph headed "History, Development and Corporate Structure — Concert Party Agreement" in the Prospectus); (4) did not hold any other directorships in the last three years prior to the date of this annual report in any public companies the securities of which are listed on any securities market in Hong Kong or overseas or hold any other major appointments and professional qualifications; and (5) there are no other matters concerning the Directors that need to be brought to the attention of the Shareholders and the Stock Exchange or shall be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

For biographical details of Mr. Wang, Mr. Li, Ms. Xu Bing and Mr. Li Yao, please see the paragraph headed "Executive Directors" in this section.

Mr. Zhang Jiming (張紀明), aged 48, joined the Group as the chief financial officer of Ophyer Technology on March 22, 2021, and was appointed as the chief financial officer of the Company on December 13, 2021. He is primarily responsible for overseeing the financial and taxation affairs of the Group.

Mr. Zhang has over 15 years of experience in accounting and finance. Prior to joining the Group, from January 2002 to December 2004, Mr. Zhang served as senior accountant in Beijing Branch of PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所(特殊普通合夥)北京分所), primarily responsible for performing audit work. From December 2004 to August 2006, Mr. Zhang served as financial analyst in Bombardier Canada Beijing Office (加拿大龐巴迪公司北京辦事處), primarily responsible for overseeing the finance, budget, operational control and internal control. From October 2009 to May 2012, Mr. Zhang served as financial controller in China Hydroelectric Corporation (中華水電公司), primarily responsible for reviewing financial reports and annual reports, making financial analysis, budgets and forecasts, and other financial control works. From June 2012 to July 2013, Mr. Zhang served as chief financial officer in Amsinomed Medical Co., Ltd.* (北京美中雙和醫療器械股份有限公司), primarily responsible for formulating business plans, strategies and major decisions and overseeing the financial management. From August 2013 to March 2016, Mr. Zhang served as chief financial officer in Beijing GeoEnviron Engineering & Technology. Inc* (北京高能時代環境技術股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603588), primarily responsible for formulating business plans, strategies and major decisions and overseeing the financial management. From April 2016 to April 2018, Mr. Zhang served as deputy general manager in Beijing Sanwei Investment Fund Management Co., Ltd.* (北京三維投資基金管理有限公司), primarily responsible for general management of investment. From April 2018 to August 2019, Mr. Zhang served as chief financial officer in Baicells Technologies Co., Ltd.* (北京佰才邦技術股份有限公司), primarily responsible for formulating business plans, strategies and major decisions and overseeing the financial management.

Mr. Zhang obtained his bachelor's degree in accounting from the Capital University of Economics and Business (首都經濟貿易大學) in Beijing, PRC in July 1998 and his master's degree in business administration from University of Connecticut in Connecticut, United States in August 2008.

Mr. Han Yizhe (韓沂哲), aged 38, joined the Group on March 26, 2019 and was the marketing director of Hupo Jinyuan from March 26, 2019 to April 30, 2019, the marketing director of Zhongrunxing from May 1, 2019 to June 30, 2020 and was the vice president and chief sales as well as marketing officer of Ophyer Technology since July 2020. He is primarily responsible for overall management, strategic planning, marketing, sales and business development of the Group.

Mr. Han has over 14 years of experience in marketing operations. Prior to joining the Group, from January 28, 2009 to May 30, 2013, Mr. Han served as strategy director in Beijing Ruicheng Advertising Co., Ltd.* (北京瑞誠廣告有限公司), a wholly-owned subsidiary of a Hong Kong listed company (stock code: 1640), primarily responsible for strategic planning and customer services. From June 3, 2013 to December 28, 2018, Mr. Han served as marketing director in Tibet Shannan Dongfang Bojie Advertising Co., Ltd.* (西藏山南東方博傑廣告有限公司), a wholly-owned subsidiary of a listed company on the Shenzhen Stock Exchange (stock code: 300058), primarily responsible for strategic planning and customer services.

Mr. Han obtained his bachelor's degree in calligraphy from the Luxun Academy of Fine Arts (魯迅美術學院) in Liaoning, PRC in July 2008.

Ms. Zuo Yanhong (左艷紅), aged 40, joined the Group on April 18, 2016 and was the finance manager of Ophyer Technology from April 18, 2016 to December 31, 2020 and the finance vice president since January 1, 2021. Ms. Zuo was appointed as the finance vice president of the Company on December 13, 2021. She is primarily responsible for overseeing accounting and finance matters of the Group.

Ms. Zuo has over 11 years of experience in corporate management and accounting. Prior to joining the Group, from June 2006 to July 2008, Ms. Zuo served as specific class supervisor (團委幹事) in Youth League Committee of the Wuhan University of Science and Technology* (武漢科技學院團委). From September 2008 to October 2010, Ms. Zuo served as office manager in Tianjin Zhongyou Sida Petroleum Materials Co., Ltd.* (天津中油四達石油材料有限公司). From March 2011 to October 2011, Ms. Zuo served as administrative officer in Beijing Kangquan Gelin Information Technology Co., Ltd.* (北京康全格林信息技術有限公司). From September 2015 to April 2016, Ms. Zuo served as accounting supervisor in Beijing Zhengji Xinyun Trading Co., Ltd.* (北京鑫瑞遠達商貿有限公司).

Ms. Zuo obtained her bachelor's degree in international economics and trading from the South-Central University for Nationalities (中南民族大學) in Hubei, PRC in July 2006. Ms. Zuo obtained her junior accounting title (初級會計職稱) from the Ministry of Human Resources and Social Security of the PRC on May 16, 2017.

The Directors are pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2022.

GLOBAL OFFERING

The Company was incorporated as an exempted limited liability company in the Cayman Islands on June 24, 2021, and the shares of which were listed on the Main Board of the Stock Exchange on October 18, 2022.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the provision of AR/VR marketing services, AR/VR content and relevant services. There is no significant change in the nature of the Group's activities during the year ended December 31, 2022.

FINANCIAL STATEMENTS

The financial performance of the Group for the year ended December 31, 2022 and the financial position of the Group as at December 31, 2022 are set out in the consolidated financial statements on pages 117 to 195 of this annual report.

GROUP FINANCIAL SUMMARY

A summary of the Group's results and assets and liabilities for the past four financial years is set out in the section headed "Four Years' Financial Summary" of this annual report.

FINAL DIVIDEND

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

BUSINESS REVIEW

A review of the business of the Group during the year ended December 31, 2022, which includes a discussion and analysis of the Group's performance using financial and operational key performance indicators and future business development are set out in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Financial Highlights" of this annual report. The financial risk management objectives and policies of the Group are set out in note 32 to the consolidated financial statements.

DIRECTORS

The Directors during the Reporting Period and up to the date of this annual report were:

Executive Directors

Mr. Wang Lei
Mr. Li Yanhao
Ms. Xu Bing
Mr. Li Yao

Independent non-executive Directors

Mr. Jiang Yi
Mr. Tan Deqing
Ms. Wang Beili

In accordance with Article 108(a) of the Articles of Association, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement at an annual general meeting by rotation at least once every three years. A retiring Director shall be eligible for re-election.

In accordance with Article 112 of the Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the Shareholders in general meeting. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the next first annual general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the next first annual general meeting of the Company after his appointment and shall then be eligible for re-election. Any Director appointed under this Article shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

Accordingly, all Directors shall retire from office by rotation as Directors at the AGM and, being eligible, will offer themselves for re-election as Directors at the AGM.

BIOGRAPHIES OF THE DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the Directors and the senior management of the Company are set out in the section headed "Directors and Senior Management" on pages 32 to 36 of this annual report.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors a confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all of the independent non-executive Directors to be independent during the Reporting Period and up to the date of this annual report.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years, which may be terminated by not less than three months' notice in writing served by either the executive Director or the Company.

Each of the independent non-executive Directors has entered into a letter of appointment with us for a term of three years, which may be terminated by not less than three months' notice in writing served by either the independent non-executive Director or the Company.

Save as disclosed above, none of the Directors has or is proposed to have entered into any service contract or letter of appointment with any member of the Group (excluding agreements expiring or determinable by any member of the Group within one year without payment of compensation (other than statutory compensation)).

CHANGES IN INFORMATION IN RESPECT OF DIRECTORS

Save as otherwise disclosed, there were no changes in information which are required to be disclosed and had been disclosed by Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) as well as Rule 13.51(B) of the Listing Rules from the Listing Date and up to the date of this annual report.

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
To enhance our R&D capabilities and improve our services and products					
(1) to develop and optimize our algorithms and data analysis capabilities;	53.2	10.0%	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

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
To enhance our sales and marketing function:					
(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
For selected mergers, acquisitions, and strategic investments	79.8	15.0%	—	79.8	By the end of 2024
For the development of our Feitian Metaverse platform	53.1	10.0%	26.2	26.9	By the end of 2024
For our working capital and general corporate purposes	53.2	10.0%	22.6	30.6	By the end of 2024
Total	531.9	100.0%	158.9	373.0	

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.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended December 31, 2022, revenue from the Group's top five customers accounted for 28.81% (2021: 39.2%) of the Group's total revenues while revenue from the Group's largest customer accounted for 7.59% (2021: 10.2%) of the Group's total revenues.

Major Suppliers

For the year ended December 31, 2022, the expense paid to the Group's top five suppliers accounted for 46.94% (2021: 45.1%) of the total cost of revenue while the expense paid to the Group's largest supplier accounted for 14.78% (2021: 13.5%) of the Group's total cost of revenue.

None of the Directors or any of their close associates or any Shareholders (which to the knowledge of the Directors owns more than 5% of the number of the issued Shares) was interested in the top five customers or suppliers of the Group.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognizes that employees, customers and suppliers are key to the Group's success. The Group actively maintains a good relationship with employees, customers and suppliers. There was no material and significant dispute between the Group and its employees, suppliers and/or customers during the Reporting Period.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the Reporting Period are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the Reporting Period are set out in note 29 to the consolidated financial statements.

RESERVES

Details of the movements in the reserves of the Group during the Reporting Period are set out in the consolidated statement of changes in equity in this annual report.

Details of the Company's reserves available for distribution to the Shareholders as at December 31, 2022 are set out in the consolidated statement of changes in equity and notes 30 and 37 to the consolidated financial statements.

BANK BORROWINGS

Details of bank borrowings of the Group as at December 31, 2022 are set out in note 27 to the consolidated financial statements.

POST-IPO SHARE OPTION SCHEME

We have adopted the Post-IPO Share Option Scheme on September 8, 2022. The principal terms of the Post-IPO Share Option Scheme are set out as follows. From the Listing Date to December 31, 2022, no options have been granted or agreed to be granted under the Post-IPO Share Option Scheme.

(a) Purpose

The purpose of the Post-IPO Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors consider that the Post-IPO Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees and the Directors for their contributions to the Group, and to promote the success of the business of the Group. Given that participants are given an opportunity to have a personal stake in the Company, it is expected that the Post-IPO Share Option Scheme will motivate participants to optimize their performance and efficiency, and attract and retain participants whose contributions are important to the long-term growth and profitability of the Group.

(b) Who may join

The Directors (which expression shall, for the purpose of this paragraph, include the Board or a duly authorized committee thereof) may, at their absolute discretion, invite any person belonging to any of the following classes of participants, who the Board considers, in its sole discretion, have contributed or will contribute to the development and growth of the Group, to take up options to subscribe for Shares: (i) any director and employee of any member of the Group (each an "**employee participant**"); and (ii) any director or employee of any of the holding companies, fellow subsidiaries or associated companies of the Company (each a "**related entity participant**").

(c) Maximum number of Shares

The total number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme shall not in aggregate exceed 10% of the relevant class of Shares in issue on the Listing Date (the "**Scheme Mandate Limit**"), which shall be 181,000,000 Shares, being 10% of the total number of Shares in issue as at the date of this annual report. The total number of Shares which remains available for issue under the Post-IPO Share Option Scheme was 181,000,000 Shares, being 10% of the total number of Shares in issue as at the date of this annual report.

The Scheme Mandate Limit may be refreshed at any time after three years from the date of Shareholders' approval for the last refreshment (or the date on which the Post-IPO Share Option Scheme is adopted, as the case may be) by approval of its Shareholders in general meeting in accordance with the Listing Rules.

The total number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme under the scheme mandate as refreshed must not exceed 10% of the relevant class of Shares in issue as at the date of approval of the refreshed scheme mandate. The Company may seek separate Shareholders' approval in a general meeting to grant options beyond the Scheme Mandate Limit to participants specifically identified by the Company before such approval is sought in accordance with the Listing Rules.

(d) Maximum entitlement of each participant

Where any grant of options to a participant would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such participant (excluding any options lapsed in accordance with the terms of the Post-IPO Share Option Scheme) in the 12-month period up to and including the date of such grant representing in aggregate over 1% of the relevant class of Shares in issue, such grant must be separately approved by the Shareholders in general meeting in accordance with the Listing Rules.

(e) Grant of options to connected persons

(i) Notwithstanding the foregoing, any grant of options under the Post-IPO Share Option Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is a participant of the Post-IPO Share Option Scheme and has accepted an offer of a grant of an option).

(ii) Where any grant of options to an independent non-executive Director or a substantial shareholder of the Company or any of their respective associates would result in the Shares issued and to be issued in respect of all options and awards granted (excluding any options and awards lapsed in accordance with the terms of the Post-IPO Share Option Scheme) under the Post-IPO Share Option Scheme and any other schemes of the Company to such person in the 12-month period up to and including the date of such grant representing in aggregate over 0.1% of the Shares in issue, such further grant of options must be approved by the Shareholders at a general meeting of the Company in accordance with the Listing Rules.

(f) Time of acceptance and exercise of option

An offer made to a participant shall remain open for acceptance by such participant for a period of five business days from the offer date (inclusive of the offer date). Any offer must be accepted in its entirety and can under no circumstances be accepted of less than the number of Shares for which it is offered.

An option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than ten years from the date on which an option is offered to a participant, subject to the provisions for early termination under the Post-IPO Share Option Scheme. In any event, the minimum period for which an option must be held before it can be exercised shall be 12 months.

(g) Performance targets

The Directors shall have absolute discretion to determine the performance targets such as growth rate of revenue, earnings per share and/or total shareholder return that must be achieved by a grantee before any options granted under the Post-IPO Share Option Scheme can be exercised.

(h) Subscription price for Shares and consideration for the option

The subscription price per Share under the Post-IPO Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of a Share on the date of the offer of grant.

A nominal consideration of HK$1.00 is payable upon acceptance of the grant of an option.

(i) Period of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme will remain in force for a period of ten years commencing on the date on which the Post-IPO Share Option Scheme is adopted and shall expire at the close of business on the business day immediately preceding the tenth anniversary thereof unless terminated earlier by the Shareholders in general meeting. The remaining life of the Post-IPO Share Option Scheme shall be approximately nine years and five months.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the Reporting Period, none of the Directors were interested in any business apart from the Company's business, which competed or was likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries pursuant to Rule 8.10 of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Continuing Connected Transactions" in this annual report, there was no transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party and in which a Director or its connected entity (within the meaning of Section 486 of the Companies Ordinance) had a material interest, whether directly or indirectly, and subsisting during the year ended December 31, 2022 or as at December 31, 2022.

CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS

Save as disclosed in "Related Party Transactions" in note 34 to the consolidated financial statements, there was no contract of significance between the Company or any of its subsidiaries and the Controlling Shareholders or any of its subsidiaries during the year ended December 31, 2022 or subsisted as at December 31, 2022. No contract of significance for the provision of services to the Company or any of its subsidiaries by a Controlling Shareholder or any of its subsidiaries was entered into during the year ended December 31, 2022 or subsisted as at December 31, 2022.

EMOLUMENT POLICY

The Remuneration Committee is primarily responsible for: (i) making recommendations to the Board on the policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; (ii) determining the remuneration packages of Directors and senior management; and (iii) reviewing and approving remuneration proposals with reference to corporate goals and objectives resolved by the Board from time to time.

The Directors receive remuneration in the form of fees, salaries, bonuses, other allowances and benefits in kind, including the Company's contribution to the pension scheme on their behalf. The Group determines the salaries of the Directors based on each Director's responsibilities, qualification, position and seniority. The Group has also adopted the Post-IPO Share Option Scheme.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' remuneration and the five highest paid individuals are set out in note 11 to the consolidated financial statements.

No Director has waived or has agreed to waive any emoluments during the year ended December 31, 2022.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in note 33 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at December 31, 2022, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules were as follows:

Interests in Shares

Name of Director	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding (%)	Long/short position
Mr. Wang	Interest in controlled corporation[1]	764,083,301	42.21	Long position
Mr. Li	Interest in controlled corporation[1]	764,083,301	42.21	Long position

Note:

(1) Mr. Wang and Mr. Li jointly hold 42.21% of interest of the Company through Brainstorming Cafe Limited. Brainstorming Cafe Limited is owned as to 26.16% by Wanglei Co., Ltd., 61.05% by Cyber Warrior Holdings Limited and 12.79% by LYH. Ltd.. Wanglei Co., Ltd. is wholly owned by Mr. Wang. LYH. Ltd. is wholly owned by Mr. Li. Cyber Warrior Holdings Limited is wholly owned by Vistra Trust (Singapore) Pte. Limited. Vistra Trust (Singapore) Pte. Limited is the trustee of the Wang Family Trust which is a discretionary trust established by Mr. Wang as the settlor and protector, and the beneficiary of the Wang Family Trust is Wanglei Co., Ltd.. The Wang Family Trust is established for Mr. Wang's estate planning purposes.

Furthermore, on December 13, 2021, Mr. Wang and Mr. Li entered into a concert party agreement, pursuant to which Mr. Wang and Mr. Li confirmed, among other things, that since they became shareholders and/or beneficial owners of Ophyer Technology or any member of the Group, they have been cooperating and are parties acting in concert with respect to the matters of Ophyer Technology, and shall continue to do so until the termination of such concert party agreement, and that they have been and shall continue to give unanimous consent, approval or rejection on any material issues and decision in relation to the business of the Company and the relevant members of the Group.

Interests in Shares of Associated Corporations

Name of Director	Capacity/Nature of Interest	Name of associated corporation	Approximate Percentage of Shareholding (%)
Mr. Wang	Beneficial owner(1)	Ophyer Technology	40.88
Mr. Li	Beneficial owner(2)	Ophyer Technology	5.92

Notes:

(1) Mr. Wang, one of the Registered Shareholders, holds 40.88% of the equity interest in Ophyer Technology. Ophyer Technology is a subsidiary of the Company by virtue of the Contractual Arrangements.

(2) Mr. Li, one of the Registered Shareholders, holds 5.92% of the equity interest in Ophyer Technology. Ophyer Technology is a subsidiary of the Company by virtue of the Contractual Arrangements.

Save as disclosed above, as at December 31, 2022, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, at no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate, and none of the Directors or their spouses or children under the age of 18 were granted any right to subscribe for the share capital or debt securities of the Company or any other body corporate, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at December 31, 2022, to the best knowledge of the Directors, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register required to be kept by the Company under section 336 of the SFO:

Interests in Shares

Name of Shareholder	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding (%)	Long/Short Position
Wanglei Co., Ltd.	Interest in controlled corporation[(1)]	764,083,301	42.21	Long position
LYH. Ltd.	Interest in controlled corporation[(1)]	764,083,301	42.21	Long position
Vistra Trust (Singapore) Pte. Limited	Trustee[(2)]	764,083,301	42.21	Long position
Cyber Warrior Holdings Limited	Interest in controlled corporation[(2)]	764,083,301	42.21	Long position
Ms. Zhang Zimo	Interest of spouse[(3)]	764,083,301	42.21	Long position
Ms. Feng Dasha	Interest of spouse[(4)]	764,083,301	42.21	Long position
Brainstorming Cafe Limited	Beneficial owner	764,083,301	42.21	Long position

Notes:

(1) Mr. Wang and Mr. Li jointly hold 42.21% of interest of the Company through Brainstorming Cafe Limited. Brainstorming Cafe Limited is owned as to 26.16% by Wanglei Co., Ltd., 61.05% by Cyber Warrior Holdings Limited and 12.79% by LYH. Ltd.. Wanglei Co., Ltd. is wholly owned by Mr. Wang. LYH. Ltd. is wholly owned by Mr. Li. Cyber Warrior Holdings Limited is wholly owned by Vistra Trust (Singapore) Pte. Limited. Vistra Trust (Singapore) Pte. Limited is the trustee of the Wang Family Trust which is a discretionary trust established by Mr. Wang as the settlor and protector, and the beneficiary of the Wang Family Trust is Wanglei Co., Ltd.. The Wang Family Trust is established for Mr. Wang's estate planning purposes.

Furthermore, on December 13, 2021, Mr. Wang and Mr. Li entered into a concert party agreement, pursuant to which Mr. Wang and Mr. Li confirmed, among other things, that since they became shareholders and/or beneficial owners of Ophyer Technology or any member of the Group, they have been cooperating and are parties acting in concert with respect to the matters of Ophyer Technology, and shall continue to do so until the termination of such concert party agreement, and that they have been and shall continue to give unanimous consent, approval or rejection on any material issues and decision in relation to the business of the Company and the relevant members of the Group.

(2) Cyber Warrior Holdings Limited is wholly owned by Vistra Trust (Singapore) Pte. Limited, the trustee of the Wang Family Trust which is a discretionary trust established by Mr. Wang as the settlor and protector and the beneficiary of the Wang Family Trust is Wanglei Co., Ltd.. The Wang Family Trust is established for Mr. Wang's estate planning purposes.

(3) Ms. Zhang Zimo is the spouse of Mr. Wang. Under the SFO, Ms. Zhang Zimo is deemed to be interested in the same number of Shares in which Mr. Wang is interested.

(4) Ms. Feng Dasha is the spouse of Mr. Li. Under the SFO, Ms. Feng Dasha is deemed to be interested in the same number of Shares in which Mr. Li is interested.

Save as disclosed above, as at December 31, 2022, the Directors were not aware of any persons (other than the Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register required to be kept by the Company under section 336 of the SFO.

PRINCIPAL RISKS AND UNCERTAINTIES

Save as disclosed the paragraph headed "Continuing Connected Transactions — Risks Relating to the Contractual Arrangements" and note 32 to the consolidated financial statements in this annual report, summarized below are principal risks and uncertainties identified and faced by the Group which may have a material and adverse impact on the Group's business performance, financial condition, results of operations or prospects:

(i) ability to achieve or maintain operating results in the future and ability to forecast them;

(ii) ability to implement growth strategies or manage growth effectively;

(iii) uncertainties in the SaaS industry and the AR/VR marketing industry in PRC;

(iv) failure to improve and enhance the functionality, performance, reliability, design, security and scalability of its products and services timely to suit its customers' evolving needs;

(v) uncertainties with compliance with laws, regulations and governmental policies regarding privacy and data protection in the PRC;

(vi) uncertainties in the enactment, interpretation and enforcement of certain laws, regulations and governmental policies in PRC;

(vii) intense competition in the markets and may not be able to compete successfully against the existing and future competitors; and

(viii) risks relating to industry, business and operations.

There may be other principal risks and uncertainties in addition to those set out above which are not known to the Group, or which may not be material now but could turn out to be material in the future.

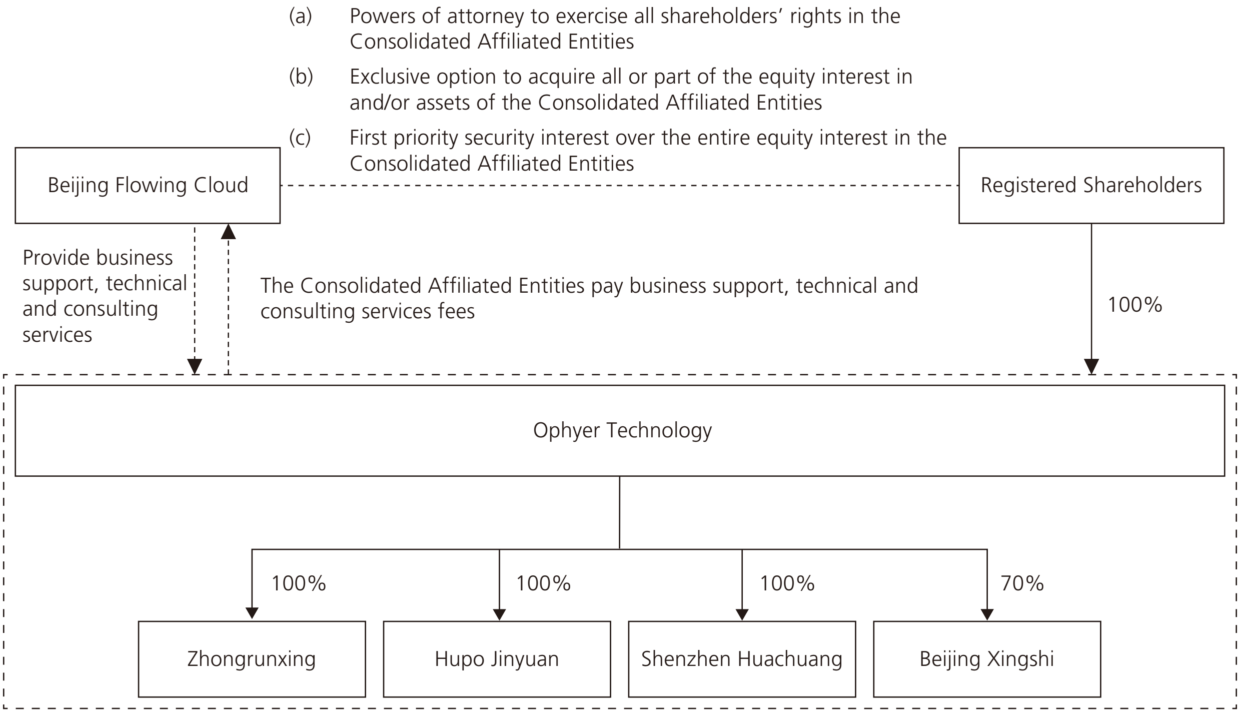
CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2022, the Group had entered into the following transactions, which constituted continuing connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14A of the Listing Rules.

