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Flowing Cloud Technology Ltd

飛天雲動科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6610)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2024

The Board is pleased to announce consolidated results of the Group for the year ended December 31, 2024, together with the comparative figures for the year ended December 31, 2023.

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

	For the year ended December 31,		Year-on-year change
	2024	2023	
	RMB'000	RMB'000	
Revenue	995,347	1,244,723	(20.0%)
Gross profit	200,036	420,717	(52.5%)
(Loss)/profit before tax	(44,846)	271,671	(116.5%)
(Loss)/profit for the year	(43,703)	263,935	(116.6%)
Total comprehensive (expense)/income for the year	(81,661)	221,373	(136.9%)
Basic and diluted (loss)/earnings per share (RMB cents)	(2.42)	14.58	(116.6%)
Non-IFRS Measure:			
Adjusted net (loss)/profit* (unaudited)	(30,643)	273,971	(111.2%)
* Adjusted net (loss)/profit was derived from