Non-exempt Continuing Connected Transactions — Contractual Arrangements

As disclosed in the section headed "Contractual Arrangements" in the Prospectus, in order for the Group to operate the business of Ophyer Technology and its subsidiaries in compliance with the relevant PRC laws and regulations, Beijing Flowing Cloud entered into the Contractual Arrangements with Ophyer Technology and the Registered Shareholders on December 16, 2021 and with Ophyer Technology and its subsidiaries on May 6, 2022, pursuant to which, all economic benefits arising from the business and operation of Ophyer Technology and its subsidiaries are transferred to Beijing Flowing Cloud by means of service and consultation fees payable by the Consolidated Affiliated Entities to Beijing Flowing Cloud.

The following simplified diagram illustrates the flow of economic benefits from the Consolidated Affiliated Entities to the Group stipulated under the Contractual Arrangements:



Notes:

(1) See the section headed "Shareholders' Rights Entrustment Agreements" for details.

(2) See the section headed "Exclusive Option Agreements" for details.

(3) See the section headed "Equity Pledge Agreements" for details.

(4) See the section headed "Exclusive Technical Consultation and Services Agreement" for details.

(5) As at December 31, 2022, the Group was principally engaged in the Relevant Businesses through Ophyer Technology. The Consolidated Affiliated Entities other than Ophyer Technology which had no substantial operation as at December 31, 2022, are planned to operate the Relevant Businesses in the future.

(6) "$\longrightarrow$" denotes direct legal and beneficial ownership in the equity interest.

"$\dashrightarrow$" denotes contractual relationship.

Exclusive Technical Consultation and Services Agreement

Beijing Flowing Cloud and the Consolidated Affiliated Entities entered into an exclusive technical consultation and services agreement on May 6, 2022 (the "**Exclusive Technical Consultation and Services Agreement**"), pursuant to which the Consolidated Affiliated Entities agreed to engage Beijing Flowing Cloud as their exclusive provider of comprehensive management and consultation services, including but not limited to:

(a) to provide information consultation services relating to the Consolidated Affiliated Entities' principal businesses, and provide the Consolidated Affiliated Entities with advices and recommendations on all aspects of business operations;

(b) to provide corporate management consultation services, taxation and financial management services, information system services and technical services, promoting the Consolidated Affiliated Entities' corporate standardization and formation of information management system;

(c) to provide services relating to market research, market surveys, research consultation and judgment, and provide market information;

(d) to provide the relevant technical support and staff training for business personnel, and provide advices and recommendations on human resources management;

(e) to provide management and consultation services in relation to daily operation, finance, investment, assets, credits and debts, human resources, internal informatization and other management and consultation services;

(f) to provide advices and recommendations on the negotiation, execution and performance of material contracts;

(g) to provide advices and recommendations on the mergers and acquisitions and other expansion plans of the Consolidated Affiliated Entities;

(h) to provide customer order management and customer services, and assist in formulating customer maintenance plans and maintaining customer relationships;

(i) to provide marketing and promotion and publicity services;

(j) to design, develop, maintain, upgrade and update the corresponding application software required for the Consolidated Affiliated Entities' business;

(k) to design, install, conduct daily management, maintain and update the computer network system and hardware equipment of the Consolidated Affiliated Entities;

(l) to provide consultation services in relation to the relevant applications for going through statutory procedures such as all statutory licenses, approvals and permits required for the Consolidated Affiliated Entities to commence operation; and

(m) other relevant technical services, consultation, operation information, maintenance and management to the extent permitted by laws as requested by the Consolidated Affiliated Entities from time to time.

Pursuant to the Exclusive Technical Consultation and Services Agreement, the service fees shall be equivalent to the total consolidated profit of the Consolidated Affiliated Entities, after offsetting the prior-year losses (if any) and statutory reserve funds (if applicable). Notwithstanding the foregoing, Beijing Flowing Cloud shall have the right to adjust the level of the service fees based on the actual service scope and with reference to the operating conditions and expansion needs of Beijing Flowing Cloud and send the service fee payment notification to the Consolidated Affiliated Entities within 90 days after each fiscal year end for the services provided in the preceding fiscal year. The Consolidated Affiliated Entities have agreed to pay the service fee after receiving Beijing Flowing Cloud's notification.

In addition, pursuant to the Exclusive Technical Consultation and Services Agreement, without the prior written approval from Beijing Flowing Cloud, the Consolidated Affiliated Entities shall not accept the same or any similar services provided by any third party and shall not establish cooperation relationships similar to that formed by the Exclusive Technical Consultation and Services Agreement with any third party, nor transfer the rights and obligations under the Exclusive Technical Consultation and Services Agreement to any third party.

The Exclusive Technical Consultation and Services Agreement also provides that, (i) all intellectual property rights developed or created during the performance of the Exclusive Technical Consultation and Services Agreement belong to Beijing Flowing Cloud, and (ii) the Consolidated Affiliated Entities shall deal with the intellectual property rights as directed by Beijing Flowing Cloud from time to time, including but not limited to assigning or licensing such rights to Beijing Flowing Cloud or its designee, subject to the laws of the PRC.

The Exclusive Technical Consultation and Services Agreement is effective from the date of its signing for 10 years, which shall be unconditionally renewed at the request of Beijing Flowing Cloud for 10 years and for an indefinite number of successive 10 years thereafter.

The Directors consider that the above arrangement will ensure the economic benefits generated from the operations of the Consolidated Affiliated Entities will flow to Beijing Flowing Cloud and hence, the Group as a whole.

Exclusive Option Agreements

Beijing Flowing Cloud, Ophyer Technology and the Registered Shareholders entered into an exclusive option agreement on December 16, 2021, and Beijing Flowing Cloud, Ophyer Technology, Beijing Xingshi, Hupo Jinyuan, Shenzhen Huachuang and Zhongrunxing entered into an exclusive option agreement on May 6, 2022 (collectively, the "**Exclusive Option Agreements**", each an "**Exclusive Option Agreement**"), pursuant to which Beijing Flowing Cloud has the exclusive rights to request the Registered Shareholders and Ophyer Technology to transfer all or part of their equity interests in the Consolidated Affiliated Entities and/or to request the Consolidated Affiliated Entities to transfer all or part of its assets to Beijing Flowing Cloud and/or any third party designated by it, in whole or in part at any time and from time to time, at a minimum purchase price permitted under PRC laws and regulations. The respective Registered Shareholders and Ophyer Technology have also undertaken that, subject to the relevant PRC laws and regulations, if such minimum purchase price is more than nil consideration, they will return the purchase price they have received in full to Beijing Flowing Cloud and/or a third party designated by it.

Pursuant to the Exclusive Option Agreements, the respective Registered Shareholders and the Consolidated Affiliated Entities unconditionally and irrevocably undertake, without the prior written consent of Beijing Flowing Cloud, including but not limited to the following matters:

(a) not to supplement, change or amend the articles of association of the Consolidated Affiliated Entities, or change the registered capital or capital structure, in any forms;

(b) maintain its corporate existence in accordance with good business standard and practices, obtain and maintain all necessary government licences and permits by prudently and effectively operating its business;

(c) not to sell, transfer, pledge or otherwise deal with any assets (except for assets used during the course of its daily business operations of less than RMB one million), business or revenue or allow to impose any security interest on its assets (except for security interest imposed during the course of its daily business operations);

(d) to ensure the valid existence of the Consolidated Affiliated Entities and that the Consolidated Affiliated Entities will not be liquidated or dissolved;

(e) not to incur, inherit, guarantee or allow the existence of any debt, except for debts generated during the course of its daily business operations or debts disclosed to and agreed by Beijing Flowing Cloud;

(f) not to perform any actions that may adversely affect the Consolidated Affiliated Entities' business status and asset value;

(g) not to enter into any material contracts with a contract value of more than RMB one million with any entity except for contracts entered during the course of its daily business operations or entered with Beijing Flowing Cloud and its shareholder or its subsidiaries;

(h) not to procure the Consolidated Affiliated Entities to lend any loan, or provide guarantee or any other form of guarantee, or any material undertakings for any entity;

(i) regularly provide Beijing Flowing Cloud with all operations and financial information about the Consolidated Affiliated Entities' business at the request of Beijing Flowing Cloud;

(j) purchase and maintain insurance related to the Consolidated Affiliated Entities' assets and business from the insurance company accepted by Beijing Flowing Cloud;

(k) not to procure or agree to any partnership, joint venture or merger between the Consolidated Affiliated Entities and any other entity or invest in anyone, expect for an acquisition or investment amount less than RMB one million;

(l) immediately notify Beijing Flowing Cloud of the occurrence or possible occurrence of any litigation, arbitration or administrative proceedings relating to its assets, business or revenue, or any event that may adversely affect its existence, business operation, financial situation, asset or goodwill;

(m) not to procure the Consolidated Affiliated Entities to declare or distribute any distributable profits or dividends without Beijing Flowing Cloud's prior written consent; and

(n) appoint or replace any director, supervisor or any other management of the Consolidated Affiliated Entities according to Beijing Flowing Cloud's request.

The Exclusive Option Agreements have a term of ten years and may be renewed by Beijing Flowing Cloud after expiration unless all the equity interests in and assets of the Consolidated Affiliated Entities have been transferred to Beijing Flowing Cloud or its designated entities or individuals. To the extent permitted under PRC laws, the Consolidated Affiliated Entities and the respective Registered Shareholders are not contractually entitled to unilaterally terminate the Exclusive Option Agreements with Beijing Flowing Cloud.

In addition, the respective Registered Shareholders and Ophyer Technology undertake that (i) in case they receive any dividends or other profit distributions from the Consolidated Affiliated Entities, they shall return to the same to Beijing Flowing Cloud; and (ii) in case they receive any proceeds from transfer of equity interests in the Consolidated Affiliated Entities, or any distributions upon liquidation of the Consolidated Affiliated Entities, they shall return to Beijing Flowing Cloud such proceeds or distribution they receive.

Equity Pledge Agreements

Beijing Flowing Cloud, the Registered Shareholders and Ophyer Technology entered into an equity pledge agreement on December 16, 2021, and Beijing Flowing Cloud, Ophyer Technology, Beijing Xingshi, Hupo Jinyuan, Shenzhen Huachuang and Zhongrunxing entered into an equity pledge agreement on May 6, 2022 (collectively, the "**Equity Pledge Agreements**", each an "**Equity Pledge Agreement**"), pursuant to which each of the respective Registered Shareholders and Ophyer Technology irrevocably and unconditionally agreed to pledge all of their respective equity interests in the Consolidated Affiliated Entities to Beijing Flowing Cloud as security interest to guarantee the performance of contractual obligations of the registered shareholders and the payment of outstanding debts by the Consolidated Affiliated Entities under the Contractual Arrangements.

Under the Equity Pledge Agreements, if the Consolidated Affiliated Entities declare dividends during the term of the pledge, Beijing Flowing Cloud or its designee is entitled to receive all such dividends, bonus issue or other income arising from the pledged equity interest, if any. In addition, pursuant to the Equity Pledge Agreements, each of the respective registered shareholders and the Consolidated Affiliated Entities has undertaken to Beijing Flowing Cloud that, among other things, not to transfer his/her/its equity interests in the Consolidated Affiliated Entities or create or allow any pledge on the pledged equity without Beijing Flowing Cloud's prior written consent.

The Equity Pledge Agreements came into effect on upon the execution date and shall remain valid until (i) the final repayment and performance of the secured debt and contractual obligations secured by the pledge; (ii) the respective Registered Shareholders have transferred their entire equity interests in the Consolidated Affiliated Entities to Beijing Flowing Cloud and/or its designee or the Consolidated Affiliated Entities have transferred all of their assets to Beijing Flowing Cloud and/or its designee, pursuant to the applicable PRC laws and regulations, and the Listing Rules; (iii) Beijing Flowing Cloud exercises its unilateral right of termination; or (iv) the agreement is terminated in accordance with or as required by the applicable PRC laws and regulations.

If an event of default (as provided in the Equity Pledge Agreements) occurs, unless it is successfully resolved to Beijing Flowing Cloud's satisfaction within 30 days after such default event is identified, Beijing Flowing Cloud may demand the respective Registered Shareholders and the Consolidated Affiliated Entities to immediately pay all outstanding amounts due under the Exclusive Technical Consultation and Services Agreement, repay any loans and make all other payments due to it and/or dispose of the pledged equity interest. The registration of the pledge of equity interest as required by the relevant laws and regulations had completed in accordance with its terms under the equity pledge agreements dated December 16, 2021 and May 6, 2022, respectively, and PRC laws and regulations.

Shareholders' Rights Entrustment Agreements

Ophyer Technology, the Registered Shareholders and Beijing Flowing Cloud entered into an shareholders' voting rights entrustment agreement on December 16, 2021, and Beijing Flowing Cloud, Ophyer Technology, Beijing Xingshi, Hupo Jinyuan, Shenzhen Huachuang and Zhongrunxing entered into an shareholders' voting rights entrustment agreement on May 6, 2022 (collectively, the "**Shareholders' Rights Entrustment Agreements**", each a "**Shareholders' Rights Entrustment Agreement**"), pursuant to which, each of the respective Registered Shareholders and Ophyer Technology irrevocably, unconditionally and exclusively, through their respective powers of attorney, appoints Beijing Flowing Cloud or its designated person (including the Directors and their successors and liquidator replacing the Directors but excluding the Registered Shareholders and Ophyer Technology), as his/her/its attorney-in-fact to exercise such shareholder's rights in the Consolidated Affiliated Entities, including without limitation to, the rights to:

(a) propose to convene, participate in and attend general meetings of the Consolidated Affiliated Entities on behalf of the registered shareholders, and sign the minutes and resolutions of the meetings;

(b) exercise voting rights on all matters which are subject to discussions and resolutions of the shareholders of the Consolidated Affiliated Entities in general meetings (including but not limited to the designation, appointment or replacement of directors and supervisors of the Consolidated Affiliated Entities;

(c) exercise other voting rights which the shareholders of the Consolidated Affiliated Entities are entitled to in accordance with the articles of association (as amended from time to time);

(d) decide to transfer or otherwise dispose of the equity interests in the Consolidated Affiliated Entities held by the Registered Shareholders and Ophyer Technology;

(e) submit any document for filing purpose to the competent authorities on behalf of the Registered Shareholders and Ophyer Technology;

(f) take over the property on behalf of the Registered Shareholders after dissolution or liquidation of the Consolidated Affiliated Entities;

(g) receive any profit distribution or dividend in accordance with PRC laws and regulations and the articles of association of the Consolidated Affiliated Entities; and

(h) exercise other shareholders' rights as specified in applicable PRC laws and regulations and the articles of association of the Consolidated Affiliated Entities (as amended from time to time).

Spouse Undertakings

The spouse of each of the Registered Shareholders, where appropriate, has signed an unconditional and irrevocable undertaking (the "**Spouse Undertakings**") to the effect that, among others:

(a) the spouse has been made fully aware of the Contractual Arrangements and consented to the execution of the Contractual Arrangements by such Registered Shareholder and shall not prejudice or hinder the enforcement of the Contractual Arrangements and the equity interest in Ophyer Technology held and to be held by each of the Registered Shareholders (together with any other interest therein) do not fall within the scope of communal properties;

(b) in the event that the spouse obtains any equity interest in Ophyer Technology, he/she will be subject to and abide by the terms of the Contractual Arrangements, and at the request of Beijing Flowing Cloud, he/she will sign any documents in the form and substance consistent with the Contractual Arrangements;

(c) no authorization or consent from the relevant spouse is required regarding the performance, modification or termination of the Contractual Arrangements; and

(d) no claim or action against the Contractual Arrangements will be taken by the spouse.

Reasons for Adopting the Contractual Arrangements

The Catalog, which was promulgated and amended from time to time jointly by the MOFCOM and the NDRC, and the Negative List, the latest amended version of which was jointly promulgated by the MOFCOM and the NDRC on December 27, 2021 and took effect from January 1, 2022, stipulate industries in which foreign investment is restricted and prohibited, and all industries not listed under these categories are deemed to be permitted.

The Group engages in AR/VR marketing services fall into the VATS and are considered "restricted" and certain of the Group's animation video production businesses fall into the radio and television programs production and operation business and are considered "prohibited" (collectively, the "**Relevant Businesses**"). As a result, the Company cannot hold more than 50% equity interests in companies providing VATS and is prohibited from investing in the production and operation of radio and television programs.

In order to comply with the PRC laws and regulations and maintain effective control over the Relevant Businesses, the Group, through its wholly-owned subsidiary, Beijing Flowing Cloud, entered into the Contractual Arrangements with the Consolidated Affiliated Entities and the Registered Shareholders, pursuant to which Beijing Flowing Cloud acquired effective control over the Consolidated Affiliated Entities and has become entitled to all the economic benefits derived from their operations.

In light of the foregoing reasons, the Company believe that the Contractual Arrangements are narrowly tailored as they are used to enable the Group to conduct businesses in the fields that are subject to foreign investment restrictions in the PRC.

The Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein are fundamental to the Group's legal structure and business operations, have been entered into in the ordinary and usual course of business of the Group, are on normal commercial terms or better and on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Revenue and Assets subject to the Contractual Arrangements

For the year ended December 31, 2022, the revenue subject to the Contractual Arrangements amounted to RMB704 million (2021: RMB584 million), while the total assets subject to the Contractual Arrangements as at December 31, 2022 amounted to RMB861 million (2021: RMB579 million).

Risks Relating to the Contractual Arrangements

There are certain risks that are associated with the Contractual Arrangements, including:

(i) if the PRC Government determines that the Contractual Arrangements do not comply with applicable regulations, or if these regulations or their interpretations change in the future, the Group could be subject to severe consequences, including the nullification of the Contractual Arrangements and the relinquishment of the Group's interest in the Consolidated Affiliated Entities;

(ii) substantial uncertainties exist with respect to the interpretation and implementation of the Foreign Investment Law and how it may impact the viability of the Group's current corporate structure, corporate governance and business operations;

(iii) the Contractual Arrangements may not be as effective in providing operational control as direct ownership and the Consolidated Affiliated Entities or the Registered Shareholders may fail to perform their obligations under the Contractual Arrangements;

(iv) the Group may lose the ability to use and enjoy assets and licenses held by the Consolidated Affiliated Entities that are important to the operation of the Group's business if any of the Consolidated Affiliated Entities declares bankruptcy or becomes subject to a dissolution or liquidation proceeding;

(v) the Contractual Arrangements may be subject to scrutiny by the PRC tax authorities and additional taxes may be imposed. A finding that the Group owe additional taxes could substantially reduce the Group's consolidated net income and the value of your investment;

(vi) the Registered Shareholders and Ophyer Technology may potentially have a conflict of interest with the Group, and they may breach their contracts with the Group or cause such contracts to be amended in a manner contrary to the Group's interests;

(vii) the Group conduct the Relevant Businesses in the PRC through the Consolidated Affiliated Entities by way of the Contractual Arrangements, but certain of the terms of the Contractual Arrangements may not be enforceable under PRC laws;

(viii) if the Group exercise the option to acquire equity ownership of the Consolidated Affiliated Entities, the ownership transfer may subject the Group to certain limitations and substantial costs; and

(ix) the Group may not be able to meet regulatory requirements with respect to VATS, notwithstanding the 2022 Decision which came into effect on May 1, 2022, the Group's plan to unwind the Contractual Arrangements may be subject to certain limitations.

For details, please refer to the section headed "Risk Factors — Risks Relating to Our Contractual Arrangements" of the Prospectus.

Compliance with the Contractual Arrangements

The Group has adopted the following measures to ensure the effective operation of the Group with the implementation of the Contractual Arrangements and compliance with the Contractual Arrangements:

(i) major issues arising from the implementation and compliance with the Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to the Board, if necessary, for review and discussion on an occurrence basis;

(ii) the Board will review the overall performance of and compliance with the Contractual Arrangements at least once a year;

(iii) the Company will disclose the overall performance and compliance with the Contractual Arrangements in annual reports; and

(iv) the Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the Contractual Arrangements, review the legal compliance of Beijing Flowing Cloud and the Consolidated Affiliated Entities to deal with specific issues or matters arising from the Contractual Arrangements.

Listing Rules Implications and Waivers from the Stock Exchange

Pursuant to Chapter 14A of the Listing Rules, (i) Mr. Wang, the Controlling Shareholder and executive Director; (ii) Mr. Li, the Controlling Shareholder and executive Director; and (iii) Ophyer Technology, a company held as to approximately 40.88% and 5.92% by Mr. Wang and Mr. Li, respectively, are connected persons of the Company. Therefore, the transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of the Company under the Listing Rules.

In respect of the Contractual Arrangements, the Stock Exchange has granted a waiver from (i) strict compliance with the announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the Contractual Arrangements pursuant to Rule 14A.105 of the Listing Rules; (ii) setting an annual cap for the transactions under the Contractual Arrangements pursuant to Rule 14A.53 of the Listing Rules; and (iii) fixing the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Shares are listed on the Stock Exchange subject to the following conditions, details of which are set out in the section headed "Continuing Connected Transactions" in the Prospectus:

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

(b) no change without independent Shareholders' approval;

(c) economic benefits flexibility;

(d) renewal and reproduction; and

(e) ongoing reporting and approvals.

Furthermore, the Consolidated Affiliated Entities have undertaken that, for so long as the Shares are listed on the Stock Exchange, the Consolidated Affiliated Entities will provide the Group's management and the auditor with full access to their relevant records for the purpose of procedures to be carried out by the auditor on the connected transactions.

Confirmation from Independent Non-executive Directors

The independent non-executive Directors have reviewed the Contractual Arrangements and confirmed that: (i) the transactions have been entered into in the ordinary and usual course of business of the Company; (ii) the transactions have been entered into on normal commercial terms or better; (iii) the transactions have been entered into according to the agreement governing them on terms that are fair and reasonable and in the interest of the Shareholders as a whole; (iv) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements; (v) no dividends or other distributions have been made by the Consolidated Affiliated Entities to the holders of its equity interests which are not otherwise subsequently assigned or transferred to the Group; and (vi) any new contracts entered into, renewed or reproduced between the Group and the Consolidated Affiliated Entities during the year ended December 31, 2022 (if any) are fair and reasonable, or advantageous, so far as the Group is concerned and in the interests of the Company and the Shareholders as a whole.

Confirmation from the Auditor

The auditor of the Company was engaged to report on the Group's continuing connected transactions carried out pursuant to the Contractual Arrangements for the year ended December 31, 2022 in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants and provided a letter to the Directors with a copy to the Stock Exchange confirming whether anything has come to their attention that cause them to believe that the Contractual Arrangements (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the listed issuer's group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) for those transactions with the Consolidated Affiliated Entities under the Contractual Arrangements, dividends or other distributions have been made by the Consolidated Affiliated Entities to the holders of the equity interests of the Consolidated Affiliated Entities which are not otherwise subsequently assigned or transferred to the Group.

Save as disclosed above, none of the other related party transactions set out in the note 34 of the financial statements constitute connected transactions or continuing connected transactions that are required to be disclosed under Chapter 14A of the Listing Rules. The Company confirms that it has complied with the disclosure requirements under Chapter 14A of the Listing Rules during the year ended December 31, 2022.

VIE Restructuring

In order to enable the Group to further expand its Metaverse business in the cultural tourism and education industries in view of the favorable policies in Anji County on tax, rental subsidy, R&D subsidy and incentives to attract talents, the Group carried out an internal restructuring. On March 15, 2023, Anji Flowing Cloud and Ophyer HK entered into a share transfer agreement, pursuant to which Ophyer HK agreed to transfer to Anji Flowing Cloud, and Anji Flowing Cloud agreed to acquire, the entire equity interest of Beijing Flowing Cloud, at a consideration of RMB270 million, which shall be satisfied by Anji Flowing Cloud by way of additional issue. The consideration was determined after arm's length negotiation with reference to the valuation of the entire equity interest in Beijing Flowing Cloud as at December 31, 2022 prepared by an independent qualified valuer.

The completion took place on March 30, 2023. Upon completion, Beijing Flowing Cloud became a direct wholly-owned subsidiary of Anji Flowing Cloud, which is in turn wholly-owned by Ophyer HK, an indirect wholly-owned subsidiary of the Company. Accordingly, the Contractual Arrangements remain in full force and the Group, through its wholly-owned subsidiary, Beijing Flowing Cloud, can continue to exercise control over the Consolidated Affiliated Entities and be entitled to all the economic benefits derived from their operations. Save as the above, there is no other change to the Contractual Arrangements.

EQUITY-LINKED AGREEMENTS

Save for the Post-IPO Share Option Scheme as disclosed in this annual report, no equity-linked agreements were entered into by the Company during the year ended December 31, 2022, or subsisted at the end of December 31, 2022.

MANAGEMENT CONTRACTS

During the Reporting Period, no contract concerning the management and administration of all or any substantial part of the business of the Company was entered into or existed.

DIRECTORS' PERMITTED INDEMNITY PROVISION

Pursuant to Article 191 of the Articles of Association, the Director shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts.

The Company has purchased appropriate liability insurance for Directors and officers.

DONATIONS

During the Reporting Period, there were no charitable or other donations made by the Group.

CORPORATE GOVERNANCE

The Group is committed to maintaining high level of corporate governance practices. Details of the corporate governance practices adopted by the Company are set out in the Corporate Governance Report of this annual report.

ESG MATTERS

The Group is committed to environmental protection and promoting corporate social responsibility and best corporate governance practices to develop sustainable value for stakeholders, undertaking the responsibilities as a corporate citizen. The Group has established ESG policies which set forth environmental protection measures, social responsibility principals and internal governance.

Under the ESG policies for environmental protection, the Group aims to promote usage of renewable resources and reduce production of hazardous chemicals and gas emissions. The ESG policies for social responsibility and corporate governance aim to ensure that the Group's business meets applicable laws and regulations, contribute to social responsibility causes and promote employees' work safety. The Group also established ESG policies for corporate governance, which aim to manage risks in operation and enhance operational efficiency. In addition, the Group endeavors to reduce any negative impacts on the environment through its commitment to energy saving and sustainable development. The Group will also focus on embracing diversity within the organization and equal and respectful treatment of all employees in their hiring, training, wellness and professional and personal development. While maximizing equal career opportunity for everyone, the Group will also continue to promote work-life balance and create a happy culture in workplace for all employees.

The Group believes that it requires collective effort from the Board to evaluate and manage material ESG issues, therefore the Group has not established any sub-committee for ESG issues. The Directors have collective and overall responsibility for the Group's ESG strategy and reporting, ensuring that the ESG policies are duly implemented and comply with the latest standards and managing material ESG issues (in particular, climate-related risks and opportunities). The management will implement the ESG strategy and policies and make timely report to the Directors on ESG issues. The Directors also support the Group in fulfilling its environmental and social responsibilities. The Directors are responsible for identification, assessment and management of the ESG-related risks at least once a year, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. The Directors may assess or engage independent third party(ies) to evaluate the ESG risks and review the existing strategy, target and internal controls. Necessary improvement will then be implemented to mitigate the risks.

For further details, please refer to the section headed "Environmental, Social and Governance (ESG) Report" of this annual report.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Reporting Period, the Company is in compliance with the relevant laws and regulations that have a significant impact on the Company.

MATERIAL LEGAL PROCEEDINGS

During the Reporting Period, the Company was not involved in any material legal proceeding or arbitration. To the best knowledge of the Directors, there is no material legal proceeding or claim which is pending or threatened against the Company.

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 Directors, at least 25% (being the minimum public float prescribed by the Stock Exchange and the Listing Rules) of the Shares were held by the public as at the latest practicable date prior to the issue of this annual report.

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the relevant laws of the Cayman Islands where the Company is incorporated which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS AND SIMILAR RIGHTS

Save as disclosed in the section headed "Post-IPO Share Option Scheme" in this annual report, the Company had no outstanding convertible securities, options, warrants and similar rights during the year ended December 31, 2022 and there was no issue or grant of any convertible securities, options, warrants and similar rights during the year.

DIVIDEND POLICY

The Company adopted the dividend policy in relation to the declaration, payment or distribution of its profits as dividends to the Shareholders. The payment of dividend is subject to any restrictions under the Companies Law of the Cayman Islands, the Memorandum and Articles of Association, the Listing Rules and any other application laws and regulations.

The dividend policy sets out the factors in consideration, limitations, declaration and payment of dividends. In recommending or declaring dividends, the Company shall take into account the following factors: (i) the Group's overall results of operation, financial condition, business strategies and operations, future cash commitments and investment needs to sustain the long-term growth of business, working capital requirements, capital expenditure requirements, liquidity position and future expansions plans; (ii) the amount of retained profits and distributable reserves of the Company; (iii) general economic conditions, business cycle of the Group's business and other internal or external factors that may have an impact on the business or financial performance and position of the Group; and (iv) any other factors that the Board deems relevant. The dividend policy shall in no way constitute a legally binding commitment by the Company in respect of its future dividend and/or in no way obligate the Company to declare a dividend at any time or from time to time. The Board will continually review the dividend policy and reserves the right in its sole and absolute discretion to update, amend, modify and/or cancel the Dividend Policy at any time.

The Company was not aware of any Shareholders who had waived or agreed to waive any dividend arrangement for the year ended December 31, 2022.

TAX RELIEF

The Directors are not aware of any tax relief available to the Shareholders by reason of their holding of the Company's Shares.

AUDIT COMMITTEE

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.

AUDITOR

The Company has appointed Deloitte Touche Tohmatsu as the auditor of the Company for the year ended December 31, 2022. A resolution will be proposed for approval by Shareholders at the forthcoming AGM to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

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 registers 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.

On behalf of the Board

Wang Lei
Chairman

Hong Kong, March 20, 2023

The Shares of the Company were listed on the Main Board on October 18, 2022. The Board is pleased to report to the Shareholders on the corporate governance of the Company from the Listing Date to December 31, 2022 (the "**Period**").

CORPORATE GOVERNANCE CULTURE

The Company is committed to ensuring that its affairs are conducted in accordance with high ethical standards. This reflects its belief that, in the achievement of its long-term objectives, it is imperative to act with probity, transparency and accountability. By so acting, the Company believes that Shareholders' wealth will be maximized in the long term and that its employees, those with whom it does business and the communities in which it operates will all benefit.

Corporate governance is the process by which the Board instructs management of the Group to conduct its affairs with a view to ensuring that its objectives are met. The Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure:

— satisfactory and sustainable returns to Shareholders;

— that the interests of those who deal with the Company are safeguarded;

— that overall business risk is understood and managed appropriately;

— the delivery of high-quality products and services to the satisfaction of customers; and

— that high standards of business ethics are maintained.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining good corporate governance standards.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions of the Corporate Governance Code as the basis of the Company's corporate governance practices. Such practices provide the infrastructure for enhancing the Board's ability to implement governance and exercise proper oversight on business conduct and affairs of the Company. Regular reviews are conducted to ensure the compliance with the Corporate Governance Code. Meanwhile, the Company has also put in place certain recommended best practices as set out in the Corporate Governance Code. The Board is of the view that throughout the Period, the Company has complied with most of the applicable code provisions as set out in the Corporate Governance Code, except for code provision C.2.1 of the Corporate Governance Code. For more details of the deviation, please refer to section headed "Chairman and Chief Executive Officer" of this corporate governance report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the Period.

The Company has also established written guidelines (the "**Employees Written Guidelines**") no less exacting than the Model Code for securities transactions by employees who, because of such office or employment, are likely to possess inside information in relation to the Company or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

BOARD OF DIRECTORS

The Company is headed by an effective Board which assumes responsibility for its leadership and control and be collectively responsible for promoting the Company's success by directing and supervising the Company's affairs. All Directors carry out their duties in good faith and always take decisions objectively in the best interests of the Company as well as the Shareholders.

The Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. Regular reviews are conducted on the contribution required from a Director to perform his/her responsibilities to the Company and whether the Director is spending sufficient time performing them that are commensurate with their roles and the Board's responsibilities. The Board includes a balanced composition of executive Directors and independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

Board Composition

The Board currently consists of seven Directors and its composition is as follows:

Executive Directors

Mr. Wang Lei *(Chairman and Chief Executive Officer)*
Mr. Li Yanhao
Ms. Xu Bing
Mr. Li Yao

Independent non-executive Directors

Mr. Jiang Yi
Mr. Tan Deqing
Ms. Wang Beili

The biographical information of the Directors and the relationships between the Directors are set out in the section headed "Directors and Senior Management" of this annual report. Save as otherwise disclosed above, there is no relationships (including financial, business, family or other material/relevant relationship(s)) between the Board members.

Board Meetings and Directors' Attendance Records

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

Since the Shares were just listed on October 18, 2022, the Company did not hold any Board meeting and convene any general meeting, nor the Chairman of the Board held any meeting with independent non-executive Directors without the presence of other Directors during the Period.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations. The Company believes that the independent non-executive Directors possess sufficient experience, and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgement. They will also be able to provide an impartial and external opinion to protect the interests of the Shareholders.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

Chairman and Chief Executive Officer

Code provision C.2.1 of the Corporate Governance Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company has deviated from this code provision as the Chairman and Chief Executive Officer of the Company are held by Mr. Wang, who is one of the founders of the Group and has extensive experience in the technology services and game development industry.

With extensive experience in the technology services and game development industry, Mr. Wang is responsible for the strategic development, overall operation and management and major decision-making of the Group and is instrumental to the 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) and three independent non-executive Directors and therefore has a fairly strong independence element in its composition. Decisions to be made by the Board requires approval by at least a majority of the Directors. Mr. Wang 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 Group in order to assess whether separation of the roles of chairman and chief executive officer is necessary.

Independent Non-executive Directors

During the Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Board Independence Evaluation

The Company has established a Board Independence Evaluation Mechanism which sets out the processes and procedures to ensure a strong independent element on the Board, which allows the Board effectively exercises independent judgment to better safeguard Shareholders' interests.

The objectives of the evaluation are to improve Board effectiveness, maximize strengths, and identify the areas that need improvement or further development. The evaluation process also clarifies what actions of the Company need to be taken to maintain and improve the Board performance, for instance, addressing individual training and development needs of each Director.

Pursuant to the Board Independence Evaluation Mechanism, the Board will conduct annual review on its implementation and effectiveness. The Board Independence Evaluation Report will be presented to the Board which will collectively discuss the results and the action plan for improvement, if appropriate.

Appointment and Re-election of Directors

The independent non-executive Directors are appointed for a specific term of three years, subject to renewal after the expiry of the current term.

Under the Articles of Association, at each annual general meeting, one-third of the Directors for the time being, or if their number is not three or a multiple of three, the number nearest to but not less than one-third shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. The Directors to retire by rotation shall include (so far as necessary to obtain the number required) any Director who wishes to retire and not to offer himself for re-election. Any Director who has not been subject to retirement by rotation in the three years preceding the annual general meeting shall retire by rotation at such annual general meeting. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

The Articles of Association also provides that all Directors appointed to fill a casual vacancy or as addition to the Board shall hold office until the first annual general meeting after appointment. The retiring Directors shall be eligible for re-election. The Company at the general meeting at which a Director retires may fill the vacated office. Any Director appointed under by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received a formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate.

As the time of listing of the Shares is relatively short, the Company has not organized training sessions conducted by the qualified professionals or legal advisers for the Directors during the Reporting Period. However, relevant reading materials including compliance manual, legal and regulatory updates have been provided to the Directors for their reference and studying. The Directors would participate in appropriate continuous professional development programs to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading materials on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

The training records of the Directors for the year ended December 31, 2022 and up to date of this annual report are summarized as follows:

Directors	**Type of Training** Note
Executive Directors	
Mr. Wang Lei	A
Mr. Li Yanhao	A
Ms. Xu Bing	A
Mr. Li Yao	A
Independent non-executive Directors	
Mr. Jiang Yi	A
Mr. Tan Deqing	A
Ms. Wang Beili	A

Note:

Types of Training

A: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. The majority of the members of each Board committee are independent non-executive Directors. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

Audit Committee

The Audit Committee consists of three members, namely the independent non-executive Directors Ms. Wang Beili, Mr. Jiang Yi and Mr. Tan Deqing. Ms. Wang Beili is the chairlady of the Audit Committee.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the Corporate Governance Code. The main duties of the Audit Committee are, without limitation, assisting the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by the Board.

Since the Company's Shares were listed on October 18, 2022, the Audit Committee held one meeting with the external auditor during the Period to review the significant issues on the financial reporting, operational and compliance controls, the effectiveness of internal control and risk management systems as well as internal audit function. All the independent non-executive Directors have attended the meeting.

Remuneration Committee

The Remuneration Committee consists of three members, namely the executive Director Mr. Wang, the independent non-executive Directors Mr. Tan Deqing and Ms. Wang Beili. Mr. Tan Deqing is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the Corporate Governance Code. The primary functions of the Remuneration Committee include, without limitation, making recommendations to the Board of the policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; determining the remuneration packages of Directors and senior management; and reviewing and approving remuneration proposals with reference to corporate goals and objectives resolved by the Board from time to time.

Since the Company's Shares were just listed on October 18, 2022, the Remuneration Committee did not hold any meetings during the Period.

The remuneration of the senior management (excluding executive Directors) during the Period falls within the following bands:

Remuneration (RMB)	Number of Individuals
0 to 500,000	2
500,001 to 1,000,000	1

The Company's remuneration policy is to ensure that the remuneration offered to employees, including Directors and senior management, is based on skill, knowledge, responsibilities and involvement in the Company's affairs. The remuneration packages of executive Directors are also determined with reference to the Company's performance and profitability, the prevailing market conditions and the performance or contribution of each executive Director. The remuneration for the executive Directors comprises basic salary, pensions and discretionary bonus. Executive Directors shall receive options to be granted under the Post-IPO Share Option Scheme. The remuneration policy for independent non-executive Directors is to ensure that independent non-executive Directors are adequately compensated for their efforts and time dedicated to the Company's affairs, including their participation in Board committees. The remuneration for the independent non-executive Directors mainly comprises Director's fee which is determined with reference to their duties and responsibilities by the Board. Individual Directors and senior management have not been involved in deciding their own remuneration.

Nomination Committee

The Nomination Committee consists of three members, namely the independent non-executive Directors Mr. Tan Deqing, Mr. Jiang Yi and Ms. Wang Beili. Mr. Tan Deqing is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the Corporate Governance Code. The principal duties of the Nomination Committee include, without limitation, reviewing the structure, size and composition of our Board, assessing the independence of independent non-executive Directors and making recommendations to the Board on matters relating to the appointment of Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Nomination Policy that are necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board. The appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board shall be made in accordance with the Articles of Association and other applicable rules and regulations.

Since the Company's Shares were just listed on October 18, 2022, the Nomination Committee did not hold any meeting during the Period.

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage. The Board aims to attract and maintain a Board which has an appropriate mix of diversity, skill, experience and expertise.

In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience. The ultimate decision of the appointment will be based on merit and the contribution which the selected candidates will bring to the Board. The Board believes that such merit-based appointments will best enable the Company to serve its Shareholders and other stakeholders going forward.

The Company is committed to having a Board of more than one gender. Apart from that, the Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

An analysis of the Board's current composition is set out below:

Gender	Age Group
Male: 5 Directors Female: 2 Directors	31–40: 5 Directors 41–50: 1 Director 51–60: 1 Director

Designation	Educational Background
Executive Directors: 4 Directors Independent non-executive Directors: 3 Directors	Business Administration: 1 Director Account and Finance: 1 Director Electronic Technology/Information Technology: 3 Directors Others: 3 Directors

Nationality	Business Experience
Chinese: 7 Directors	Business Administration: 2 Directors Accounting & Finance: 1 Director Electronic Technology/Information Technology: 4 Directors Others: 1 Director

The Nomination Committee and the Board considered that the current composition of Board is sufficiently diverse and have a balanced mix of knowledge and skills, including knowledge and experience in the area of technology, business management, finance and accounting, etc. The Directors, with two females and five males, ranging from 38 years old to 57 years old, are able to bring a balance of diversity perspectives to the Board.

The Nomination Committee will conduct an annual review on the Board Diversity Policy and its effectiveness. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval. To further enhance gender diversity, the Board and the Nomination Committee will stay vigilant in identifying a pipeline of potential successors to the Board. The Company constantly implements policies which encourage and attract qualified incumbents to take up senior managerial and Board roles.

Gender Diversity

The Company values gender diversity across all levels of the Group. The following table sets out the gender ratio in the workforce of the Group, including the Board and senior management as at the date of this annual report:

	Female	Male
Board	28.57% (2)	71.43% (5)
Senior Management	28.57% (2)	71.43% (5)
Other employees	38.05% (43)	61.95% (70)
Overall workforce	37.50% (45)	62.50% (75)

The Board is committed to improving greater gender diversity in the Board, senior management and other employees of the Group and wishes to achieve at least 37.50% (3) of female Directors, 37.50% (3) of female senior management and 44.00% (55) of female employees by the end of 2023. The Board expects the above is achievable with suitable effort in promoting the gender diversity culture, which the Group has been advocating for so.

Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee.

The Company has adopted a Nomination Policy which sets out the selection criteria, principles and nomination process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The nomination process set out in the Nomination Policy is as follows:

Appointment of New Director

The secretary of the Nomination Committee shall invite nominations of candidates from Board members (if any), for consideration by the Nomination Committee. The Nomination Committee may also nominate candidates for its consideration. For appointment of any proposed candidate to the Board, the Nomination Committee shall undertake adequate due diligence in respect of such individual and make recommendations for the Board's consideration and approval.

Re-election of Director at General Meeting

The Nomination Committee should make recommendations to the Board in respect of the proposed re-election of Director at the general meeting. The Board shall have the final decision on all matters relating to the recommendation of candidates to stand for election at the general meeting.

Where the Board proposes a resolution to elect or re-elect a candidate as Director at the general meeting, the relevant information of the candidate will be disclosed in the circular to Shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules and/or applicable laws and regulations.

Selection Criteria

The Nomination Policy sets out the criteria for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

(a) Reputation for integrity;

(b) Commitment in respect of sufficient time, interest and attention to the Company's business;

(c) Qualifications, both academic and professional, experience and reputation in the relevant industry and other relevant sectors;

(d) Diversity in all aspects, with due regard to the diversity perspectives set out in the Board Diversity Policy of the Company and the balance skills and knowledge in the Board;

(e) The ability to assist and support management and make significant contributions to the Company's success;

(f) Compliance with the criteria of independence as prescribed under Rule 3.13 of the Listing Rules for the appointment of an independent non-executive Director; and

(g) Any other relevant factors as may be determined by the Nomination Committee or the Board from time to time.

The appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board shall be made in accordance with the Articles of Association and other applicable rules and regulations.

On September 8, 2022 (before the date of Listing on October 18, 2022), the Board has appointed three new independent non-executive Directors to fulfill the requirement of the Listing Rules, namely Mr. Jiang Yi, Mr. Tan Deqing and Ms. Wang Beili. From the Listing Date till December 31, 2022, there was no change in the composition of the Board.

The Nomination Committee will review, amend and modify the Nomination Policy from time to time, as appropriate, to ensure its that it is transparent and fair, remains relevant to the Company's needs and reflects the current regulatory requirements and good corporate governance practice. Any subsequent amendment is subject to the Board's approval.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision A.2.1 of the Corporate Governance Code.

During the Period, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Employees Written Guidelines, and the Company's compliance with the Corporate Governance Code and disclosure in this corporate governance report.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Company established a risk management system and relevant policies and procedures which the Company considers suitable for business operations. The policies and procedures are aimed at managing and monitoring business performance.

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives and establishing and maintaining appropriate and effective risk management and internal control systems. The Audit Committee, internal control department and senior management are responsible for ongoing oversight of the implementation of the risk management policies across the Company to ensure the internal control systems are effective in identifying, evaluating, managing and mitigating the risks involved in the course of business operations.

The Company has adopted and implemented risk management policies in all key aspects of the business operations such as financial reporting, information systems, regulatory compliance and human resources.

To monitor the continuous implementation of risk management policies and corporate governance measures after the Listing, the Company has adopted or will continue to adopt, among other things, the following risk management measures:

- establish the Audit Committee to review and supervise the financial reporting process and internal control systems;
- adopt various policies to ensure the compliance with the Listing Rules, including but not limited to policies in respect of risk management, connected transactions and information disclosure;
- provide regular anti-corruption and anti-bribery compliance trainings for senior management and employees in order to enhance their knowledge of and compliance of applicable laws and regulations; and
- arrange the Directors and senior management to attend training seminars on Listing Rules requirements and the responsibilities as directors of a Hong Kong-listed company.

Financial reporting risk management

The Company has implemented a set of accounting policies for the risk management of financial reporting, such as financial reporting management policies, budget management policies, financial statement preparation policies, and finance department and employee management policies. The Company has implemented various procedures to put such accounting policies in place, and the finance department will review the management accounts in accordance with such procedures. The Company also provides trainings to personnel in the finance department on an as-needed basis focusing on accounting policies, tax management, financial reporting and other related topics.

Information risk management

The Company has implemented multiple measures to ensure the compliance with PRC laws and regulations relating to data privacy and security. The Company has designated personnel with over 10 years of experience in the information technology industry to take charge of data protection and to monitor the operations of the information technology infrastructure. During the Period, the Company has not experienced any material breach of information or loss of data, nor experienced any material infringement and/or unauthorized use of the intellectual property rights of the copyrighted softwares.

Operational risk management

In order to effectively manage the compliance and legal risks, the Company has adopted strict internal procedures to ensure that the business operations are in compliance with relevant rules and regulations. Under these procedures, the legal and compliance department performs the essential function of reviewing and updating the forms of contracts we enter into with the customers and suppliers. Before the Company enter into any contract or business arrangement, the legal and compliance department examines the terms of the contract and reviews all relevant documents for the business operations, including licenses and permits obtained by the counterparty to fulfill its obligations under business contracts, and all necessary relevant due diligence materials.

The Company improves the internal policies and update the internal templates for legal documents from time to time in response to any changes in laws, regulations and industry standards. In addition, the Company reviews the implementation of the risk management policies and measures from time to time to ensure that such policies and the relevant implementation are effective and adequate.

Human resources risk management

The Company has established a set of internal control policies that cover all aspects of human resource management, including recruitment, training, professional ethics and legal compliance. The Company adheres to high recruitment standards and strict procedures to ensure the quality of our new employees. The Company provides customized trainings to employees in different departments as necessary. The internal management policies incorporate guidelines on codes of conduct, professional ethics and prevention of fraud, malpractice and corruption. The Company has also established an anonymous reporting channel, through which potential violations of internal policies or illegal acts at all levels of the Group can be reported to the management in a timely manner, and appropriate measures can be taken to mitigate any damage.

Corporate governance measures

The Company has established the Audit Committee, which is mainly responsible for assisting the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by the Board. The Audit Committee comprises three independent non-executive Directors, of which the chairlady has appropriate professional qualifications.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the Period.

During the Period, the Company has its internal audit function to conduct an internal control review on certain operational process of the Group. A report on the result of assessment and recommendations was provided to the Audit Committee. The Group will take measures to implement the recommendations on the internal control system.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls for the Period, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

The Company has in place the Whistleblowing Policy for employees of the Group and those who deal with the Group to raise concerns, in confidence and anonymity, with the Audit Committee about possible improprieties in any matters related to the Group.

The Company has also in place the Anti-Corruption Policy to safeguard against any corruption and bribery within the Company. The Company has an internal reporting channel that is open and available for employees of the Company and stakeholders to report any suspected corruption and bribery. Employees can also make anonymous reports to the internal anti-corruption department, which is responsible for investigating the reported incidents and taking appropriate measures. The Company continues to carry out anti-corruption and anti-bribery activities to cultivate a culture of integrity, and actively organizes anti-corruption training and inspections to ensure the effectiveness of anti-corruption and anti-bribery.

The Company has developed its disclosure policy which provides a general guide to the Directors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements with the support of the accounting and finance team.

The Directors have prepared the financial statements in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board. Appropriate accounting policies have also been used and applied consistently except the adoption of revised standards, amendments to standards and interpretation.

The consolidated financial statements of the Group are prepared on a going concern basis, the Directors are of the view that they give a true and fair view of the financial position, performance and cash flow of the Group for the year ended December 31, 2022, and the disclosures of other financial information and report therein complies with relevant legal requirements.

The statement of the external auditor of the Company about its reporting responsibilities on the financial statements is set out in the Independent Auditor's Report of this annual report.

AUDITOR'S REMUNERATION

The remuneration paid and payable to the external auditor of the Company in respect of the annual audit services for the year ended December 31, 2022 was RMB2.6 million. No non-audit service was provided by the external auditor of the Company for the year ended December 31, 2022.

JOINT COMPANY SECRETARIES

Mr. Li Yao and Ms. Chan Sau Ling have been appointed as the Company's joint company secretaries. Ms. Chan Sau Ling is currently a Director of Corporate Services of Tricor Services Limited, an external service provider.

All Directors have access to the advice and services of the joint company secretaries on corporate governance and Board practices and matters. Mr. Li Yao, the executive Director and joint company secretary, has been designated as the primary contact person at the Company which would work and communicate with Ms. Chan Sau Ling on the Company's corporate governance and secretarial and administrative matters.

For the year ended December 31, 2022, Mr. Li Yao and Ms. Chan Sau Ling have undertaken not less than 15 hours of relevant professional training respectively in compliance with Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS

Convening an Extraordinary General Meeting

Pursuant to Article 64 of the Articles of Association, the Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings may be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings, on a one vote per share basis in the share capital of the Company and the foregoing Shareholders shall be able to add resolutions to the meeting agenda. Such requisition shall be made in writing to the Board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

Pursuant to Article 64 of the Articles of Association, any one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings, on a one vote per share basis in the share capital of the Company can make a requisition to add resolutions to the meeting agenda.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	Shop 8, Jingyuan Art Center, Guangqulu No. 3, Chaoyang District Beijing, PRC (For the attention of the Board of Directors/Company Secretary)
Email:	yao.li@flowingcloud.com

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company is endeavours to maintain an on going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

To safeguard Shareholders' interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Shareholders' Communication Policy

The Company has in place a Shareholders' Communication Policy. The policy aims to set out the provisions with the objective of ensuring that the Shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments and governance), in order to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders to engage actively with the Company. The Board reviewed the implementation and effectiveness of the Shareholders' Communication Policy and the results were satisfactory.

The Company has established a number of channels for maintaining an on-going dialogue with its Shareholders as follows:

(a) Corporate Communication

"Corporate Communication" as defined under the Listing Rules refers to any document issued or to be issued by the Company for the information or action of holders of any of its securities or the investing public, including but not limited to the following documents of the Company: (a) the Directors' report, annual accounts together with a copy of the auditor's report and, where applicable, its summary financial report; (b) the interim report and, where applicable, its summary interim report; (c) a notice of meeting; (d) a listing document; (e) a circular; and (f) a proxy form. The Corporate Communication of the Company will be published on the Stock Exchange's website (https://www.hkex.com.hk) in a timely manner as required by the Listing Rules. Corporate Communication will be provided to Shareholders and non-registered holders of the Company's securities in both English and Chinese versions, in a timely manner as required by the Listing Rules. Shareholders and non-registered holders of the Company's securities shall have the right to choose the means of receipt of the Corporate Communication (by post or through electronic means).

(b) Announcements and Other Documents pursuant to the Listing Rules

The Company shall publish announcements (on inside information, corporate actions and transactions etc.) and other documents (e.g. Memorandum and Articles of Association) on the Stock Exchange's website in a timely manner in accordance with the Listing Rules.

(c) Corporate Website

A dedicated Investor Relations section is available on the Company's website (https://www.flowingcloud.com). Information on the Company's website is updated on a regular basis. Press releases and any information or documents of the Company posted on the Stock Exchange's website will also be published on the Company's website.

(d) Shareholders' Meetings

The annual general meeting and other general meetings of the Company are primary forum for communication between the Company and its Shareholders. The Company shall provide Shareholders with relevant information on the resolutions(s) proposed at a general meeting in a timely manner in accordance with the Listing Rules and the Company's Memorandum and Articles of Association. The information provided shall be reasonably necessary to enable Shareholders to make an informed decision on the proposed resolution(s). Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at the meetings for and on their behalf if they are unable to attend the meetings. Where appropriate or required, the Board members, in particular, the chairman of Board committees or their delegates, and the external auditor should attend general meetings of the Company to answer Shareholders' questions (if any).

(e) Shareholders' Enquiries

Enquiries about Shareholdings

Shareholders should direct their enquiries about their shareholdings to the Company's Hong Kong Share Registrar, Tricor Investor Services Limited, via its online holding enquiry service at http://www.tricoris.com, or send email to is-enquiries@hk.tricorglobal.com or call its hotline at +852 2980 1333, or go in person to its public counter at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

Enquiries about Corporate Governance or Other Matters to be put to the Board and the Company

The Company will not normally deal with verbal or anonymous enquiries. Shareholders may send any enquiries to the Board by email: yao.li@flowingcloud.com or by post to Shop 8, Jingyuan Art Center, Guangqulu No. 3, Chaoyang District, Beijing, PRC.

Amendments to Articles of Association

During the year ended December 31, 2022, the Company has adopted an amended and restated Memorandum and Articles of Association with effect from the Listing Date. An up-to-date version of the Company's Memorandum and Articles of Association is available on the Company's website and the Stock Exchange's website.

Dividend Policy

The Company has adopted a Dividend Policy on payment of dividends. The Company does not have any pre-determined dividend payout ratio. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the Dividend Policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the Shareholders' approval. Such details have been disclosed in under the section "Directors' Report" of this annual report.

Deed of Non-competition Undertaking

Mr. Wang, Mr. Li, Wanglei Co., Ltd., LYH. Ltd. and Brainstorming Cafe Limited have entered into a deed of non-competition in favour of the Company on September 8, 2022 (the "**Deed**"), details of which have been set out in the Prospectus.

The Company has received written declaration from each of Mr. Wang, Mr. Li, Wanglei Co., Ltd., LYH. Ltd. and Brainstorming Cafe Limited in respect of his/its and/or his/its close associates' compliance with the Deed during the Period. The independent non-executive Directors have also reviewed the compliance and enforcement of the Deed and confirmed that Mr. Wang, Mr. Li, Wanglei Co., Ltd., LYH. Ltd. and Brainstorming Cafe Limited have not been in breach of the Deed during the Period.

Environmental, Social and Governance (ESG) Report

ABOUT THIS REPORT

This report is the first Environmental, Social and Governance report (the "**ESG Report**") published by Flowing Cloud Technology Ltd and its subsidiaries (hereinafter referred to as the "**Flowing Cloud**", the "**Group**", "**we**", "**us**" or "**our**"), which outlines the principles and sustainability philosophy of the Group in fulfilling its corporate social responsibility ("**CSR**"), summarising the affairs between the Group and its main interested parties, or stakeholders, with the aim to provide stakeholders with a comprehensive picture of the environmental, social and governance ("**ESG**") policies, initiatives and performance of Flowing Cloud and its subsidiaries besides financial performance and business operations, and share the Group's vision and commitment for CSR.

BASIS FOR PREPARATION

This report is prepared in accordance with the four reporting principles (i.e. materiality, quantitative, balance and consistency) set out in the Environmental, Social and Governance Reporting Guide contained in Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Guide**").

Reporting principles	Definition
Materiality	The reporting will focus on the ESG issues which have material effects on the Group and stakeholders.
Quantitative	The key performance indicator ("**KPI**") data should be measurable and comparable as appropriate.
Balance	An issuer shall report on its ESG performance during the year in an objective and truthful manner.
Consistency	The disclosures in the report should use consistent disclosure methodologies to allow for comparison of KPIs in relation to ESG to facilitate understanding of corporate performance.

REPORTING PERIOD AND BOUNDARY

This report covers the Group's practices in sustainable development and its overall achievement in fulfilling CSR from January 1, 2022 to December 31, 2022 (the "**Reporting Period**"). The financial threshold principles are adopted to select the boundary of this report, which covers all offices of the Group, and comprehensively evaluates the Group's ESG performance during the year based on multi-dimensional data indicators.

REPORTING LANGUAGE

This report is published in both Traditional Chinese and English versions. In case of any discrepancy, the Traditional Chinese version shall prevail.

1. ABOUT FLOWING CLOUD

1.1. Introduction of the Group

Flowing Cloud Technology Ltd is an advanced supplier of the Metaverse scenario application tier in China, and has established its own Metaverse platform. Flowing Cloud is an advanced smart marketing technology service provider in China, who empowers the business development of enterprises in various vertical industries such as e-commerce, education, and cultural tourism by utilizing its technology capacities including AR/VR engine, AI behaviour algorithm and cloud computing.

The Company has an advanced 5G-based intelligent marketing SaaS platform, through which it provides standardized SaaS marketing solutions for small and medium-sized customers, uses AR/VR technology to obtain low-cost incremental traffic in the 5G era, helps small and medium-sized customers break down the traffic monopoly of centralized platforms so as to build its own private traffic pool and effectively improve marketing conversion and repeated purchase rate. It also provides a new business model based on AR/VR technology through its SaaS platform for customers in key vertical industries such as e-commerce, education, and cultural tourism and empowers their business development.

With a full-fledged marketing system and model tools, the Company enhances its brand reputation and strengthens its brand value through channel applications including consumer insights, content creativity, event management, CRM services and scenario marketing, and provides key accounts with customized service systems for the whole value chain.

1.2. Honours of the Company

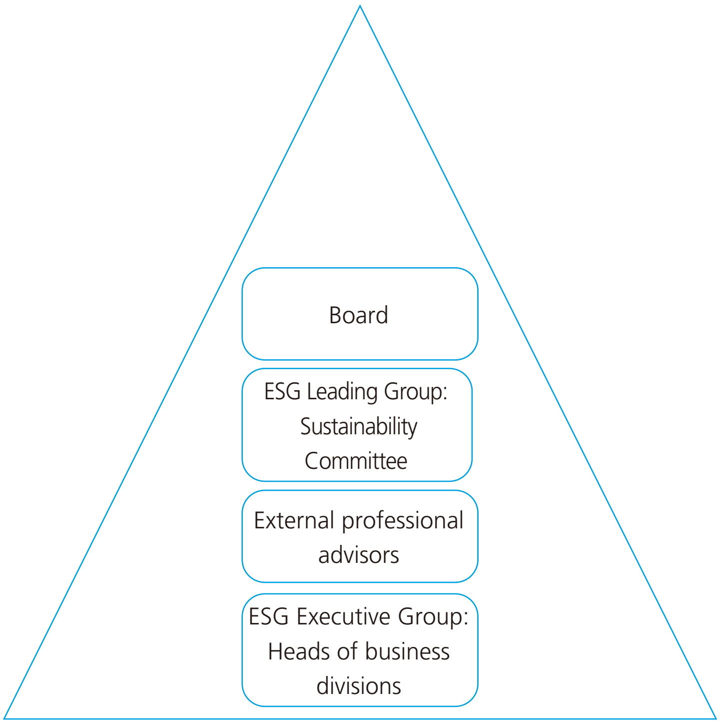
Name of Award	Awarding Institution
2022 (Industry) Leading Enterprise by 2022 (6th) Boao Enterprise Forum (2022(第六屆)博鰲企業論壇2022年度(行業)領軍企業)	Organizing Committee of the Boao Enterprise Forum (博鰲企業論壇組委會)
"Most Popular New Listed Company among Investors" in the 7th Zhitongcaijing Listed Companies Selection (第七屆智通財經上市公司評選"最受投資者歡迎新股公司")	Organizing Committee of Zhitongcaijing Listed Company Selection (智通財經上市公司評選組委會)
Metaverse Industry Outstanding Contribution Award by 2022 Future Metaverse Innovation Forum (2022未來元宇宙創新論壇元宇宙行業突出貢獻獎)	Organizing Committee of Future Metaverse Innovation Forum (未來元宇宙創新論壇組委會)
Corporate Member of Beijing Charity Volunteer Federation (Beijing Flowing Cloud Technology Co., Ltd.) (北京市慈善義工聯合會團體會員單位(北京飛天雲動科技有限公司))	Beijing Charity Volunteer Federation (北京市慈善義工聯合會)
2022 "Preferred Supplier" of [Activity-based Project] (Beijing Flowing Cloud Technology Co., Ltd.) by IFENG.COM (鳳凰網2022年度[活動類項目]"優選供應商"(北京飛天雲動科技有限公司))	IFENG Online (Beijing) Information Technology Co., Ltd. (鳳凰在線(北京)信息技術有限公司)
Standing Committee Member of the 1st plenary meeting of the 1st session of the Metaverse Industry Committee of China Mobile Communications Association (Beijing Flowing Cloud Technology Co., Ltd.) (中國移動通信聯合會元宇宙產業委員會第一屆第一次全體委員大會第一屆常務委員(北京飛天雲動科技有限公司))	Metaverse Industry Committee of China Mobile Communications Association (中國移動通信聯合會元宇宙產業委員會)
2022 Pioneering Contributor (Anji Flowing Cloud Technology Co., Ltd.) (2022實幹爭先貢獻者(安吉飛天雲動科技有限公司))	Huzhou Municipal Committee of the Communist Party of China (中共湖州市委) People's Government of Huzhou City (湖州市人民政府)

2. ESG MANAGEMENT AND STRATEGIES

2.1. ESG strategies and management

Flowing Cloud recognizes the importance of ESG to the sustainable development of the Group's business. We have established the ESG Leading Group and the ESG Executive Group with clear terms of reference. The members of the ESG Committee are appointed by the Board and comprises senior management with different functions, and are mainly responsible for overseeing the performance of policy and programme on ESG issues. The Board participates in the discussion of the management policies and strategies on ESG, including the evaluation of materiality and prioritization of ESG issues, takes charge of managing the process of material ESG-related issues (including risks related to the issuer's business) and reviews the Group's progress for the year against relevant targets.

The Group's ESG management system:



The composition of the ESG management structure and responsibilities thereof are summarized as follows:

Functions	Descriptions
Board	• To take full charge of assessing the key ESG-related risks faced by the Group (e.g. supplier management, understanding of the community's requirements for sustainability, etc. and other major ESG issues related to the Group). • To take full charge of assessing and determining the nature and extent of risks that the Group is willing to accept in achieving its strategic objectives, including ESG-related risks, and establishing and maintaining appropriate and effective risk management and internal control systems.
ESG Leading Group: Sustainability Committee	• To assist the Board in leading the management and overseeing its design, implementation and oversight of risk management and internal control systems. • To formulate or improve policies and procedures to address material risks, including ESG-related risks during the course of operations. • To review the adequacy and effectiveness of risk management and internal control systems on a regular basis.
External professional advisors	• To conduct independent review of risk management and internal control systems on an annual basis. • To ensure that use of the procedures used to identify, assess and manage material risks to properly identify key features of risk management and internal control systems.
ESG Executive Group: Heads of business divisions	• To continuously assess and identify risks that may have potential impacts on the business and all aspects of Group, including ESG-related risks and deficiencies in internal control during the course of operations. • To report any identified risks to the management.

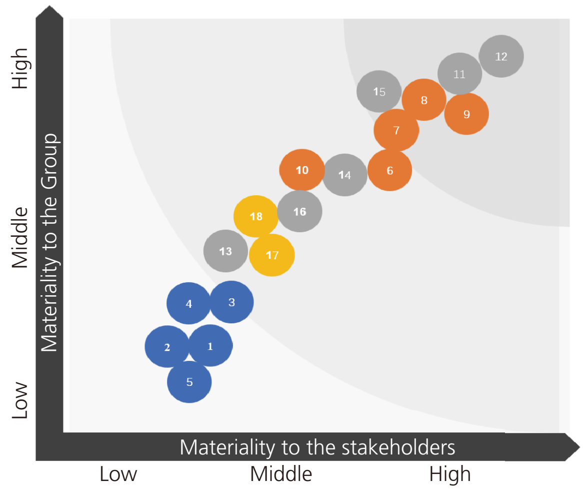
2.2. Stakeholder communication and materiality assessment

Flowing Cloud strives to receive the opinions from stakeholders (including shareholders and investors, customers, employees, suppliers, regulatory authorities and community) through constructive communication with them, actively listen to their opinions to protect their rights and interests, so as to determine the long-term development direction of the Company and maintain close relationships with stakeholders. We arrange the management and employees of each departments of the Company to review its operation status in terms of their functions, identify ESG related issues and assess the materiality/relevance of these issues to our business.

The group of stakeholders, their expectations and their typical communication channels with the Company are as follows:

Major stakeholders	Expectations and aspirations	Main communication channels
Shareholders and investors	Return on investment Protection of shareholders' rights and interests Accuracy and timeliness of information disclosure Anti-corruption	General meetings Annual reports, announcements, and other information in the public domain Telephone/email enquiries through official website on "Investor relations" column Investors' conferences Information disclosure of listed companies
Customers	Ensure product quality and safety High quality and efficient services Protection of customers' privacy	Hotlines Customer service centres Customer satisfaction surveys and opinion forms Online service platform
Employees	Compensation and benefits Career development and opportunities Safe working environment Vocational training Humanistic care	Job performance assessment Staff activities Training and seminar Employee research
Suppliers	Integrity and mutual benefit Supply chain management Sustainable partnerships	Supplier evaluation system On-site inspections Meetings with suppliers
Regulatory authorities	Compliance operation Ensure product quality and safety Facilitating economic development Promoting the development of the gas industry	Compliance reporting Written response to inquiries Community engagement
Community	Job opportunities Effective use of resources Supporting community development Reduction of pollutant emissions Ecological environment	Public welfare activities Attending seminars/lectures/ working sessions Environmental activities

We communicate with different types of the stakeholders through different channels to understand their opinions and expectations on the Group and establish a long-term and mutual trust relationship, so as to determine the scope of this report. At the same time, by communicating with the stakeholders, the Group can timely understand the stakeholders' views and requirements on the Group. We arrange the management and employees of each department of the Company to review the operation of the Company and identify ESG-related issues within their functions. After careful analysis by the Board and management and evaluation of the materiality and relevance of these ESG topics to our Company, the following materiality assessment results are obtained:



Environment	Employee
1. Emissions management	6. Employee welfare
2. Waste management	7. Employee career development
3. Use of energy	8. Occupational health and safety
4. Water conservation	9. Attraction and retaining of talents
5. Climate change	10. Employee training
Product	**Community**
11. Compliance operation	17. Contribution to community
12. Protection of intellectual property right	18. Investment in public welfare
13. Complaint handling	
14. Supply chain management	
15. Anti-corruption	
16. Customer data protection	

Based on these results, the Company will continue to improve its ESG performance to meet the expectations of stakeholders and address the risks faced by the Company. The details of our work and key performance indicators defined in the ESG Reporting Guide that are considered relevant and significant to the Company's operation are divided into five categories — "ensuring quality operation", "strengthening compliance and win-win partnership", "supporting humanistic care", "creating green development together" and "public welfare and harmonious community", which are integrated with our business development to achieve sustainable development operation.

3. ENSURING QUALITY OPERATION

The Group strictly complies with all laws and regulations of the places where it operates, and carries out its business prudently by upholding its core values of "sincerity, innovation, win-win and value". Through sophisticated operation and management and regulated corporate governance, we strengthen our internal control, and strive to provide superior technology services to our customers and safeguard the legitimate rights and interests of the Group and its customers.

3.1. Safeguarding product quality and safety

Adhering to the integrity-based, technological capabilities-oriented, content innovation-driven and customer-centric philosophy, Flowing Cloud offers services to its business-end customers. The Company focuses on deeply exploring the commercial value of its brand by perfectly integrating cutting-edge technology with its marketing services and providing diversified AR/VR-based intelligent marketing and industry application services for customers in e-commerce, education, automotive, cultural tourism, livestreaming and other sectors through the "Wanjie Smart Marketing Platform" developed in-house by Flowing Cloud. Looking forward, we will also construct the "Feitian Metaverse Platform" by leveraging our AR/VR technology accumulated over the years, in order to break through Internet barriers, digitally empower commercial customers and end customers in their upgrading, and provide a gateway to the Metaverse. The Group engages in the business of offering various AR/VR related services, mainly including AR/VR marketing services, AR/VR content, AR/VR SaaS and IP business, and operate its businesses in strict compliance with the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》) and in a prudent manner, and strictly implements quality control in all aspects.

As the Group's operations involve intellectual property rights, in order to effectively protect the Group's intellectual property rights, motivate its employees for active invention and creation, boost the management of research and development results, promote technological innovation activities and improve its market competitiveness, the Group strictly complies with the Trademark Law of the People's Republic of China (《中華人民共和國商標法》), the Patent Law of the People's Republic of China (《中華人民共和國專利法》), the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》), the Company Law of the People's Republic of China (中華人民共和國公司法》), the Listing Rules and other laws and regulations, and put in place the Intellectual Property Management Measures (《知識產權管理辦法》) in light of the actual conditions of the Group. Based on the Intellectual Property Management Measures, the Group implements the PRC intellectual property laws and regulations, formulates and refines intellectual property management measures, and draws up the Company's medium-and long-term strategy, planning and specific implementation scheme on intellectual property; proactively propels the development, commercialization, transfer and standardized management of its scientific and technological achievements; actively carries out technological innovation and focuses on the commercialization thereof to drive the advancement in its technologies; steps up its efforts in the publicity and popularization of knowledge of intellectual property laws and regulations, and enhances the Company's awareness and ability to protect intellectual property rights.

During the year, there was no recall of the Group's products for safety and health reasons, and no product recall occurred.

3.2. Valuing customer feedback

Flowing Cloud, as a pioneer of AR/VR content and service industry in China, highly values customer opinions. In the process of development and innovation, Flowing Cloud pays more attention to collecting customer opinions from all aspects, transforming them into innovative inspiration, continuously upgrading products and services, so as to live up to customers' expectations. Flowing Cloud actively improves the group-wide service management system, fulfills its commitments to external service, ensures timely handling of requests in the form of letters and visits, for the purpose of improving customer satisfaction and raising the Company's service management standard. In order to better listen to customers' opinions, the Group has set up a unified complaint hotline and official website, where customers can make complaints by telephone or through the "Contact Us" column in official website; the Group has set up a mail address for receiving complaints on corporate matters, to which customers can send emails for complaints; and customers can also make complaints in the form of letters and visits.

In order to prevent complaints from happening, in the daily management, the Group requires all employees to improve their quality and capacities, strengthen the information exchange inside and outside the Company, maintain a working attitude of devoting themselves to the Company and customers, and strive to minimize and avoid customer complaints.

In order to quickly deal with customer complaints, avoid expanding impact, maintain the Company's reputation, enhance its quality and after-sales service, the Group has formulated the Customer Complaint Management System (《客戶投訴管理制度》), which effectively prevents the Company's operational service risks, strengthens customer complaint management, regulates the processing flow, requires all departments to work together and make a quick response, in an effort to address the issues thoroughly in the shortest time, provide the complainants with a timely and satisfactory response, ensure external customer complaints being settled in timely, fair and reasonable manner, and advance the continuous improvement of business services. The Customer Complaint Management System requires that the responsibility for complaint handling, the responsible department and person who caused the customer complaints, and the responsibility for the customer complaints not being resolved in a timely and satisfactory manner shall be determined when handling customer complaints. After the handling, the corresponding responsible person and responsible department shall be liable for their respective responsibilities according to the division of responsibilities.

The Group keeps detailed records of each customer complaint, promptly organizes a review to draw the lessons from them, summarizes complaint handling experience and strengthens complaint management. The Group regularly reviews and assesses customer complaints, conducts graded and classified analysis of customer complaints, and focuses on the analysis of key issues, takes enhanced measures and reform for common issues and settles individual issues on a case-by-case basis. The information on complaints shall be timely understood and solved. The Group shall timely communicate with customers, identify the key links of the issues and the direct responsible person thereof, and put forward solutions to ensure the fastest solving of issues. Relevant departments shall timely summarize the issues after they are perfectly handled, sort out the issues, notify the issues within the Group in a timely manner, and hold online conferences on a regular basis to summarize and discuss the issues encountered, thereby giving reminders to other departments. The Group collects market opinions and customer feedback, updates marketing strategies in a timely fashion and communicates with partners at the earliest possible time to improve and upgrade the projects according to complaints. In 2022, the Group did not receive any complaints.

3.3. Protecting customer privacy

Flowing Cloud pays high attention to customers' information security. We provide strict protection for our users' privacy through rigorous security management system and advanced technologies of hardware and software. In strict compliance with the Law of the People's Republic of China on Guarding Secrets (《中華人民共和國保密法》), the Measures for the Implementation of Law of the People's Republic of China on Guarding Secrets (《中華人民共和國保密法實施辦法》) and other laws and regulations in respect of information security, the Group manages data collection, usage and storage, regulates information security management and ensures data availability, integrity and confidentiality so as to protect customers' privacy in all respects.

On the strategy front, the Group adopts strict information security risk management. We can understand information security risks by means of information assets risk identification and risk grade assessment, and choose appropriate objectives and approaches to put information security risks under control at an acceptable level by taking into account risks, thus maintaining sustainable development of the Company's businesses to meet the requirements under the Company's information security management guidelines. The Group's rules attach key identifiers to the hardware and software facilities carrying security information, which serves as the basis of risk assessment for making risk management strategies. Risks can be controlled at an acceptable level by the sound information security management of the system.

On the product front, the Group provides its customers with AR/VR SaaS platform — Wanjie Smart Marketing Platform, which can automatically pop up the terms and conditions of the Platform Use Agreement (《平台使用協定》) and Privacy Statement (《隱私權聲明》) when customers use the products, reminding customers to pay attention to the use and protection of personal data.

The "Confidentiality System" section of the Employee Handbook (《員工手冊》) of the Company states the principle that all of the Group's businesses should comply with the Group information and customer privacy information management rules in course of operation, for the employees of the Group to follow, and strictly requires employees not to disclose customer information in private interactions, not to talk about customer information in public places, and not to disclose customer information in ordinary calls and private communications. Corresponding management initiatives were adopted for all nodes. Customer information entry shall be initiated in a designated module and then reviewed and approved by all departments level by level to ensure information security. Customer information will be reviewed regularly in the management afterwards. Not only each of the functional departments participates in the information circulation, but also the IT department plays a key role in customer information maintenance. In addition, our staff are required to proactively take part in trainings on information security awareness or information security skills organized by the Company to improve their information security awareness.

3.4. Regulating procurement management

Flowing Cloud strictly works out quality control standards in many aspects to ensure the safe and stable operation of the platform and the quality of products and services. The Group strictly abides by government regulations and formulates procedures manuals and policies in respect of business procurement and supplier management.

Flowing Cloud puts strong emphasis on the business procurement of various business departments. In order to regulate the business procurement process of the Group, strengthen the management of centralized procurement of the Group, give full play to the overall advantages of the Company, reduce procurement costs and avoid procurement risks, the Procurement Management System (《採購管理制度》) has been put in place to define the responsibilities of various departments in the procurement process:

1. Departments with procurement demands states their detailed demands by email and initiates the application process;

2. Internal audit department supervises the compliance of the whole procurement process to ensure that the procurement behavior is open, fair and impartial;

3. Legal department is responsible for reviewing contract terms, evaluating contract risks and providing legal advice;

4. Financial department is responsible for reviewing budget, supplier financial position, payment and invoice.

To regulate the supplier management of the Group, strengthen risk prevention, and ensure the smooth operation of business activities, the Group has formulated the Supplier Management System (《供應商管理制度》) in accordance with relevant laws and regulations such as Civil Code of the People's Republic of China (《中華人民共和國民法典》) and the Company Law of the People's Republic of China (《中華人民共和國公司法》) and in light of the current actual situation of the Group, requiring all relevant departments to be responsible for business negotiations, agreement signing with relevant suppliers and data storage within the terms of reference; to be responsible for the evaluation of supplier's quality assurance system and quality performance, the evaluation of the counterpart's quality assurance capability, the feedback, follow-up improvement, reply and closure coordination of supplier's quality issues, and the supervision and verification of the implementation of corrective and preventive measures for supplier's quality.

The Group clearly stipulates the selection of suppliers, so as to ensure that the purchased items meet the requirements of the Company's production and operation, and the following processes are followed in the selection and quota determination:

Gathering information	The purchaser gathers relevant information about the quality, service, delivery date and price of potential suppliers through the Internet, television, bidding materials and other possible channels, and organizes suppliers to fill out the attachment "Approval Form for New Partners Application".
Preliminary screening	Suppliers applying for cooperation must abide by relevant PRC laws, regulations, guidelines and policies, have reliable credit standing, be capable of providing qualified products at reasonable prices, have strong service awareness and well-established after-sales service measures and capabilities.
Access	It arranges on evaluating the supplier's qualification, gathers up the information about the counterpart's previous and current customers, quotations, reputations, team members, which will be reviewed by the relevant departments. After the review is passed, the supplier will officially become a partner supplier recognized by the Company.
Agreement signing	Procurement department organizes to sign purchase agreements or contracts with suppliers.

During the year, the Group's major cooperative suppliers are as follows:

Region	**Number**	**Number of suppliers meeting the Group's selection requirements**
Beijing	4	4
Shenzhen	1	1

In order to fulfill its environmental and social responsibilities, the Group conducted surveys on the environmental and social performance of its suppliers in advance when selecting suppliers, investigating their environmental conditions, including gas emissions, wastewater discharge and resource use, as well as industry and social evaluations of the suppliers' professional products and services. The Group hopes that in the coming years, our suppliers and the Group will monitor each other and work together to achieve multi-dimensional improvement in environmental, social and governance aspects.

4. STRENGTHENING COMPLIANCE AND WIN-WIN PARTNERSHIP

4.1 Righteous operation

Flowing Cloud integrates the concept of sustainable development management into business operations, builds a sustainable development management system, adheres to the principles of ethical management and compliance management, continuously strengthens stakeholder communication, ensures the sustainable development of the company, and gives back to customers and society.

The Group follows the principle of fair competition in the market, consciously maintains market order, establishes an open and transparent price system, and conducts business activities in accordance with laws and regulations. The Group promotes the sustainable development of compliance by issuing compliance management reports and conducting compliance publicity and training to enhance the compliance awareness of employees.

The Group implements the corresponding contract management system, and the principle of integrity runs through our business processes, including investigation before the conclusion of the contract, contract execution management, contract signing process specification, contract performance and contract filing, we standardize business behaviour from the contract process, strengthen contract performance supervision, and prevent the risk of breach of contract. In 2022, we did not have any cases of default due to breach of the terms.

4.2. Anti-corruption development

Flowing Cloud complies with a series of laws and regulations aimed at preventing corruption, bribery and other unethical business practices including (but not limited to) the Criminal Law of the People's Republic of China (《中華人民共和國刑法》), the Company Law of the People's Republic of China (《中華人民共和國公司法》), the Anti-Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》) and the Anti-Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》). The entities within the Group comply with the laws and regulations in the places where they operate and actively promote anti-corruption work. The Group advocates the corporate culture of honesty, righteousness and integrity, actively fosters a corporate culture environment conducive to anti-bribery, anti-corruption and anti-fraud, actively evaluates the risk of bribery, corruption and fraud, and establishes specific control procedures and mechanisms to reduce the probability of bribery, corruption and fraud.

Flowing Cloud is committed to meeting the highest ethical standards in its business dealings and abiding by the essence and spirit of all relevant laws, regulations and provisions. In order to prevent the occurrence of fraud and violations within the Group, it has established a whistle-blowing channel for possible fraud and violations, which will be dealt in a closed loop, in an effort to ensure the legal and compliant operation of the Group and protect the legitimate rights and interests of the Group's shareholders, employees and the State. In compliance with the Internal Control System of Beijing Ophyer Technology Shares Co., Ltd. (《北京掌中飛天科技股份有限公司內部控制制度》), the Articles of Association of Beijing Ophyer Technology Shares Co., Ltd. (《北京掌中飛天科技股份有限公司章程》) and other relevant laws and regulations, and in light of the actual situation of the Group, the Group has formulated the Anti-bribery, Anti-corruption and Anti-fraud and Whistle-blowing Management System (《反賄賂反腐敗反舞弊與舉報管理制度》) to strengthen the governance and internal control of the Group, prevent and control fraud, regulate anti-fraud work and safeguard the legitimate rights and interests of the Company and shareholders.

The Group believes that the purpose of anti-bribery, anti-corruption, and anti-fraud work is to regulate the professional behavior of all employees of the Company, especially directors, supervisors, middle and senior managers, and employees in key positions, establish a clean, diligent and dedicated work style, and follow relevant laws and regulations, professional ethics and the Company's internal management system to prevent the occurrence of behaviours that damage the interests of the Company and shareholders. It is especially required that directors, supervisors and other senior management have the responsibility of good faith and diligence to the Group. In performing their duties, they must abide by the provisions of laws, administrative regulations, articles of association and resolutions approved by the general meeting, and must comply with the Principle of Good Faith (《誠信原則》). They must not put themselves in a situation where their own duties and interests may conflict with the Company. The Principle of Good Faith requires all employees not to take bribes or other illegal income by taking advantage of their mandates, and not to misappropriate the Group's funds or embezzle the Group's assets in any form, including (but not limited to) opportunities beneficial to the Group. The Group makes unremitting efforts to explore and strengthen the supervision function, makes practical and solid efforts in daily supervision, carries out the supervision work in a down-to-earth manner, in order to effectively strengthen and improve the work style of management and employees in key positions, and further promote the development of a corruption-free enterprise.

The Group defines the responsibilities of the supervision department in the anti-bribery, anti-corruption and anti-fraud work:

The Board	It is responsible for facilitating the management to foster a company-wide anti-bribery, anti-corruption and anti-fraud cultural environment, and establishing and improving the internal control system including fraud prevention.
Audit Committee under the Board	As a leadership body of the Company's anti-bribery, anti-corruption and anti-fraud work, it guides and supervises the Company's anti-bribery and anti-corruption and anti-fraud work.
Management	It is responsible for establishing, perfecting and effectively implementing internal control to reduce the chances of bribery, corruption and fraud, and taking appropriate and effective remedial measures for bribery, corruption and fraud, and accepts the supervision of the Audit Committee and the Board.
Responsible persons of subsidiaries and departments	They should be liable for the occurrence of bribery, corruption and fraud in their respective entities and departments, and be the first responsible person for anti-bribery, anti-corruption and anti-fraud in their respective entities and departments.
Internal audit department	As a standing body of the Company's anti-bribery, anti-corruption and anti-fraud work, it is responsible for the implementation of the anti-bribery, anti-corruption and anti-fraud work of the Company and its subsidiaries.

In order to maintain the integrity and dedication of all employees of the Group, protect the interests of the Group and individuals from infringement and ensure the healthy development of the Group, the Group has established a sound organizational structure, provided correct guidance from the perspective of values, and advocated a corporate culture of integrity. The Group organized trainings on anti-corruption, anti-bribery and environmental protection violations during the reporting year, mainly popularizing the anti-corruption and bribery provisions set out in the Criminal Law of the People's Republic of China (《中華人民共和國刑法》), the Anti-Unfair Competition Law (《反不當競爭法》) and the Interim Provisions on Prohibiting Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》) and other relevant laws and regulations for all employees, which aimed to explain anti-corruption and anti-bribery and provide related prevention programs to employees, promote integrity management in the Company, and enhance employees' integrity awareness and ethics. During the reporting year, we had no cases of corruption.

5. SUPPORTING HUMANISTIC CARE

Flowing Cloud attaches great importance to talent development, believing employees are the most important assets in our operations. To this end, the Group has formulated the Employee Handbook (《員工手冊》), the Remuneration Management System (《薪酬管理制度》) and the Performance Appraisal Management System (《績效考核管理制度》), which provide for the procedures including recruitment and employment, labor services, attendance management, performance management and training and development in a detailed and clear manner, to strengthen human resources management, effectively protect the legitimate rights and interests of employees, continuously improve employee welfare and enhance employees' sense of belonging. As at December 31, 2022, the total number of employees of the Group was 120.

5.1. Equal Employment System

In strict compliance with the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Labor Dispute Mediation and Arbitration Law of the People's Republic of China (《中華人民共和國勞動爭議調解仲裁法》), the Labor and Employment Promotion Law of the People's Republic of China (《中華人民共和國勞動就業促進法》), the Employment Services and Employment Management Regulations (《就業服務和就業管理規定》), the Work-Related Injury Insurance Regulations (《工傷保險條例》) and other laws and regulations related to labor and employment, Flowing Cloud provides employees with a harmonious, inclusive, equal, and non-discriminatory working environment. In accordance with the Employee Handbook and relevant internal rules, the Group implements policies such as recruitment management, labor service management, attendance management, salary and welfare management, performance appraisal management and training and development management, and appoints talents based on the principles of open recruitment, impartial evaluation, fair competition and merit-based selection.

The Group strictly abides by Article 94 of the Labor Law of the People's Republic of China (《中華人民共和國勞動法》), which specifies that "where an employer illegally recruits minors under the age of 16, the administrative department of labour shall order it to make corrections, and impose a fine thereon. In case of serious circumstances, the administrative department for industry and commerce shall revoke its business license". The Group strictly complies with the Law on the Protection of Minors of the PRC (《中華人民共和國未成年人保護法》) and the Provisions on the Prohibition of Using Child Labor (《禁止使用童工的規定》). For the purpose of avoiding the employment of child labor, the Group specifies the provision in the recruitment conditions that candidates must be at least 18 years old, and asks candidates to show their identity documents for verification during the employment process to ensure that he/she meets the minimum working age requirements. When a new employee joins the Company, the Human Resources Department signs an employment contract with the employee and requires the employee to present documents such as an ID card, proof of academic qualifications, proof of termination of employment with the previous company and a personal photo when handling formal employment procedures, and conducts background investigation to learn about the basic particulars of employee to ensure that the employee's identity is genuine and valid and prevent illegal employment.

Adhering to the principle of commitment to its employees and promoting the healthy development of employees, the Group provides for the working hours of employees in accordance with the law. The Group specifies that employees are entitled to enjoy statutory holidays in accordance with the laws to ensure sufficient rest time for its employees and avoid forced labor.

During the Reporting Period, the Group did not violate any laws and regulations relating to the remuneration and dismissal, recruitment and promotion, working hours and holidays, other benefits and welfare, equal opportunities, diversity, anti-discrimination, prevention of child labour or forced labour, and no child labour or forced labour cases were found in the Group.

5.2. Remuneration and Benefits of Employees

In order to standardize the remuneration management of the Company and give full play to the incentive role of the remuneration system, the Group has formulated the Remuneration Management System (《薪酬管理制度》). On the basis of objective evaluation of employees' performance, the system is to ensure that satisfactory performance is encouraged and rewarded, and inadequate performance is rectified and improved to increase employees' passion and enthusiasm at work, and reflect the employment mechanism with selection, competition, incentive and elimination as the core. The Company's remuneration is designed according to different ranks of human resources, classification-based management is adopted to focus on reflecting the value of positions and individual contribution. The Company encourages employees on long-term service, to work for the continuous growth and sustainable development of the Company, and share the accomplishments of its development. Through a comprehensive employee performance appraisal system, we are able to achieve the Group's overall development strategy while improving the quality and performance of our employees.

The Group has developed a complete remuneration system for its employees, whose remuneration consists of nine parts: basic salary, rank salary, allowance, performance-based salary, bonus, share option, stock equity, position-related expenses and welfare, the composition of which may differ for different positions. The standard salary consists of basic salary, rank salary and allowance, in which the basic salary accounts for 20%, while the rank salary is determined according to the position and rank, which accounts for 60% for general sales positions, and 45% for non-sales positions. Allowances are attendance-linked subsidies given according to the Company's development stage and the actual assignments of posts. Allowances are composed of meal allowance, transportation allowance, communication allowance and attendance award. The allowances can be enjoyed by employees with the monthly attendance rate of not less than 60%, and are paid together with the rank salary. At the end of the year, the Company adjusted the employees' rank and rank salary according to the annual performance appraisal results and the post appointment system requirements. Salary adjustment usually takes place in March and August each year.

The Group conducts control over each aspect of the remuneration management, and the Chairman is mandated to approve and issue the remuneration management system of the Company. The Chairman or the authorized competent leaders shall review and approve the changes in employees' remuneration and the applications for various welfare. The human resources department drafts various remuneration management systems, and establishes and improves the remuneration management system and related procedures. In addition, the Company sets up a post evaluation team, which is composed of the Chairman or authorized competent leaders, relevant personnel of the human resources department and responsible leaders at all levels of the post. The post evaluation team is responsible for conducting post evaluation when there are adjustments in the Company's organizational structure, and changes in job responsibility or new positions.

In addition, the Group also provides various kinds of care for employees in respect of welfare. Every meaningful holiday, the Company will organize employee activities, such as employee birthday parties, where the Company sends cakes and blessings to its employees on their birthdays to show its care for employees; orientation training for new employees, where the Company organizes warm-up activities for new employees to make them fit in the working environment faster; annual meeting, where the Company summarizes yearly achievements to award outstanding employees, and invites all employees to draw lucky lotteries. These activities could enhance employees' sense of belonging and happiness, create a good working atmosphere, and promote the positive development of corporate culture.

The Company also maintains an open communication attitude, and employees can provide feedback and suggestions and seek solutions through the Company's open and formal communication platforms and channels. In order to create convenient and effective communication channels and improve the promptness and feedback efficiency of communication, the Company has set up online and offline communication channels, enabling employees to reflect their opinions to the management. Employees encouraged to actively provide advices and suggestions and work with the Company to improve various rules and systems.

Photo: Employees' birthday party

Photo: 2023 annual meeting

5.3. Focusing on talent development

Training systems

Talent is the most valuable assets of Flowing Cloud. Flowing Cloud attaches importance to the growth of talents, cherishes, nurtures and leverages them, and provides them with broad development space. The Company encourages its employees to keep learning, make continuous progress, grow in learning and become more talented in practice. The Company is committed to providing sufficient training and development opportunities for employees' growth, advocating the establishment of learning and sharing mechanisms, and accumulating organizational wisdom. Employees can apply for training resources in a targeted manner through the online learning platform and offline training courses, depending on their needs for work and personal growth.

In order to build an efficient and cohesive team, the Group has developed a complete staff development and training system, standardized the implementation and management of personnel training at all levels, and continuously improved the talent cultivation mechanism. The Group sets scientific and reasonable staff training programs to meet the training needs of various kinds of talents. The Company's staff training consists of five key elements in terms of training materials and contents: orientation training new employee, professional training, management training, professional quality training and online education of OA system. The Company sets up "Flowing Cloud Institute (飛天雲動大學)" training course for new employees and requires them to complete all the training courses. New employees will complete training course and obtain certificates of completion from Flowing Cloud Institute if they pass the training course examination.

Training dynamics

During the year, 73% (Note 1) of the Group's employees received training, and the average training hours per employee was 0.15 hours (Note 2). Information on the training by gender and rank of employee is as follows:

	Number of employees trained	Percentage of employees trained (Note 3)	Total training hours (hour)	Average training hours (hour) completed per employee (Note 4)
By gender of employee				
— Male	58	66.7%	9.0	0.12
— Female	29	33.3%	9.0	0.20
By rank of employee				
— Senior executives	7	8.1%	3.0	0.43
— Senior management	5	5.7%	5.0	1.00
— Middle management	13	14.9%	5.0	0.31
— Other employees	62	71.3%	5.0	0.05

Note 1: The total number of employees trained divided by the number of employees at the end of the year.

Note 2: The total training hours of employees divided by the number of employees at the end of the year.

Note 3: The number of employees trained in this category divided by the number of employees trained.

Note 4: The training hours of employees in this category divided by the number of employees in this category at the end of the year.

5.4. Employee health and safety

In strict compliance with the Fire Control Law of the People's Republic of China (《中華人民共和國消防法》), the Occupational Health and Safety Management System (《職業健康安全管理體系》), the Measures for the Identification of Work-related Injuries (《工傷認定辦法》), and the Regulations on Work-related Injury Insurance (《工傷保險條例》) and other laws and regulations, Flowing Cloud formulated the Employee Handbook (《員工手冊》) to regulate the safety work of employees, build a safety management system, create a safe and healthy working environment and carry out comprehensive safety education for employees. In the face of the ongoing impact of the COVID-19, the Group has been taking reliable protective measures to protect the health and safety of its employees.

Workplace Safety

The Group strives to offer employees with a safe and healthy working environment. In order to ensure the safety of the employees, finance and assets, all employees are obliged to abide by the following safety management regulations:

1. All department personnel shall receive visitors (except for government officials and important guests) after 9:00 a.m.;

2. All visitors (except for government officials and important guests) entering the Company shall register the visitor information at the front desk. For details of visitor reception specifications and related procedures, please refer to the Reception Management System (《接待管理制度》);

3. All employees shall wear badges when entering and leaving the Company and during work;

4. Anyone who takes bulky items out shall report in advance the name of the items, the time of exit, the reason for exit and the proof document issued by the head of first-tier department to the administrative department, and the administrative department shall apply to the property service company of the industrial park for exit note before they can take the bulky items out by presenting the exit admission slip;

5. Smoking is completely banned in the office area, and the employees have the obligation to remind visitors of the ban on smoking. Those who need to smoke shall go to the smoking area outside the Company. If anyone violates such provision, they will be punished.

In order to ensure that the Company meets and observes the standards as provided in relevant health and safety laws when conducting business activities, the Group adopts internal policies according to various national industry standards. In order to enhance employees' safety awareness, during the year, the Company actively held fire safety training and telecom & internet fraud prevention training to comprehensively popularize safety precautions in all respects and encourage all employees to jointly safeguard the safety of workplace and personnel.

During the year and the past three years, there was no fatal accident in the Group's operation. The Group has complied with applicable national and local health and safety laws and regulations in all material aspects. The Group has not been imposed any major sanctions, penalties, fines or punishments by relevant authorities in China for any violation of the PRC laws and regulations in respect of health and safety, nor has it been involved in any major complaints about personal injury or property damage and compensation payable to employees.

Photo: Training on fire safety

Photo: Training on prevention of telecom and Internet fraud

Physical and mental health of employees

The Group arranges annual physical examination for its employees, organizes various employee activities, and specially organizes mental health training for its employees, so as to create a safe, healthy and friendly workplace environment, balance work and life, and enhance employee's sense of happiness.

In order to ensure that employees have a strong physical fitness and a good mental state, the Group holds staff sports meetings, organizes various kinds of fun sports and small-scale competitions to bring diversified experiences, so as to encourage employees to maintain their enthusiasm for exercise and experience the fun of healthy sports.

Photo: Training on mental health of employees

Fight against Covid-19

In view of the global outbreak of COVID-19, the Group distributed masks and other materials to all employees during the COVID-19 outbreak in order to ensure the continuous business operation, and required employees to work from home to protect their health. The Group took active measures in the prevention and control of COVID-19 as follows:

- Encourage employees to be vaccinated for COVID-19 as soon as possible according to the policies released by government authorities;
- Require employees to report any special health conditions of themselves and their close family members to the human resources department;
- Require employees returning from high-risk areas to quarantine themselves for 14 days;
- Clean and disinfect the our owned and leased properties (including the office and service desk) and the operating facilities on a regular basis;
- Monitor the physical condition of the employees and subcontractors, and check their body temperature every day;
- Require our employees to wear masks all the time during work and timely report to the Company if they feel unwell;
- Promote a non-contact working environment by using online platforms, using mobile applications to the largest extent, reducing the use of paper and limiting physical meetings; and
- Encourage employees to pay attention to personal hygiene.

After returning to the office, the Group still conducted daily disinfection for designated office space, distributed anti-epidemic materials such as water-free hand-washing gel and N95 mask, and posted anti-epidemic tips to ensure the safety of its employees.

5.5. Summary of data in social subject areas

Social Subject Areas	Unit	2022
Number of employees by gender		
Male	Persons	75
Female	Persons	45
Number of employees by employee category		
Senior executives	Persons	7
Senior management	Persons	5
Middle management	Persons	16
Other employees	Persons	92
Number of employees by age group		
Under 30	Persons	38
30 to 40	Persons	77
41 to 50	Persons	5
Over 50	Persons	0
Number of employees by region		
Mainland China	Persons	120
Others	Persons	0
Number and rate of employee turnover (overall rate and by gender)		
Total employee turnover rate (note 1)	%	76%
Male employee turnover and turnover rate (note 2)	%	58 (77%)
Female employee turnover and turnover rate (note 2)	%	33 (73%)
Number and rate of employee turnover (by age group) (note 2)		
Under 30	%	44 (116%)
30 to 40	%	40 (52%)
41 to 50	%	5 (100%)
Over 50	%	2 (100%)

Social Subject Areas	Unit	2022
Number and rate of employee turnover (by region) (note 2)		
Mainland China	%	91 (76%)
Others	%	0 (0%)
Occupational health and safety		
Number of work-related injuries	Persons	0
Lost days due to work injury	Persons	0
Work-related fatalities (for the last three years)	Persons	0

Note 1: Number of employees who left office divided by the number of employees at the end of the year.

Note 2: Number of employees who left office in this category divided by the number of employees in this category at the end of the year.

6. CREATING GREEN DEVELOPMENT TOGETHER

While maintaining quality products and services, Flowing Cloud upholds the concept of caring for the Earth and protecting the environment. We have established a sound environmental management system and measures to ensure that we work with our employees and customers to build a green ecology together. In the light of the increasingly severe global environmental risk situation, we must also take actions to establish the concept of ecological civilization featuring respecting and protecting nature and take the path of sustainable development. During this Reporting Period, the Group did not violate any laws and regulations on environment.

6.1. Tackling climate change

Climate change is currently a global challenge that affects everyone's life. In 2015, almost all countries adopted a milestone international agreement, the Paris Agreement, agreeing to significantly reduce global greenhouse gas emissions with a view to limiting global warming within 1.5 degrees Celsius this century. This Agreement has underlined the urgency of the climate-related conditions.

In 2020, at the United Nations General Assembly, China made it clear that China aims to peak CO2 emissions before 2030 and achieve carbon neutrality before 2060.

In recent years, Flowing Cloud has also taken an active part in the carbon emission reduction scheme, proactively following the global trend of green and low-carbon development and actively laying out a carbon neutral pattern. During the year, the Company developed a policy on climate change, which states how to assess significant climate-related issues and how to respond to them.

The Group's operations do not involve the use of fuel in vehicles for business travel and natural gas consumed by stoves, and greenhouse gas ("**GHG**") emissions came mainly from use of purchased electricity. The Group has put a number of measures in place to address GHG emissions, the details of which were set out in the "Practicing Green Operations" section.

The summary of the Group's GHG emissions for the year is as follows:

Category of GHG emissions	Unit	Discharge amount
GHG emissions		
Scope 1 Direct GHG emissions	Carbon dioxide equivalent (tons)	0.00
Scope 2 Indirect GHG emissions from energy consumption	Carbon dioxide equivalent (tons)	152.11
Total GHG emissions	Carbon dioxide equivalent (tons)	152.11
Intensity of GHG emissions		
Per employee (Scope 1)	Carbon dioxide equivalent (tons)/employee	0.00
Per employee (Scope 2)	Carbon dioxide equivalent (tons)/employee	1.27

Based on the Group's performance in GHG emissions for the year, we set our GHG emissions target by using 2022 as the baseline year. Assuming there are no significant changes in the Company's business, we aim to maintain the intensity of GHG emissions of 1.27 (Scope 2, carbon dioxide equivalent (tons)/employee) for the next three years.

6.2. Practicing green operations

Taking into account the features of gas industry, Flowing Cloud has been committed to alleviating the impact of its operation on the natural environment, promoting and practicing green operations and incorporating green philosophy into our daily operation. The Group mainly impacted the environment in these aspects: electricity, water and paper consumption in the offices. The Group has made efforts to practice green operations and contributed to building a harmonious ecology. It has taken a series of measures for energy consumption, water resource management, reduction of gas emission and noise.

Waste management

The Group's products do not require packaging for transportation, so there is no consumption of packaging materials and related waste materials. In the office operation process, the Group generates a very small amount of hazardous wastes such as selenium drum, fluorescent tubes and toner cartridges. We have reached cooperation with qualified hazardous waste treatment companies to recycle hazardous wastes. The non-hazardous solid waste generated by the Group is mainly domestic waste, which will be transported away by qualified sanitation companies to ensure the treatment based garbage classification.

During daily operation, the Group consciously reduces the consumption of resources through daily recycling. We encourage our employees to use double-printed paper, and not use colour printing unless necessary, so as to save paper and other stationery and reduce waste discharge. The Group advocates employees to use their own reusable tableware instead of disposable tableware, and organize the "Clean Your Plate Campaign" to avoid food waste. The Group also advocates employees to sort out the domestic waste properly and posts publicity slogans to facilitate waste classification in the community.

Use of energy

The Group insists on reducing the consumption of resources (including energy, water, etc.) as much as possible under the condition of efficient operation, supporting the use and promotion of clean energy, and improving the comprehensive utilization rate of resources. The Group manages the use of energy such as water, resource and electricity, focuses on the management of major energy-consuming equipment, calculates the consumption monthly, and standardizes the equipment operation process to fully and effectively utilize energy. We will find out the cause and look for rectification measures in investigating any abnormal or excessive consumption. To achieve sustainable development, the Group regularly circulates environmental protection information to employees and provides practical suggestions on environmental protection lifestyles. Looking forward, we will continue to actively seek out feasible opportunities to reduce consumption in our operations.

During the year, the Group adopted the following measures in order to achieve the above emission reduction targets:

1. Promoting energy conservation and emission reduction, and setting up slogans such as "light should be turned off before leaving".

2. Replacing the automatic sensor switch for corridors to save electricity.

3. Conducting all kinds of publicity, setting up publicity slogans to guide water conservation.

With the Group's efforts to improve energy efficiency and strengthen the promotion of energy conservation to employees, the energy consumption of the Group and its intensity during the year are as follows:

	Unit	**2022**
Power consumption	kWh	173,694.00
Total power consumption intensity	kWh/employee	1,447.45

Assuming energy consumption is uniformly measured in MWh, the results are as follows:

Type	**Consumption in 2022**
Direct energy (MWh)[1]	0.00
Indirect energy (MWh)	173.69
Total energy consumption (MWh)	173.69
Energy consumption intensity (per employee, e.g. MWh/employee)	1.45

Based on the Group's performance in energy consumption for the year, we set our energy consumption target by using 2022 as the baseline year. Assuming there are no significant changes in the Company's business, we aim to maintain the energy consumption intensity of 1.45 MWh/employee for the next three years.

1 The calculation of energy unit converting into kWh is based on the Energy Statistics Manual released by the International Energy Agency.

Water resource management

The Group's water sources from the urban water supply system connected to the leased office building. The water used by the Group is concentrated in office and domestic water, and wastewater treatment is under the supervision of external supervision organization. The Group attaches importance to the impact of water consumption on the environment and has formulated a series of water-saving measures. Water-saving reminders are posted in each water-using areas to improve employees' water-saving awareness. The non-contact induction faucets are adopted to achieve the purpose of saving water.

For the year ended December 31, 2022, the water consumption of the Group and its intensity are as follows:

	Unit	2022
Water consumption	ton	1,358.00
Total water consumption intensity	ton/employee	11.32

Based on the Group's performance in water consumption for the year, we set our water consumption target by using 2022 as the baseline year. Assuming there are no significant changes in the Company's business, we aim to maintain the water consumption intensity of 11.32 ton/employee for the next three years.

Reduction of air emissions

Despite not involving air emissions in its operation, the Group attaches importance to reducing emissions and regulates its employees to take effective emission reduction measures to reduce air pollution. The Group promotes green travel, and has formulated the Reimbursement System (《報銷制度》) in respect of business travel and other necessary expenses, which clearly stipulates that business departments should in principle only reimburse public transportation expenses (buses, subways, etc.), but not taxis expenses. If it is necessary to travel by taxi, the Group advocates electric vehicles to reduce air pollution emissions.

During the year, the types and data of the Group's air emissions are as follows:

Type of emissions	Unit	2022
Nitric Oxides (NO_x)	kg	0.00
Sulfur Oxides (SO_x)	kg	0.00
Particulate Matter (PM)	kg	0.00

6.3. Promoting Low-carbon Emission and Environmental Protection

On September 27, 2020, the Ministry of Ecology and Environment held a briefing on the policy of "actively addressing climate change" to implement the targets of responding to climate change, and intensify economic transformation, adhere to the new development concept, develop digital economy and other high-tech industries, and promote low-carbon culture through digitalization. Meanwhile, energy substitution will be strengthened to build a near-zero emission energy system with new energy and renewable energy as the mainstay by 2050, and lay the foundation for achieving carbon neutrality by 2060.

By reviewing of greenhouse gas emissions, and with reference to the suggestions of the Task Force on Climate-related Financial Disclosures (TCFD), Flowing Cloud transparently disclosed and compared the GHG emissions and energy consumption in the report. The Group endeavours to reduce the carbon footprint during its operation and promotes a low-carbon culture.

7. PUBLIC WELFARE AND HARMONIOUS COMMUNITY

Flowing Cloud actively undertakes social responsibilities. As a member of society, the Group actively fulfils its obligations in supporting social development and keeping eyes on social changes. During the year, due to the severe situation of the pandemic, the Group has not invested in any social welfare activities. In the future, the Group will pay more attention to giving back to the society, put more advanced technology into the society and contribute to public welfare undertakings.

Overview of KPIs

Environmental performance

	Type	**Emissions for the year**
Waste gas	Nitric Oxides (kg)	0.00
	Sulfur Oxides (kg)	0.00
	Respirable suspended particulates (kg)	0.00

	Scope	**Emissions for the year**
GHG emissions	Scope 1 Direct GHG emissions (Carbon dioxide equivalent (metric tons))	0.00
	Scope 2 Indirect GHG emissions from energy consumption (Carbon dioxide equivalent (metric tons))	
	Purchased electricity	152.11
	Total GHG emissions (Carbon dioxide equivalent (metric tons))	152.11
	Intensity of GHG emissions (Carbon dioxide equivalent (metric tons)/employee)	1.27

	Type	Amount of waste produced for the year
Waste	Hazardous waste (metric tons)	0.00
	Hazardous waste intensity (per employee, e.g. metric tons/employee)	0.00
	Non-hazardous waste (metric tons)	
	Domestic waste	0.00
	Non-hazardous waste intensity (per employee, e.g. metric tons/employee)	0.00

	Type	Consumption for the year
Use of energy	Direct energy (MWh)	0.00
	Indirect energy (MWh)	
	Electricity	173.69
	Total energy consumption	173.69
	Energy consumption intensity (per employee, e.g. "MWh/employee")	1.45

		Consumption for the year
Use of water resource	Total Water consumption (m^3)	1,358.00
	Water consumption intensity (per employee, e.g. "m^3/employee")	11.32

Social performance

Employee distribution		Number of workforce for the year
By gender	Male	75
	Female	45
By employment category	Senior executives	7
	Senior management	5
	Middle management	16
	General employees	92
By employment type	Full-time	120
	Part-time	0

Employee distribution		**Number of workforce for the year**
By age	Under 30	38
	30 to 40	77
	41 to 50	5
	Over 50	0
By region	Mainland China	120
	Others	0
Proportion by gender (male: female)		1.67 : 1
Total		120

Employee distribution		**Number and rate of employee turnover for the year[2]**
By gender	Male	58 (77%)
	Female	33 (73%)
By age	Under 30	44 (116%)
	30 to 40	40 (52%)
	41 to 50	5 (100%)
	Over 50	2 (100%)
By region	Mainland China	91 (76%)
	Others	0 (0%)
Total and rate[3]		91 (76%)

2 Number of employees who left office in this category divided by the number of employees in this category at the end of the year.

3 Number of employees who left office divided by the number of employees at the end of the year.

Occupational health and safety	Indicator for the year
Number and rate of work-related fatalities (during the year and the past three years)	0
Number and rate of work-related injuries	0
Lost days due to work injury	0

Training	Type	Number and percentage of trainees[4]
By gender	Male	58 (66.7%)
	Female	29 (33.3%)
Employment category	Senior executives	7 (8.1%)
	Senior management	5 (5.7%)
	Middle management	13 (14.9%)
	General employees	62 (71.3%)
Total number of employees trained		87 (73%)

4 The number of employees trained in this category divided by the total number of employees trained.

Independent Auditor's Report

To the Shareholders of Flowing Cloud Technology Ltd
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Flowing Cloud Technology Ltd (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 117 to 195, which comprise the consolidated statement of financial position as at December 31, 2022, 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 then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition from contracts with customers in respect of provision of augmented reality and virtual reality ("**AR/VR**") marketing service business	
Revenue from contracts with customers in respective of provision of AR/VR marketing service business for the year was RMB681,796,000, representing 64% of total revenue, which was the primary source of revenue of the Group. Revenue from contracts with customers in respect of provision of AR/VR marketing service business is recognized based on the results of the placement of services in relevant external platforms which comprises a high volume of activities such as clicking or downloading. The volume of activities performed in relevant external platforms are captured and the amounts of revenue to be recognized are calculated automatically based on the algorithmic logic in the Group's business operation information system and stored in the big data platform (together with the Group's business operation system, the "**Systems**"). We identified occurrence of revenue recognition from contracts with customers in respect of provision of AR/VR marketing service business as a key audit matter due to the revenue recognition is dependent on the effective design and operation of the Systems, especially controls on the caption of activities in relevant external platforms, system change and data security, and auditing of the process required significant effort. Details of revenue from provision of AR/VR marketing service business are set out in Note 6 to the consolidated financial statements.	Our procedures in relation to revenue recognition from contracts with customers in respect of provision of AR/VR marketing service business included: • With the assistance of our information technology specialists, testing the general information technology controls over the Systems, including access security, system change control, data center and network operation, and data transmission monitor control between the Systems; • Understanding, evaluating and testing the key controls relevant to our audit in relation to the occurrence of revenue recognition from contracts with customers in respect of provision of AR/VR marketing service business, including controls over confirming the transaction volume, price and amounts with the customers by agreement on the monthly settlement records; • Reconciling the recorded revenue transactions in the Group's financial records with the recalculated amounts of revenue to be recognized from all relevant data in the Group's business operation information system and testing the automated controls over the caption of activities from relevant external platforms to verify the volume of transactions used in the calculation; • Inspecting, on a sample basis, the recorded revenue transactions by examining the contracts with customers and the monthly settlement records with customers to verify the amounts of revenue recognized and checking the cash collection, if any, via examining the bank slips.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Yam Siu Man.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

March 20, 2023

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2022

	NOTES	Year ended December 31, **2022** **RMB'000**	2021 RMB'000
Revenue	6	**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	7	**(7,336)**	447
Impairment losses under expected credit loss ("**ECL**") model, net of reversal	8	**(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	9	**(3,257)**	(2,357)
Profit before tax	10	**247,144**	87,142
Income tax expense	12	**(10,551)**	(15,423)
Profit for the year		**236,593**	71,719
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
Fair value gain on investments in equity instruments at fair value through other comprehensive income ("**FVTOCI**")		**20,872**	—
		20,872	—
Total comprehensive income for the year		**257,465**	71,719

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2022

	NOTES	Year ended December 31, 2022 RMB'000	2021 RMB'000
Profit/(loss) for the year attributable to:			
Owners of the Company		**236,746**	70,202
Non-controlling interests		**(153)**	1,517
		236,593	71,719
Total comprehensive income/(expense) attributable to:			
Owners of the Company		**257,618**	70,202
Non-controlling interests		**(153)**	1,517
		257,465	71,719
Basic earnings per share (RMB cents)	13	**14.8**	5.2
Diluted earnings per share (RMB cents)	13	**14.8**	5.2

Consolidated Statement of Financial Position

At December 31, 2022

	NOTES	As at December 31, 2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**2,128**	2,140
Right-of-use assets	16	**5,917**	6,492
Intangible assets	17	**47,934**	29,274
Equity instruments at FVTOCI	18	**190,526**	—
Contract costs	21	**386**	1,005
Deferred tax assets	19	**1,932**	1,325
		248,823	40,236
CURRENT ASSETS			
Trade and other receivables and deposits	20	**387,266**	166,129
Contract costs	21	**1,326**	9,496
Prepayments	22	**485,534**	153,375
Bank balances and cash	23	**404,501**	214,279
		1,278,627	543,279
CURRENT LIABILITIES			
Trade and other payables	24	**139,624**	75,340
Lease liabilities	26	**4,368**	3,019
Bank borrowings	27	**80,000**	22,300
Contract liabilities	28	**67,714**	21,091
Income tax payable		**8,819**	12,451
		300,525	134,201
NET CURRENT ASSETS		**978,102**	409,078
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,226,925**	449,314
NON-CURRENT LIABILITIES			
Lease liabilities	26	**1,520**	2,744
		1,520	2,744
NET ASSETS		**1,225,405**	446,570

Consolidated Statement of Financial Position

At December 31, 2022

	NOTES	As at December 31, 2022 RMB'000	2021 RMB'000
CAPITAL AND RESERVES			
Share capital	29	**128**	7
Share premium		**521,249**	—
Reserves	30	**701,295**	443,677
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**1,222,672**	443,684
Non-controlling interests		**2,733**	2,886
TOTAL EQUITY		**1,225,405**	446,570

The consolidated financial statements on pages 117 to 195 were approved and authorized for issue by the board of directors on March 20, 2023 and are signed on its behalf by:

Wang Lei
DIRECTOR

Li Yanhao
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended December 31, 2022

	Attributable to owners of the Company									
	Paid-in capital/ share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Other reserve RMB'000	FVTOCI reserve RMB'000	Statutory reserve funds RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At January 1, 2021	9,061	—	4,206	—	—	4,939	159,842	178,048	1,369	179,417
Total comprehensive income for the year	—	—	—	—	—	—	70,202	70,202	1,517	71,719
Issue of shares (Note 29)	7	—	—	—	—	—	—	7	—	7
Modification to financial instruments (Note 25)	(260)	—	(111)	(15,348)	—	—	—	(15,719)	—	(15,719)
Termination of preferred rights of the shares related to the Group and conversion of preferred shares (Note 25)	2,772	—	170,079	38,295	—	—	—	211,146	—	211,146
Appropriation of statutory reserve funds	—	—	—	—	—	846	(846)	—	—	—
Adjustment arising from the Reorganization (Note)	(11,573)	—	—	11,573	—	—	—	—	—	—
At December 31, 2021	**7**	**—**	**174,174**	**34,520**	**—**	**5,785**	**229,198**	**443,684**	**2,886**	**446,570**
Profit/(loss) for the year	**—**	**—**	**—**	**—**	**—**	**—**	**236,746**	**236,746**	**(153)**	**236,593**
Other comprehensive income	**—**	**—**	**—**	**—**	**20,872**	**—**	**—**	**20,872**	**—**	**20,872**
Total comprehensive income/(expense) for the year	**—**	**—**	**—**	**—**	**20,872**	**—**	**236,746**	**257,618**	**(153)**	**257,465**
Issue of shares relating to initial public offering ("**IPO**") (Note 29)	**20**	**543,348**	**—**	**—**	**—**	**—**	**—**	**543,368**	**—**	**543,368**
Capitalization issue (Note 29)	**101**	**(101)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Transaction costs attributable to issue of shares relating to IPO	**—**	**(21,998)**	**—**	**—**	**—**	**—**	**—**	**(21,998)**	**—**	**(21,998)**
Appropriation of statutory reserve funds	**—**	**—**	**—**	**—**	**—**	**22,140**	**(22,140)**	**—**	**—**	**—**
At December 31, 2022	**128**	**521,249**	**174,174**	**34,520**	**20,872**	**27,925**	**443,804**	**1,222,672**	**2,733**	**1,225,405**

Note:

On December 16, 2021, Flowing Cloud Technology Ltd (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") completed the group reorganization of which details are set out in the section headed "History, Development and Corporate Structure – Reorganization" (the "**Reorganization**") of the prospectus of the Company dated September 29, 2022 in connection with the initial public offering of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Listing**"). As a result, the Company became the holding company of the Group since then.

Consolidated Statement of Cash Flows

For the year ended December 31, 2022

	Year ended December 31, 2022 RMB'000	2021 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**247,144**	87,142
Adjustments for:		
Interest income	**(709)**	(828)
Exchange differences	**4,528**	5
Depreciation of property, plant and equipment	**1,152**	570
Depreciation of right-of-use assets	**3,539**	2,746
Amortization of intangible assets	**17,923**	10,836
Amortization of software license within one year (included in trade and other receivables and deposits)	**612**	—
Impairment losses under ECL model, net of reversal	**4,050**	(864)
Finance costs	**3,257**	2,357
Fair value changes on financial liabilities designated as at FVTPL	**—**	21,075
Operating cash flows before movements in working capital	**281,496**	123,039
Increase in trade and other receivables and deposits	**(222,106)**	(21,425)
Increase in prepayments	**(326,230)**	(60,372)
Decrease in inventories	**—**	4,301
Decrease in contract costs	**8,789**	10,301
Increase in trade and other payables	**70,723**	10,170
Increase/(decrease) in contract liabilities	**46,623**	(23,345)
Cash (used in)/generated from operations	**(140,705)**	42,669
Income tax paid	**(14,790)**	(18,184)
Net cash (used in)/from operating activities	**(155,495)**	24,485
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(1,288)**	(2,600)
Purchase of intangible assets	**(45,478)**	(15,126)
Purchase of software license within one year	**(8,300)**	—
Purchase of equity instruments at FVTOCI	**(169,654)**	—
Interest received	**709**	828
Placement of time deposits with maturity over three months	**—**	(150,000)
Withdrawal of time deposits with maturity over three months	**—**	150,000
Net cash used in investing activities	**(224,011)**	(16,898)

For the year ended December 31, 2022

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
FINANCING ACTIVITIES		
New bank borrowings raised	**105,000**	24,700
Repayment of bank borrowings	**(47,300)**	(41,067)
Repayment of lease liabilities	**(2,839)**	(3,372)
Interests paid	**(3,257)**	(1,842)
Proceeds from issue of shares with preferred rights and preferred shares	**—**	125,480
Proceeds from issue of shares of previous year	**7**	—
Net proceeds from issue of shares relating to IPO	**527,733**	—
Payment of share issuance costs	**(5,088)**	(1,219)
Net cash from financing activities	**574,256**	102,680
Net increase in cash and cash equivalents	**194,750**	110,267
Cash and cash equivalents at the beginning of the year	**214,279**	104,017
Effect of foreign exchange rate changes	**(4,528)**	(5)
Cash and cash equivalents at the end of the year represented by bank balances and cash	**404,501**	214,279

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, 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.

2. GROUP REORGANIZATION AND BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

1 Effective for annual periods beginning on or after January 1, 2023.
2 Effective for annual periods beginning on or after a date to be determined.
3 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. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers

The Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct goods or services.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

There are no variable consideration and significant financing component for the Group's revenue from contracts with customers.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognize revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers *(Continued)*

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation *(Continued)*

AR/VR marketing service business

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

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

AR/VR content business

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

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

Sales of Intellectual Properties ("IPs")

Revenue from sales of IPs is recognized when the control of the certain adaptation rights of IPs is transferred to a customer. Control of the rights is transferred to the customers, when an agreement has been signed with a customer and the required documents have been delivered.

AR/VR Software as a Service ("SaaS") services

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers *(Continued)*

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation *(Continued)*

Others

The Group generates revenues from text message services, promotion services, technical services, artist endorsement services, games and games related business. The Group recognizes revenue at a point in time when specific services are provided or the customized product is passed to the customer.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Contract costs

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognizes such costs (sales commissions) as an asset if it expects to recover these costs. The asset so recognized is subsequently amortized to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers *(Continued)*

Contract costs *(Continued)*

Costs to fulfil a contract

The Group incurs costs to fulfil its customized product development contracts. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which it recognizes an asset for these costs only if they meet all of the following criteria:

- the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;
- the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- the costs are expected to be recovered.

The asset so recognized is subsequently amortized to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the initial application of IFRS 16 or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognized as expense on a straight-line basis or another systematic basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

The Group as lessee *(Continued)*

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payment made at or before the commencement date, less any lease incentives received; and
- any initial direct costs incurred by the Group.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* and initially measured at fair value. As the adjustments to fair value at initial recognition are insignificant, such adjustments are not considered and are not included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Lease liabilities *(Continued)*

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Foreign currencies

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

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

Borrowing costs

All the Group's borrowing costs not directly attributable to the acquisition, construction or production of qualifying assets are recognized in profit or loss in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

Retirement benefit costs

Payments to the retirement funds scheme managed by local social security bureau in accordance with the government regulations in the PRC, are recognized as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when the employee rendered the services. All short-term employee benefits are recognized as an expense unless another IFRS requires or permits inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

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

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

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including furniture, fixtures and equipment held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives.

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Research and development expenditure

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on property, plant and equipment, contract costs, right-of-use assets and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, intangible assets with finite useful lives and contract costs to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Before the Group recognizes an impairment loss for assets capitalized as contract costs under IFRS 15 *Revenue from Contracts with Customers*, the Group assesses and recognizes any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalized as contract costs is recognized to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognized as expenses. The assets capitalized as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognized immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on property, plant and equipment, contract costs, right-of-use assets and intangible assets *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Contingent liabilities

A contingent liability is a present obligation arising from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Where the Group is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability and it is not recognized in the consolidated financial statements.

The Group assesses continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognized in the consolidated financial statements in the reporting period in which the change in probability occurs, except in the extremely rare circumstances where no reliable estimate can be made.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

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

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets *(Continued)*

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortized cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) *Amortized cost and interest income*

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

(ii) *Equity instruments designated as at FVTOCI*

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

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

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

The Group always recognizes lifetime ECL for trade receivables.

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

(i) *Significant increase in credit risk*

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

(i) *Significant increase in credit risk* *(Continued)*

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

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

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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

(ii) *Definition of default*

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

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 180 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

(iii) *Credit-impaired financial assets*

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

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

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

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

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

(iv) *Write-off policy*

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

(v) *Measurement and recognition of ECL*

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

(v) Measurement and recognition of ECL ***(Continued)***

Lifetime ECL for certain trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

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

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

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

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

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

Derecognition of financial assets

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities and equity *(Continued)*

Financial liabilities at amortized cost

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

Derecognition/modification of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the contractual terms of a financial liability are modified, the Group assess whether the revised terms result in a substantial modification from original terms taking into account all relevant facts and circumstances including qualitative factors. If qualitative assessment is not conclusive, the Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. The above said fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. Accordingly, such modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortized over the remaining term. Any adjustment to the carrying amount of the financial liability is recognized in profit or loss at the date of modification.

When an existing financial liability is renegotiated in such a way that the liability is extinguished fully or partially by issuing equity instruments, it is accounted for as an extinguishment of the original financial liability and a recognition of equity instrument at the fair value upon issue with the difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the consideration paid (being the fair value of the equity instruments issued), recognized to profit or loss.

Derivative financial instruments

Derivatives are initially recognized at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities and equity *(Continued)*

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortized cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company (the "**Directors**") are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Consolidation of affiliated entities

The Group obtained control of the Consolidated Affiliated Entities by entering into the Contractual Arrangements. Nevertheless, the Contractual Arrangements and other measures may not be as effective as direct legal ownership in providing the Group with direct control over the Consolidated Affiliated Entities and uncertainties presented by the PRC legal system could impede the Group's beneficiary rights of the results, assets and liabilities of the Consolidated Affiliated Entities. The Directors, based on the advice of its legal counsel, consider that the Contractual Arrangements are in compliance with the relevant PRC Laws and are legally enforceable. Therefore, the Group has control over the Consolidated Affiliated Entities as a result of the Contractual Agreements and accordingly, the Group has consolidated the Consolidated Affiliated Entities for the year ended December 31, 2022.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Provision of ECL for trade receivables

The Group recognizes lifetime ECL for trade receivables, using collective assessment based on the Group's internal credit ratings except that those with significant increase in credit risk or credit-impaired are assessed individually. The debtors with significant increase in credit risk or credit-impaired are assessed individually by reference to aging, past default experience and current past due exposure of the debtor, and an analysis of the debtor's current financial position. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. As at December 31, 2022, the carrying amounts of trade receivables were RMB375,518,000 (2021: RMB161,856,000), after deducting allowance for credit losses of RMB11,050,000 (2021: RMB7,000,000). Details of trade receivables are set out in Note 20.

6. 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 (Note)	**4,452**	32,494
	1,066,157	595,290

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

6. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

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
	1,066,157	595,290

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.

6. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

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
	RMB'000	RMB'000
Customer A	**N/A[1]**	60,686

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.

7. 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
	(7,336)	447

8. IMPAIRMENT LOSSES UNDER ECL MODEL, NET OF REVERSAL

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Impairment losses recognized/(reversed) on trade receivables	**4,050**	(864)
	4,050	(864)

Details of impairment assessment are set out in Note 32.

9. 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 (Note 25)	**—**	515
Interest expense on lease liabilities	**354**	293
	3,257	2,357

10. 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	**23,226**	14,152
Staff costs (including the Directors' remuneration as set out in Note 11):		
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	**37,682**	28,173
Auditors' remuneration	**2,600**	878

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

Mr. Wang Lei was appointed as an executive director and chief executive officer of the Company on June 24, 2021.

Mr. Li Yanhao, Ms. Xu Bing and Mr. Li Yao were appointed as executive directors of the Company on December 13, 2021.

Ms. Wang Beili, Mr. Jiang Yi and Mr. Tan Deqing were appointed as independent non-executive directors of the Company on September 8, 2022.

Details of the emoluments paid or payable to the Directors and chief executive officer of the Company (including emoluments of their services as employees or directors of the group entities prior to becoming the Directors) for the year ended December 31, 2022, disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, are as follows:

	Fee	Salaries and other benefits	Contribution to retirement benefits scheme	Discretionary bonus (Note)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended December 31, 2022					
Executive directors					
Wang Lei	—	682	60	466	1,208
Li Yanhao	—	448	60	410	918
Xu Bing	—	284	51	306	641
Li Yao	—	286	54	276	616
	—	1,700	225	1,458	3,383
Independent non-executive directors					
Wang Beili	15	—	—	—	15
Jiang Yi	15	—	—	—	15
Tan Deqing	15	—	—	—	15
	45	—	—	—	45

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

	Fee RMB'000	Salaries and other benefits RMB'000	Contribution to retirement benefits scheme RMB'000	Discretionary bonus (Note) RMB'000	Total RMB'000
Year ended December 31, 2021					
Executive directors					
Wang Lei	—	679	55	336	1,070
Li Yanhao	—	437	48	210	695
Xu Bing	—	270	36	126	432
Li Yao	—	277	44	116	437
	—	1,663	183	788	2,634

Note: The discretionary bonus is determined by the Directors based on the performance of the Directors and the Group.

The executive directors' and chief executive's emoluments shown above were mainly for their services in connection with the management affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

The five highest paid employees of the Group during the year included two (2021: three) Directors, details of whose remuneration are set out above. Details of the remuneration for the year of the remaining three (2021: two) highest paid employees who were neither a director nor chief executive officer of the Company are as follows:

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Salaries and other benefits	**1,195**	659
Contributions to retirement benefits schemes	**174**	104
Discretionary bonus (Note)	**763**	304
	2,132	1,067

Note: The discretionary bonus is determined by the Directors based on the performance of the employees and the Group.

The remunerations of each of the highest paid employees who are neither directors nor chief executive officer are all within HK$1,000,000.

During the year ended December 31, 2022, none of the Directors and chief executive officer of the Company had waived any emoluments and no emoluments had been paid by the Group to any of the Directors or chief executive officer or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2021: None).

12. INCOME TAX EXPENSE

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Current enterprise income tax	**11,468**	15,667
Overprovision in prior year	**(310)**	—
Deferred tax (Note 19)	**(607)**	(244)
	10,551	15,423

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
	RMB'000	RMB'000
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	**10,551**	15,423

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.

12. INCOME TAX EXPENSE *(Continued)*

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 there years.

13. 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
	RMB'000	RMB'000
Profit for the year attributable to owners of the Company	**236,746**	70,202
Earnings for the purpose of basic and diluted earnings per share	**236,746**	70,202

13. EARNINGS PER SHARE *(Continued)*

Number of shares

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
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	**56**	—
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	**1,594,344**	1,350,154

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 as disclosed in Notes 2 and 29 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 conversation of all dilutive potential ordinary shares, including the effect of shares with preferred rights and preferred shares as disclosed in Note 25. 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.

14. 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).

15. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment RMB'000
COST	
At January 1, 2021	763
Additions	2,301
At December 31, 2021	3,064
Additions	**1,140**
At December 31, 2022	**4,204**
DEPRECIATION	
At January 1, 2021	354
Provided for the year	570
At December 31, 2021	924
Provided for the year	**1,152**
At December 31, 2022	**2,076**
CARRYING VALUES	
At December 31, 2022	**2,128**
At December 31, 2021	2,140

The above items of property, plant and equipment are depreciated so as to write off the cost of assets less their residual values on a straight-line basis over the following period:

Furniture, fixtures and equipment	3 years

16. RIGHT-OF-USE ASSETS

For both years, the Group leases certain office buildings, the lease term of which varies from 2 to 3 years. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group does not have the option to purchase the leased properties at the end of the lease term. The lease contracts do not impose any covenants, but the leased assets may not be used as security for borrowing purposes.

	Leased properties RMB'000
COST	
At January 1, 2021	1,185
Additions	8,279
At December 31, 2021	9,464
Additions	**2,964**
Derecognition upon expiration of the term	**(1,184)**
At December 31, 2022	**11,244**
DEPRECIATION	
At January 1, 2021	226
Charge for the year	2,746
At December 31, 2021	2,972
Charge for the year	**3,539**
Derecognition upon expiration of the term	**(1,184)**
At December 31, 2022	**5,327**
CARRYING VALUES	
At December 31, 2022	**5,917**
At December 31, 2021	6,492

The Group regularly entered into short-term leases for properties. During the year ended December 31, 2022, expenses relating to short-term leases of buildings amounting to RMB552,000 (2021: RMB497,000) was recognized.

During the year ended December 31, 2022, the total cash outflow for leases was RMB3,805,000 (2021: RMB4,502,000).

17. INTANGIBLE ASSETS

	Softwares RMB'000	IPs RMB'000 (Note)	Total RMB'000
COST			
At January 1, 2021	23	37,763	37,786
Additions	119	14,151	14,270
Expiration of authorization	(11)	(7,134)	(7,145)
At December 31, 2021	131	44,780	44,911
Additions	**8,281**	**28,302**	**36,583**
Expiration of authorization	**—**	**(4,811)**	**(4,811)**
At December 31, 2022	**8,412**	**68,271**	**76,683**
AMORTIZATION			
At January 1, 2021	13	11,933	11,946
Provided for the year	16	10,820	10,836
Expiration of authorization	(11)	(7,134)	(7,145)
At December 31, 2021	18	15,619	15,637
Provided for the year	**2,118**	**15,805**	**17,923**
Expiration of authorization	**—**	**(4,811)**	**(4,811)**
At December 31, 2022	**2,136**	**26,613**	**28,749**
CARRYING VALUES			
At December 31, 2022	**6,276**	**41,658**	**47,934**
At December 31, 2021	113	29,161	29,274

Note: IPs refer to the Group's adaptation right for production of AR/VR SaaS pattern plates, AR/VR contents and games which are based on certain fictions, animation images and games acquired from the owners of these IPs. These rights have a term of 3 to 5 years.

All of the Group's intangible assets were acquired from independent third parties and have finite useful lives or authorization periods. Such intangible assets are amortized on a straight-line basis over the following periods:

Softwares	3 years
IPs	3–5 years

18. EQUITY INSTRUMENTS AT FVTOCI

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Listed		
— Equity securities	**190,526**	—

The above listed equity investments represent ordinary shares of a few entities listed on The Stock Exchange of Hong Kong Limited. These investments are not held for trading, instead, they are held for long-term strategic purposes. The Directors have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realizing their performance potential in the long run. The fair value is determined by the quoted bid prices in an active market and the fair value hierarchy is categorized as Level 1.

19. DEFERRED TAX

The following is the analysis of the deferred tax balances for financial reporting purpose:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Deferred tax assets	**1,932**	1,325

The deferred tax assets recognized by the Group and the movements thereon during the current year are as follows:

	Tax losses	ECL provisions	Total
	RMB'000	**RMB'000**	**RMB'000**
At January 1, 2021	—	1,081	1,081
Credit/(charge) to profit or loss	266	(22)	244
At December 31, 2021	266	1,059	1,325
Credit to profit or loss	**—**	**42**	**42**
Effect of change in tax rate	**(133)**	**698**	**565**
At December 31, 2022	**133**	**1,799**	**1,932**

19. DEFERRED TAX *(Continued)*

At the end of the reporting period, the Group has unused tax losses of approximately RMB10,996,000 (2021: RMB6,358,000) available for offset against future profits. A deferred tax asset has been recognized in respect of approximately RMB1,063,000 (2021: RMB1,063,000) of such losses. No deferred tax asset has been recognized in respect of the remaining approximately RMB9,933,000 (2021: RMB5,295,000) due to the unpredictability of future profit streams. The unrecognized tax losses declared will expire in the following years:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
2024	**1,028**	1,028
2025	**388**	388
2026	**3,879**	3,879
2027	**4,638**	—
	9,933	5,295

At the end of the reporting period, the Group has deductible temporary differences of approximately RMB520,000 (2021: RMB550,000), which are mainly arising from impairment losses. No deferred tax asset has been recognized in relation to such deductible temporary differences as it is not probable that taxable profit will be available for offsetting against which the deductible temporary differences can be utilized.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB488,261,000 (2021: RMB234,803,000), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

20. TRADE AND OTHER RECEIVABLES AND DEPOSITS

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

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
	RMB'000	RMB'000
Within 6 months	**339,345**	144,185
6–12 months	**33,159**	11,697
1–2 years	**3,014**	5,974
	375,518	161,856

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.

Details of impairment assessment of trade and other receivables and deposits are set out in Note 32.

21. CONTRACT COSTS

	As at December 31, 2022 RMB'000	2021 RMB'000
Current		
Incremental costs to obtain contracts	**977**	3,803
Costs to fulfill contracts	**349**	5,693
	1,326	9,496

	As at December 31, 2022 RMB'000	2021 RMB'000
Non-current		
Incremental costs to obtain contracts	**28**	1,005
Costs to fulfill contracts	**358**	—
	386	1,005

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 RMB3,803,000 (2021: RMB2,437,000). 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 RMB30,962,000 (2021: RMB44,481,000). There was no impairment in relation to these costs capitalized during the year (2021: Nil).

22. PREPAYMENTS

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
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
	485,534	153,375

23. BANK BALANCES AND CASH

Bank balances carried interest at market interest rate ranging from 0.001% to 0.625% per annum as at December 31, 2022 (2021: 0.30% to 0.35%). Bank balances and cash as at December 31, 2022 amounting to RMB162,979,000 (2021: RMB6) was denominated in US Dollar ("**USD**"). Bank balances and cash as at December 31, 2022 amounting to RMB3,672,000 (2021: RMB2,475,000) was denominated in Hong Kong Dollar ("**HKD**").

24. TRADE AND OTHER PAYABLES

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
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
	139,624	75,340

24. TRADE AND OTHER PAYABLES *(Continued)*

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

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
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
	72,429	44,263

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

25. FINANCIAL LIABILITIES AT FVTPL AND OTHER FINANCIAL LIABILITIES

Ophyer Technology entered into share subscription agreements with independent investors and issued four rounds ("**Round A**", "**Round A+**", "**Round B**" and "**Round C**", respectively) of shares with preferred rights or preferred shares from year 2020 to 2021, and all the preferred rights have subsequently been canceled in July 2021 and all the preferred shares have been converted into ordinary shares in December 2021.

Round A

In July 2020, Ophyer Technology entered into Round A share subscription agreements with four third-party investors ("**Round A investors**"). Ophyer Technology issued 348,500 shares with preferred rights at RMB1.00 per share for a total cash proceeds of RMB20 million, representing 3.72% of the ownership of Ophyer Technology on a fully diluted basis. Ophyer Technology received the payment amounting to RMB17,000,000 during the year ended December 31, 2020 and RMB3,000,000 during the year ended December 31, 2021, respectively.

25. FINANCIAL LIABILITIES AT FVTPL AND OTHER FINANCIAL LIABILITIES *(Continued)*

Round A *(Continued)*

The key terms of Round A Shares are set as below:

(a) Anti-dilution rights

When Ophyer Technology intends to increase its registered capital through capital increase and share expansion, issuance of new shares or issuance of convertible bonds, if the subscription price for each RMB registered capital of such subsequent capital increase is lower than the subscription price corresponding to each RMB of registered capital invested by Round A investors in Ophyer Technology, certain Round A investors have the rights to require Mr. Wang Lei or Ophyer Technology to jointly and severally transfer a certain proportion of Ophyer Technology's shares to certain Round A investors free of charge to adjust certain Round A investors' proportion of shares held equal to a specific proportion.

(b) Liquidation preference

In the event of any liquidation, including the transfer of material assets and the acquisition with change of control of Ophyer Technology, all assets and funds of Ophyer Technology legally available for distribution to the shareholders shall be distributed to the shareholders of Ophyer Technology as follows:

- Certain Round A investor shares with preferred rights at the higher of 100% of the issue price plus 10% simple annual interest of the issue price commencing from the issue date and 1.5 times of the issue price, and shares the residual distribution with the other shareholders, if any, but up to the ceiling of 3 times of the issue price;

- Other shareholders of Ophyer Technology except certain Round A investor with preferred rights.

(c) Preemptive rights

When Ophyer Technology increases capital or issues new shares, it should first notify certain Round A investors in writing of the proposed conditions, commercial terms and related terms of the capital increase or new share issuance, including but not limited to the number of capital increase or issuance of new shares, pricing standards, estimated completion time, etc. Certain Round A investors shall have the same priority to subscribe for capital increase/subscribe for newly issued shares based on its shareholding ratio under the same terms and conditions as the existing shareholders.

(d) Performance compensation right

Certain Round A investor has the right to require Mr. Wang Lei or Ophyer Technology to jointly and severally compensate for the shortfall from the committed net profit attributable to certain Round A investor at cash during the years ended December 31, 2020, 2021 and 2022.

25. FINANCIAL LIABILITIES AT FVTPL AND OTHER FINANCIAL LIABILITIES *(Continued)*

Round A *(Continued)*

(e) Redemption rights

Round A investors have the right to require Mr. Wang Lei or Ophyer Technology to jointly and severally purchase the shares of Ophyer Technology held by Round A investors if the investment agreement is terminated due to the provisions as follows:

- If Ophyer Technology fails to complete the listing procedures, or be acquired by a listed company before June 30, 2023 or December 31, 2023, Round A investors can terminate the agreement;
- If Ophyer Technology and/or Mr. Wang Lei violate or fail to fulfill any of their commitments under the agreements, Round A investors may terminate the agreement;
- If any of the information provided by Ophyer Technology and/or Mr. Wang is false or inaccurate in a material aspect or with material omission, Round A investors can terminate the agreement accordingly.

The redemption price for Round A shares with preferred rights shall be the higher of 100% of the issue price plus 8–10% simple annual interest of the issue price commencing from the issue date and the issue price plus the net increase of equity of Ophyer Technology.

(f) Rights of co-sale

When Mr. Wang Lei intends to pledge, sell, transfer or otherwise dispose of all or part of Ophyer Technology's equity held by him, a written approval of transfer with proposed conditions, commercial terms and any related terms should be granted by certain Round A investors. Certain Round A investor has the right to transfer the equity based on the shareholding ratio at the price not lower than the approved transfer price.

(g) Most favourable terms

If Ophyer Technology raises any capital in previous or subsequent financing on terms and conditions which are more favourable than Round A shares, certain Round A investor shall be entitled to such more favourable terms and the terms of its original investment shall be adjusted to reflect such most favourable terms.

Considering the Group has no unconditional right to avoid delivering cash to Round A investors and the conversion feature is a derivative over own equity that will not be settled via delivery of fixed number of shares in exchange for fixed cash, hence the Group designates the entire Round A shares with preferred rights, including the performance compensation rights, as financial liabilities at FVTPL with fair value changes recognized in "fair value changes of financial liabilities designated as at FVTPL" in profit or loss.

25. FINANCIAL LIABILITIES AT FVTPL AND OTHER FINANCIAL LIABILITIES *(Continued)*

Round A+

In December 2020 and January 2021, Ophyer Technology entered into Round A+ share subscription agreements with third-party investors ("**Round A+ investors**"). Ophyer Technology issued 1,960,313 shares at RMB1.00 per share for a total cash proceeds of RMB125 million, representing 17.87% of the ownership of Ophyer Technology on a fully diluted basis. Ophyer Technology received the payment amounting to RMB30,000,000 during the year ended December 31, 2020 and RMB95,000,000 during the year ended December 31, 2021, respectively.

The key terms of Round A+ shares with preferred rights are set as below:

(a) Performance compensation right

Round A+ investors have the right to require Mr. Wang Lei or Ophyer Technology to jointly and severally compensate for the shortfall from the committed net profit attributable to Round A+ investors at cash or shares, including the Ophyer Technology's registered capital transferred from the capital reserve and reserve funds and directional issued to Round A+ investors, if Ophyer Technology fails to fulfill the committed performance during the years ended December 31, 2021 and 2022.

(b) Liquidation preference

In the event of any liquidation, including the transfer of material assets and the acquisition with change of control of Ophyer Technology, all assets and funds of Ophyer Technology legally available for distribution to the shareholders shall be distributed to the shareholders of Ophyer Technology and Round A+ investors have the right to require Mr. Wang Lei or Ophyer Technology to compensate up to the higher of the 120% of the issue price and the issue price plus 12% simple annual interest of the issue price commencing from the issue date.

(c) Redemption rights

Round A+ investors have the right to require Mr. Wang Lei or Ophyer Technology to jointly and severally purchase the shares of Ophyer Technology held by Round A+ investors if the investment agreement is terminated due to the provisions as follows:

- If Ophyer Technology fails to complete the listing procedures, or be acquired by a listed company before December 31, 2023, Round A+ investors can terminate the agreement;
- If Ophyer Technology and/or Mr. Wang Lei violate or fail to fulfill any of their commitments under the agreements, Round A+ investors may terminate the agreement;
- If any of the information provided by Ophyer Technology and/or Mr. Wang is false or inaccurate in a material aspect or with material omission, Round A+ investors can terminate the agreement accordingly.

25. FINANCIAL LIABILITIES AT FVTPL AND OTHER FINANCIAL LIABILITIES *(Continued)*

Round A+ *(Continued)*

(c) Redemption rights *(Continued)*

The redemption price for Round A+ shares with preferred rights shall be the higher of the issue price plus 12% simple annual interest of the issue price commencing from the issue date and the net assets of Ophyer Technology at the redemption date attributable to Round A+ shares of, minus all the distributed dividends.

Round A+ investors are also entitled to the preemptive rights, anti-dilution rights, rights of co-sale and the most favorable terms as Round A investors.

Considering the Group has no unconditional right to avoid delivering cash to Round A+ investors and the conversion feature is a derivative over own equity that will not be settled via delivery of fixed number of shares in exchange for fixed cash, hence the Group designates the entire Round A+ shares with preferred rights, including the performance compensation rights, as financial liabilities at FVTPL with fair value change recognized in "fair value changes of financial liabilities designated as at FVTPL" in profit or loss.

Meanwhile, certain Round A investor is automatically entitled to the preferred rights of Round A+ investors under the most favorable terms, including the performance compensation right, liquidation preference and redemption rights, which will be considered afterwards in determining the fair value of corresponding Round A shares held by certain Round A investor.

Round B

In April 2021, certain third-party investors ("**Round B investors**") purchased 260,486 shares from the previous ordinary shareholders and entered into supplement agreements with Ophyer Technology for the preferred rights. Due to the most favorable terms in the supplement agreements, Round B investors were entitled the same preferred rights as Round A+ investors. Therefore, the entitlement of preferred rights for Round B shares results in derecognition of the equity and recognition of financial liability at its fair value amounting to RMB15,719,000 at the acquisition date of Round B shares in April 2021, with the difference of RMB15,348,000 between the previous carrying amount recognized in equity and the fair value of financial liability recognized as an adjustment within equity. The Group also designates Round B shares with preferred rights, including the performance compensation rights, as financial liabilities at FVTPL with fair value changes recognized in "fair value changes of financial liabilities designated as at FVTPL" in profit or loss.

On July 2, 2021, Ophyer Technology entered into supplemental agreements with the investors of the three rounds (the "**Round A**", "**Round A+**" and "**Round B**", respectively) of shares that set out above. According to the supplemental agreements, all the preferred rights of the shares related to the Group were terminated, which resulted in the reclassification of the three rounds of 2,569,299 shares from financial liabilities at FVTPL to equity of Ophyer Technology at the fair value amounting to RMB181,217,000.

25. FINANCIAL LIABILITIES AT FVTPL AND OTHER FINANCIAL LIABILITIES *(Continued)*

Round B *(Continued)*

Presentation and Classification

The three rounds of shares with preferred rights were valued by the Directors with reference to valuation carried out by an independent qualified professional valuer, who is not connected with the Group. Ophyer Technology used the discounted cash flow method and the scenario-based analysis to determine the underlying shares' value of Ophyer Technology and the fair value of the performance compensation rights which is consolidated within financial liabilities at FVTPL and performed an equity allocation based on option-pricing model to arrive at the fair value of the shares with preferred rights as of the dates of issuance and as at December 31, 2020 and July 2, 2021. Key valuation assumptions are set out as below:

	As at December 31, 2020 RMB'000	As at July 2, 2021 RMB'000
Average revenue growth rate	21.03%	21.53%
Risk-free interest rate	2.78%	2.72%
Expected volatility value	63.76%	64.85%
Discount rate	19.00%	19.00%
Discounts for lack of marketability ("**DLOM**")	22.50%	22.50%
Possibilities under liquidation scenario	10.00%	10.00%
Possibilities under redemption scenario	45.00%	45.00%
Possibilities under listing scenario	45.00%	45.00%

The management of the Group estimated the risk-free interest rate based on the yield of the Chinese treasury bonds with a maturity life close to period from the respective valuation dates to the expected liquidation dates. Volatility was estimated on each valuation date based on average of historical volatilities of the comparable companies in the same industry for a period from the respective valuation dates to expected liquidation dates. Discount rate was estimated by weighted average cost of capital as of each valuation date. The DLOM was estimated based on the option-pricing method.

25. FINANCIAL LIABILITIES AT FVTPL AND OTHER FINANCIAL LIABILITIES *(Continued)*

Round C

On September 24, 2021 and October 19, 2021, Ophyer Technology entered into agreements with two third-party investors to issue 203,032 new shares for a total cash consideration of RMB25,000,000. On September 29, 2021, and October 22, 2021, Ophyer Technology received respective cash consideration in full.

These two investors have the right to require Mr. Wang Lei or Ophyer Technology to jointly and severally purchase the shares of Ophyer Technology held by the investors if the investment agreement is terminated due to the provisions as follows:

- If Ophyer Technology fails to complete the listing procedures, or be acquired by a listed company before December 31, 2023, the investors can terminate the agreement;

- If Ophyer Technology and/or Mr. Wang Lei violate or fail to fulfill any of their commitments under the agreements, the investors may terminate the agreement;

- If any of the information provided by Ophyer Technology and/or Mr. Wang is false or inaccurate in a material aspect or with material omission, the investors can terminate the agreement accordingly.

The redemption price for the shares with preferred rights shall be 100% of the issue price plus 10% simple annual interest of the issue price commencing from the issue date.

As the shares with redemption rights are contingently redeemable when required by the investors under certain provisions, Ophyer Technology does not have an unconditional right to avoid delivering cash to the investors and the redemption price is solely payments of principal and interest, hence the shares with redemption rights do not meet the definition of equity and were initially recognized as other financial liabilities at amortized cost. On December 16, 2021, the Company issued 2,030,320 preferred shares to the two investors at nominal value to reflect their respective interests in Ophyer Technology.

On September 30, 2021 and October 8, 2021, the Company entered into an agreement with another third-party investor (together with the two investors above, "**Round C investors**") to invest an amount equivalent to RMB2,483,000 in HKD or USD for 389,360 shares of the Company. On November 29, 2021, the Company received the cash consideration in full. According to the agreement, the investor has the rights to require the Company for the performance compensation and liquidation preference. In the event of any liquidation, including the transfer of material assets and the acquisition with change of control of the Company, all assets and funds of the Company legally available for distribution to the shareholders shall be distributed to the shareholders of the Company and the investor has the right to compensate up to the higher of the 120% of the issue price and the issue price plus 10% simple annual interest of the issue price commencing from the issue date. As the Company does not have an unconditional right to avoid delivering cash to the investor and the conversion feature is a derivative over own equity that will not be settled via delivery of fixed number of shares in exchange for fixed cash, hence the preferred shares do not meet the definition of equity and are initially designated as financial liabilities at FVTPL, including the performance compensation rights.

25. FINANCIAL LIABILITIES AT FVTPL AND OTHER FINANCIAL LIABILITIES *(Continued)*

Round C *(Continued)*

All the preferred shares were automatically converted into the Company's ordinary shares before the Company's application for the Listing on December 28, 2021, which resulted in the reclassification of the Round C investors' preferred shares. Other financial liabilities with the carrying amount of RMB25,515,000 and financial liabilities at FVTPL with the fair value amounting to RMB4,414,000 were reclassified to equity of the Company.

26. LEASE LIABILITIES

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Lease liabilities payable:		
Within one year	**4,368**	3,019
Within a period of more than one year but not exceeding two years	**1,313**	2,744
Within a period of more than two years but not exceeding five years	**207**	—
	5,888	5,763
Less: Amount due for settlement with 12 months shown under current liabilities	**(4,368)**	(3,019)
Amount due for settlement after 12 months shown under non-current liabilities	**1,520**	2,744

The weighted average incremental borrowing rate applied to lease liabilities is 4.90% (2021: 5.75%).

27. BANK BORROWINGS

The analysis of the carrying amount of bank borrowings is as follows:

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Bank borrowings payable within one year:		
Secured	**—**	9,300
Unsecured	**80,000**	13,000
	80,000	22,300

27. BANK BORROWINGS *(Continued)*

The carrying amounts of the bank borrowings and the range of interest rates are as below:

	As at December 31, 2022		As at December 31, 2021	
	RMB'000	**%**	RMB'000	%
Fixed rate bank borrowings	**60,000**	**3.85-5.50**	22,300	4.69–6.50
Variable rate bank borrowings	**20,000**	**4.45-5.35**	N/A	N/A

As at December 31, 2021, the bank borrowings amounting to RMB9,300,000 were pledged by trade receivables of the Group. The gross carrying amount of these related trade receivables was RMB35,191,000. The pledge has been released during the year ended December 31, 2022.

As at December 31, 2021, bank borrowings amounted to RMB6,000,000 were guaranteed by third-party financial guarantee companies and were counter guaranteed jointly by Mr. Wang Lei and Ms. Zhang Zimo. The counter guarantees by Mr. Wang Lei and Ms. Zhang Zimo have been released during the year ended December 31, 2022.

As at December 31, 2022, bank borrowings amounted to RMB15,000,000 were guaranteed by third-party financial guarantee companies.

28. CONTRACT LIABILITIES

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
AR/VR marketing service business	**59,535**	349
AR/VR content business	**5,793**	8,959
AR/VR SaaS service	**2,386**	11,783
	67,714	21,091

As at January 1, 2021, contract liabilities amounted to RMB44,436,000.

Contract liabilities are expected to be settled within the Group's normal operating cycle and are classified as current.

During the year ended December 31, 2022, the Group recognized revenue amounting to RMB18,180,000 (2021: RMB26,511,000), which relate to the contract liabilities balance at the beginning of the year.

During the year ended December 31, 2022, there was no (2021: Nil) revenue recognized that related to performance obligations that were satisfied in prior years.

29. SHARE CAPITAL

	Number of ordinary shares	Nominal value of ordinary shares USD	Equivalent nominal value of ordinary shares RMB
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	116,017,810	1,160	7,404
At December 31, 2021	116,117,810	1,161	7,410
Issue of ordinary shares	**271,500,000**	**2,715**	**19,302**
Capitalization issue	**1,422,382,190**	**14,224**	**101,126**
At December 31, 2022	**1,810,000,000**	**18,100**	**127,838**

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.

30. RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity.

The principal reserves of the Group consist of the following:

Capital reserve

The change of capital reserve during the year ended December 31, 2021 are mainly due to the termination of the preferred rights of shares as disclosed in Note 25.

Other reserve

Other reserve at December 31, 2022 represented the difference between the equity and the fair value of financial liabilities in relation to the modification of the Round B shares, the termination of preferred rights of shares and conversion of preferred shares related to the Group which are set out in Note 25, and the transfer of reserves upon completion of the Reorganization as disclosed in Note 2.

FVTOCI reserve

The FVTOCI reserve represents cumulative gains and losses arising from revaluation of equity instruments at FVTOCI that have been recognized in other comprehensive income. Gains and losses arising from revaluation of equity instruments at FVTOCI will not be reclassified to profit or loss in subsequent periods.

Statutory reserve

Pursuant to the relevant PRC rules and regulations, Ophyer Technology, which is incorporated in the PRC, is required to transfer no less than 10% of its profits after taxation, after offsetting any prior years' loss as determined under the Chinese Company Law, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of dividends to shareholders of Ophyer Technology.

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern with maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes lease liabilities and bank borrowings disclosed in Notes 26 and 27 respectively, net of bank balances and cash and equity attributable to owners of the Company, comprising share capital, share premium and reserves as disclosed in Notes 29 and 30 respectively.

The management of the Group reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associated with the capital. Based on recommendations of the management, the Group will balance its overall capital structure through raising of new capital, issue of new debt or the repayment of the existing debts.

32. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Financial assets		
Financial assets at amortized cost	**781,579**	376,763
Equity instruments at FVTOCI	**190,526**	—

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Financial liabilities		
Financial liabilities at amortized cost	**157,654**	72,908

Financial risk management objectives and policies

The Group's financial instruments consisted of equity instruments at FVTOCI, trade and other receivables and deposits, bank balances and cash, trade and other payables, bank borrowings and lease liabilities. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk, currency risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(i) Market risk

There has been no change to the Group's manner in which it manages and measures the risks.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and lease liabilities. The Group are also exposed to cash flow interest rate risk in relation to variable-rate bank balances and variable-rate bank borrowings due to the fluctuation of the prevailing market interest rate on bank deposits and bank borrowings carried at prevailing market interest rates based on or by reference to Loan Prime Rate.

The Group currently do not have interest rate hedging policy. However, management will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank borrowings at variable rate at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. Bank balances are excluded from the sensitivity analysis as the management considers that the interest rate fluctuating is insignificant.

If variable rate bank borrowings had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2022 would decrease/increase by approximately RMB75,000 (2021: Nil).

Currency risk

The Group has USD and HKD bank balances and equity instruments at FVTOCI denominated in HKD which expose the Group to foreign currency risk.

The Group currently does not have a foreign exchange hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(i) Market risk *(Continued)*

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in post-tax profit and other comprehensive income where RMB strengthen 5% against the relevant currency. For a 5% weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit and other comprehensive income and the amounts below would be negative.

		HKD Impact 2022 RMB'000	USD Impact 2022 RMB'000
Profit for the year	(i)	**(182)**	**(8,149)**

(i) This is attributable to the exposure outstanding on bank balances at year end.

For the year ended December 31, 2021, the management of the Group considers that any reasonably possible change in the RMB against the USD and HKD will not cause significant change to the fair value of the financial assets.

Other price risk

The Group is exposed to equity price risk through its investments in equity securities measured at FVTOCI. The Group invested in certain equity securities for long term strategic purposes which had been designated as FVTOCI. The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(i) Market risk *(Continued)*

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to equity price risk at the reporting date. For sensitivity analysis of equity securities with fair value measurement categorized within Level 1, the sensitivity rate is increased to 5% in current year as a result of the volatile financial market.

If the prices of the respective equity instruments had been 5% (2021: N/A) higher/lower, the other comprehensive income would increase/decrease by RMB9,526,000 (2021: N/A) as a result of the changes in fair value of investments at FVTOCI.

(ii) Credit risk and impairment assessment

At the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group is due to failure to discharge an obligation by the counterparties. The Group's credit risk is mainly associated with bank balances, trade and other receivables and deposits. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Trade receivables arising from contracts with customers

The Group mainly conducted transactions with customers with good quality and long term relationship, when accepting new customers, the Group considers the reputation of the customer before contract is signed. In order to minimize the credit risk, the management of the Group continuously monitors the credit quality and financial conditions of the debtors to ensure that follow-up action is taken to recover overdue debts.

To manage risk arising from receivable balances, the Group has policies in place to ensure that credit terms are made to counterparties with an appropriate credit history and the management performs ongoing credit evaluations of its counterparties. The credit period granted to the customers and the credit quality of these customers is assessed, which takes into account their financial position, past experience and other factors.

The Group has concentration of credit risk as 8.4% (2021: 16.2%) of the total trade receivables were due from the Group's largest debtor as at December 31, 2022, and 33.5% (2021: 43.9%) of the total trade receivables were due from the Group's five largest debtors as at December 31, 2022.

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(ii) Credit risk and impairment assessment *(Continued)*

Trade receivables arising from contracts with customers *(Continued)*

The Group reassesses lifetime ECL for trade receivables arising from contracts with customers to ensure that adequate impairment losses are made for significant increase in the likelihood or risk of a default occurring. The ECL on these assets are individually assessed for debtors with significant increases in credit risk or credit-impaired and collectively assessed based on internal credit ratings for the remaining balances. As part of the Group's credit risk management, the Group uses internal credit ratings to assess with the impairment for its customers because these customers consist of a large number of customers which share common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The estimated loss rates are estimated on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping and assessment are regularly reviewed by management to ensure relevant information about specific debtors is updated.

Other receivables and deposits

For other receivables and deposits, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL.

Bank balances

The Group mainly transact with banks with high credit ratings. The credit risk for bank balances as at December 31, 2021 and 2022 was considered as immaterial as such amounts were placed in reputable banks. The Group assessed 12m ECL on these balances by reference to probability of default and loss given default and concluded that the expected credit losses were insignificant as at December 31, 2021 and 2022 and thus no impairment loss was recognized.

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(ii) Credit risk and impairment assessment *(Continued)*

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

December 31, 2022	Notes	External rating credit	Internal rating credit	12m or lifetime ECL	Average loss rate	Gross carrying amount RMB'000
Trade receivables — contracts with customers	20	N/A	(Note a)	Lifetime ECL (not credit impaired and assessed collectively)	**2.5%**	**381,968**
				Lifetime ECL (not credit impaired and assessed individually)	**0.1%**	**3,019**
				Lifetime ECL (credit impaired and assessed individually)	**100.0%**	**1,581**
Other receivables and deposits	20	N/A	(Note b)	12m ECL (not credit impaired and assessed individually)	**3.6%**	**1,619**
Bank balances	23	AAA	—	12m ECL (not credit impaired and assessed individually)	**—**	**404,501**

December 31, 2021	Notes	External rating credit	Internal rating credit	12m or lifetime ECL	Average loss rate	Gross carrying amount RMB'000
Trade receivables — contracts with customers	20	N/A	(Note a)	Lifetime ECL (not credit impaired and assessed collectively)	1.6%	150,167
				Lifetime ECL (not credit impaired and assessed individually)	20.0%	17,589
				Lifetime ECL (credit impaired and assessed individually)	100.0%	1,100
Other receivables and deposits	20	N/A	(Note b)	12m ECL (not credit impaired and assessed individually)	8.7%	687
				Lifetime ECL (credit impaired and assessed individually)	100.0%	519
Bank balances	23	AAA	—	12m ECL (not credit impaired and assessed individually)	—	214,279

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(ii) Credit risk and impairment assessment *(Continued)*

Notes:

a. For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for receivables for debtors with significant increases in credit risk or credit-impaired, the Group determines the expected credit losses on these items grouped by internal credit ratings.

The Group's internal credit risk grading assessment for trade receivables comprises the following categories:

- Low risk (Lifetime ECL — not credit impaired): The counterparty has a low risk of default and does not have material past-due amounts.
- Watch list (Lifetime ECL — not credit impaired): Debtors repays after due dates but usually settle in full without negative external information.
- Doubtful (Lifetime ECL — not credit impaired): There have been significant increases in credit risk since initial recognition through information developed internally or external resources.
- Credit impaired (Lifetime ECL — credit impaired): There is evidence indicating the asset is credit impaired.
- Write-off (Amount is written off): There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery.

b. For other receivables and deposit and bank balances, except for balances which are credit-impaired, the Group have applied the 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL.

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(ii) Credit risk and impairment assessment *(Continued)*

The following table provides information about the exposure to credit risk for trade receivables which are assessed collectively based on internal credit ratings within lifetime ECL.

	At December 31, 2022		
	Average loss rate	**Gross carrying amount RMB'000**	**Impairment loss allowance RMB'000**
Trade receivables			
Low risk	**1.20%**	**322,161**	**3,852**
Watch list	**9.39%**	**59,807**	**5,613**
		381,968	**9,465**

	At December 31, 2021		
	Average loss rate	Gross carrying amount RMB'000	Impairment loss allowance RMB'000
Trade receivables			
Low risk	1.20%	138,433	1,657
Watch list	6.18%	11,734	725
		150,167	2,382

In addition, debtors not credit impaired with gross carrying amount of RMB3,019,000 as at December 31, 2022 (2021: RMB17,589,000) were assessed individually. The impairment allowance of RMB4,000 (2021: RMB3,518,000) were made on these debtors as at December 31, 2022.

Debtors credit impaired with gross carrying amount of RMB1,581,000 as at December 31, 2022 (2021: RMB1,100,000) were assessed individually. The impairment allowance of RMB1,581,000 (2021: RMB1,100,000) were made on these debtors as at December 31, 2022.

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(ii) Credit risk and impairment assessment *(Continued)*

The following table shows the movements in lifetime ECL that have been recognized for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at January 1, 2021	4,353	3,511	7,864
Changes due to financial instruments recognized as at January 1, 2021:			
— Impairment losses reversed	(3,424)	(2,961)	(6,385)
— Impairment losses recognized	817	550	1,367
New financial assets originated	4,154	—	4,154
As at December 31, 2021	**5,900**	**1,100**	**7,000**
Changes due to financial instruments recognized as at January 1, 2022:			
— Transfer to credit-impaired	**(96)**	**96**	**—**
— Impairment losses reversed	**(5,800)**	**—**	**(5,800)**
— Impairment losses recognized	**—**	**385**	**385**
New financial assets originated	**9,465**	**—**	**9,465**
As at December 31, 2022	**9,469**	**1,581**	**11,050**

The following table shows the reconciliation of loss allowance that has been recognized for other receivables and deposits.

	12m ECL RMB'000	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at January 1, 2021 and December 31, 2021	**59**	**—**	**519**	**578**
Write off	**—**	**—**	**(519)**	**(519)**
As at December 31, 2022	**59**	**—**	**—**	**59**

32. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(iii) Liquidity risk management

In the management of liquidity risk, the Group's management monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of unexpected fluctuations in cash flows.

The following tables detail the Group's remaining contractual maturity for its financial liabilities and lease liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived based on management's best estimates at the end of the reporting period, taking into consideration interest rate curve, if available.

	Weighted average interest rate %	On demand/ less than 1 year RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total Undiscounted cash flows RMB'000	Carrying Amounts RMB'000
At December 31, 2022						
Bank borrowings	3.85–5.50	82,507	—	—	82,507	80,000
Trade and other payables	N/A	77,654	—	—	77,654	77,654
		160,161	—	—	160,161	157,654
Lease liabilities	4.90	4,437	1,489	209	6,135	5,888

	Weighted average interest rate %	On demand/ less than 1 year RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total Undiscounted cash flows RMB'000	Carrying Amounts RMB'000
At December 31, 2021						
Bank borrowings	4.69–6.50	23,504	—	—	23,504	22,300
Trade and other payables	N/A	50,608	—	—	50,608	50,608
		74,112	—	—	74,112	72,908
Lease liabilities	5.75	3,284	2,823	—	6,107	5,763

32. FINANCIAL INSTRUMENTS *(Continued)*

Fair value measurement of financial instruments

IFRS 13 *Fair Value Measurement* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurement for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Accounting guidance establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting guidance establishes three levels of inputs that may be used to measure fair value.

For Level 3 financial instruments, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measurement within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable factors to the overall fair value measurement. The Group's shares with preferred rights and preferred shares are measured at fair value and categorized into Level 3 due to the unobservable significant inputs for the fair value measurements, and the determination of the fair value of which (in particular, the valuation techniques and inputs used) is set out in Note 25.

Fair value of the shares with preferred rights and preferred shares are significantly affected by changes in the Company's equity value. If the Company's equity value had increased/decreased by 5% with all other variables held constant, the post-tax profit for the year ended December 31, 2021 would have been approximately RMB6,428,000 lower/higher .

There were no transfers among different levels of fair values measurement during the year.

Reconciliation of Level 3 fair value measurements:

	Shares with preferred rights and preferred shares RMB'000
At January 1, 2021	48,357
Additions	100,480
Reclassified from equity to financial liabilities at FVTPL	15,719
Changes in fair value	21,075
Termination of preferred rights of the shares and conversion of preferred shares (Note 25)	(185,631)
At December 31, 2021	—

32. FINANCIAL INSTRUMENTS *(Continued)*

Fair value measurement of financial instruments *(Continued)*

For the financial assets and financial liabilities that are not measured at fair value on a recurring basis, the management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.

33. RETIREMENT BENEFIT SCHEME

The employees of the Group are members of a state-managed retirement benefits scheme operated by the government of the PRC. The Group is required to contribute a specific percentage of the total monthly basic salaries of its current employees to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of approximately RMB3,770,000 for the year ended December 31, 2022 (2021: RMB2,938,000) represented contributions paid and/or payable to the scheme by the Group.

34. RELATED PARTY TRANSACTIONS

During the reporting period, the Group entered into transactions with following related parties:

Name of the related parties	Relationship with the Company
Mr. Wang Lei	A controlling shareholder, an executive director, and the chief executive officer of the Company
Ms. Zhang Zimo	The wife of Mr. Wang Lei

(a) Guarantees to bank borrowings by related parties

Details of guarantees to bank borrowings by related parties are set out in Note 27.

34. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of key management personnel

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Salaries and other benefits	**3,114**	2,874
Contributions to retirement benefits scheme	**457**	379
Discretionary bonus	**2,473**	1,330
	6,044	4,583

(c) Balances with related parties

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
Amounts due from shareholders	**—**	7

The amounts due from shareholders of RMB7,000 as at December 31, 2021 were unsecured, interest-free, repayable on demand, non-trade in nature and have been settled prior to the Listing. The maximum amount outstanding during the year ended December 31, 2021 in respect of this balance was RMB7,000.

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's statement of cash flows as cash flows from financing activities.

	Bank borrowings RMB'000	Lease liabilities RMB'000	Financial liabilities at FVTPL RMB'000	Other financial liabilities RMB'000	Accrued share issue costs RMB'000	Total RMB'000
At January 1, 2021	38,667	856	48,357	—	—	87,880
Increase of lease liabilities	—	8,279	—	—	—	8,279
Accrued share issue costs	—	—	—	—	3,645	3,645
Financing cash flows	(17,916)	(3,665)	100,480	25,000	(1,219)	102,680
Finance costs	1,549	293	—	515	—	2,357
Fair value changes on financial liabilities designated as at FVTPL	—	—	21,075	—	—	21,075
Reclassified from equity to financial liabilities at FVTPL	—	—	15,719	—	—	15,719
Reclassified from financial liabilities to equity	—	—	(185,631)	(25,515)	—	(211,146)
At December 31, 2021	**22,300**	**5,763**	**—**	**—**	**2,426**	**30,489**
Increase of lease liabilities	**—**	**2,964**	**—**	**—**	**—**	**2,964**
Accrued share issue costs	**—**	**—**	**—**	**—**	**2,718**	**2,718**
Financing cash flows	**54,797**	**(3,193)**	**—**	**—**	**(5,088)**	**46,516**
Finance costs	**2,903**	**354**	**—**	**—**	**—**	**3,257**
At December 31, 2022	**80,000**	**5,888**	**—**	**—**	**56**	**85,944**

36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

At the end of the reporting period, the Company has direct and indirect interests in the following subsidiaries, particulars of which are set out below:

Name of subsidiaries	Legal form	Place and date of establishment/ incorporation and operation	Issued capital/ paid up registered capital	Proportion of interest and voting power held by the Company As at December 31, 2022	2021	Principal activities
Directly held:						
FTYD Ltd.	Limited liability company	BVI July 19, 2021	HKD550,000,000 (2021: USD100)	**100%**	100%	Investment holding
Indirectly held:						
Flowing Cloud Technology (HK) Limited	Limited liability company	Hong Kong August 10, 2021	HKD550,000,000 (2021: HKD10,000)	**100%**	100%	Investment holding
北京飛天雲動科技有限公司 Beijing Flowing Cloud Technology Co., Ltd. (i)	Wholly-foreign owned enterprise	PRC November 17, 2021	RMB200,000,000 (2021: RMB10,000,000)	**100%**	100%	AR/VR content, AR/VR SaaS
北京飛天雲動數字技術有限公司 Beijing Flowing Cloud Digital Technology Co., Ltd. (i)	Limited liability company	PRC August 18, 2022	RMB50,000,000	**100%**	N/A	Not yet commence business
安吉飛天雲動科技有限公司 Anji Flowing Cloud Technology Co., Ltd. (i)	Limited liability company	PRC October 31, 2022	RMB200,000,000	**100%**	N/A	Not yet commence business
南京飛天雲動數字技術有限公司 Nanjing Flowing Cloud Digital Technology Co., Ltd. (i)	Limited liability company	PRC November 28, 2022	RMB20,000,000	**100%**	N/A	Not yet commence business

36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiaries	Legal form	Place and date of establishment/ incorporation and operation	Issued capital/ paid up registered capital	Proportion of interest and voting power held by the Company As at December 31, 2022	2021	Principal activities
Consolidated Affiliated Entities:						
北京掌中飛天科技股份有限公司 Ophyer Technology (i)	Joint stock limited liability company	PRC March 19, 2008	RMB11,572,845	**100%**	100%	AR/VR marketing services, AR/VR content, AR/VR SaaS, IP and others
北京琥珀金源傳媒有限公司 Beijing Hupo Jinyuan Media Co., Ltd (i)	Limited liability company	PRC March 29, 2011	RMB10,000,000	**100%**	100%	Promotion services
中潤星(北京)文化傳媒有限公司 Zhongrunxing (Beijing) Culture Media Co., Ltd (i)	Limited liability company	PRC November 13, 2017	RMB3,000,000	**100%**	100%	Promotion services
北京星矢互動傳媒科技有限公司 Beijing Xingshi Hudong Media Technology Co., Ltd (i)	Limited liability company	PRC April 10, 2020	RMB10,000,000	**70%**	70%	Text message services
深圳市華創雲景科技有限公司 Shenzhen Huachuang Yunjing Technology Co., Ltd (i)	Limited liability company	PRC January 12, 2021	RMB40,000,000	**100%**	100%	Not yet commence business

(i) The English translation of the names is for reference only. The official names of these entities are in Chinese.

None of the subsidiaries had issued any debt securities at the end of the year.

37. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	As at December 31,	
	2022	2021
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	**171,170**	25,516
Equity instruments at FVTOCI	**190,526**	—
	361,696	25,516
CURRENT ASSETS		
Share issue costs	**—**	3,645
Amounts due from shareholders	**—**	7
Trade and other receivables and deposits	**38**	—
Amounts due from subsidiaries	**4,441**	—
Prepayments	**50,581**	431
Bank balances and cash	**118,815**	2,475
	173,875	6,558
CURRENT LIABILITIES		
Amounts due to subsidiaries	**—**	16,364
Trade and other payables	**1,993**	—
	1,993	16,364
NET CURRENT ASSETS (LIABILITIES)	**171,882**	(9,806)
TOTAL ASSETS LESS CURRENT LIABILITIES	**533,578**	15,710
NET ASSETS	**533,578**	15,710
CAPITAL AND RESERVES		
Share capital	**128**	7
Share premium	**521,249**	—
Reserves	**12,201**	15,703
TOTAL EQUITY	**533,578**	15,710

37. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(Continued)*

Reserves of the Company

	Share premium RMB'000	Capital reserve RMB'000	Other reserve RMB'000	FVTOCI reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At June 24, 2021 (date of incorporation)	—	—	—	—	—	—
Loss and total comprehensive expense from the date of incorporation to December 31, 2021	—	—	—	—	(14,225)	(14,225)
Termination of preferred rights of the shares related to the Group (Note 25)	—	27,480	2,448	—	—	29,928
At December 31, 2021	**—**	**27,480**	**2,448**	**—**	**(14,225)**	**15,703**
Loss and total comprehensive expense for the year	**—**	**—**	**—**	**20,872**	**(24,374)**	**(3,502)**
Issue of shares	**543,247**	**—**	**—**	**—**	**—**	**543,247**
Transaction costs attributable to issue of shares	**(21,998)**	**—**	**—**	**—**	**—**	**(21,998)**
At December 31, 2022	**521,249**	**27,480**	**2,448**	**20,872**	**(38,599)**	**533,450**

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
"Anji Flowing Cloud"	Anji Flowing Cloud Technology Co., Ltd.* (安吉飛天雲動科技有限公司), a limited company established under the laws of the PRC on October 31, 2022 and an indirect wholly-owned subsidiary of the Company
"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
"Articles of Association"	the amended and restated articles of association of the Company
"associate"	has the meaning ascribed thereto under the Listing Rules
"Audit Committee"	the audit committee of the Board
"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 under the laws of the PRC on November 17, 2021 and an indirect wholly-owned subsidiary of the Company
"Beijing Xingshi"	Beijing Xingshi Hudong Media Technology Co., Ltd.* (北京星矢互動傳媒科技有限公司), a limited liability company established under the laws of the PRC on April 10, 2020 and one of the Consolidated Affiliated Entities
"Board"	the board of Directors of the Company
"Catalog"	the Catalog of Industries Encouraged for Foreign Investment (2020 version) jointly promulgated by the MOFCOM and the NDRC on December 27, 2020 and became effective on January 27, 2021, as amended, supplemented or otherwise modified from time to time
"Chairman"	the chairman of the Board
"China" or "the PRC"	the People's Republic of China excluding, for the purposes of this annual report, Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"close associate(s)"	has the meaning ascribed thereto under the Listing Rules

"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: 06610)
"Consolidated Affiliated Entities "	the entities we control through the Contractual Arrangements, namely Ophyer Technology, Hupo Jinyuan, Zhongrunxing, Shenzhen Huachuang and Beijing Xingshi, the details of which are set out in the section headed "Continuing Connected Transaction" in this annual report
"Contractual Arrangements"	the series of contractual arrangements entered into by, among others, Beijing Flowing Cloud, the Consolidated Affiliated Entities and the Registered Shareholders, the details of which are set out in the section headed "Continuing Connected Transaction" in this annual report
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and, unless the context requires otherwise, refers to Mr. Wang, Mr. Li, Wanglei Co., Ltd., LYH. Ltd., Cyber Warrior Holdings Limited and Brainstorming Cafe Limited
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"CRM"	customer relationship management, a strategy for managing an organization's relationships and interactions with customers and potential customers
"Director(s)"	the director(s) of the Company or any one of them
"ESG"	Environmental, Social and Governance
"FVTOCI"	fair value through other comprehensive income
"FVTPL"	fair value through profit or loss
"Group", "Flowing Cloud", "our", "we" or "us"	the Company, its subsidiaries and the Consolidated Affiliated Entities at the relevant time
"Hong Kong Companies Ordinance"	Chapter 622 of the Laws of Hong Kong (as amended, supplemented or otherwise modified from time to 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
"Hupo Jinyuan"	Beijing Hupo Jinyuan Media Co., Ltd.* (北京琥珀金源傳媒有限公司) (formerly known as Beijing Hupo Jinyuan Technology Co., Ltd.* (北京琥珀金源科技有限公司)), a limited liability company established under the laws of the PRC on March 29, 2011 and one of the Consolidated Affiliated Entities
"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)
"LLM"	large language model
"Main Board"	the Main Board of the Stock Exchange
"Memorandum and Articles of Association"	the amended and restated Memorandum and Articles of Association
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Li"	Mr. Li Yanhao (李艷浩), a Controlling Shareholder, an executive Director and the chief technology officer of the Company
"Mr. Wang"	Mr. Wang Lei (汪磊), a Controlling Shareholder, an executive Director, the chairman of the Board and the chief executive officer of the Company
"NDRC"	National Development and Reform Commission (國家發展和改革委員會)
"Negative List"	the Special Administrative Measures (Negative List) for Foreign Investment Access (2021 version), most recently jointly promulgated by the MOFCOM and the NDRC on December 27, 2021 and became effective on January 1, 2022, as amended, supplemented or otherwise modified from time to time
"Nomination Committee"	the nomination committee of the Board
"Ophyer BVI"	FTYD Ltd, a company incorporated in the British Virgin Islands with limited liability on July 19, 2021, a wholly-owned subsidiary of the Company
"Ophyer HK"	Flowing Cloud Technology (HK) Limited (飛天雲動(香港)科技有限公司), a company incorporated in Hong Kong with limited liability on August 10, 2021, a wholly-owned subsidiary of Ophyer BVI
"Ophyer Technology"	Beijing Ophyer Technology Shares Co., Ltd.* (北京掌中飛天科技股份有限公司) (formerly known as Beijing Hengchuang Zhaoye Technology Co., Ltd.* (北京恒創兆業科技有限公司) and Beijing Ophyer Technology Co., Ltd.* (北京掌中飛天科技有限公司)), a limited liability company established under the laws of the PRC on March 19, 2008 and one of the Consolidated Affiliated Entities

"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
"Registered Shareholders"	direct shareholders of Ophyer Technology, namely Mr. Wang, Mr. Li, Ms. Peng Si (彭思), Ms. Li Shu Lan (李淑蘭), Ms. Song Lifang (宋麗芳), Mr. Wang Chongling (王崇嶺), Ms. Yi Huimin (益惠敏), Ms. Li Xiujie (李秀傑), Mr. Liang Hui (梁輝), Shanghai Wangyue (as defined in the Prospectus), Xi'an Zhiyao (as defined in the Prospectus), Xi'an Biyue (as defined in the Prospectus), Grand Canal (Nanjing) (as defined in the Prospectus), Ningbo Midu (as defined in the Prospectus), Tongchuang Weiye (as defined in the Prospectus), SAIF Dynamiques (as defined in the Prospectus), Hefei Shuimu (as defined in the Prospectus), Shaanxi Big Data (as defined in the Prospectus), Guochuang Feitian (as defined in the Prospectus), Kaiyuan Future (as defined in the Prospectus), Tianjin Xinghuo (as defined in the Prospectus), Zhongtong Xinyuan (as defined in the Prospectus), Nanchang Xiaolan (as defined in the Prospectus), Shenzhen Chestnut (as defined in the Prospectus), Shenzhen Linghang (as defined in the Prospectus), Jinan Taiyue (as defined in the Prospectus), Hainan Yilin (as defined in the Prospectus) and Shanghai Zheji (as defined in the Prospectus)
"Remuneration Committee"	the remuneration committee of the Board
"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
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (as amended, supplemented or otherwise modified from time to time)
"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)
"Shenzhen Huachuang"	Shenzhen Huachuang Yunjing Technology Co., Ltd.* (深圳市華創雲景科技有限公司), a limited liability company established under the laws of the PRC on January 12, 2021 and one of the Consolidated Affiliated Entities
"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
"VATS"	value-added telecommunication services
"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
"Wang Family Trust"	the trust established by Mr. Wang as the settlor and protector, with Vistra Trust (Singapore) Pte. Limited as the trustee
"Zhongrunxing"	Zhongrunxing (Beijing) Culture Media Co., Ltd.* (中潤星(北京)文化傳媒有限公司), a limited liability company established under the laws of the PRC on November 13, 2017 and one of the Consolidated Affiliated Entities
"%"	percent

The English names of PRC laws, regulations, governmental authorities, institutions, and of companies or entities established in the PRC included in this annual report are translations of their Chinese names or vice versa and are included for identification purposes only. In the event of inconsistency, the Chinese versions shall prevail.

The English names of the PRC entities mentioned in this annual report which are marked with "*" are translated, or transliterated from the Chinese name and are for identification purposes only.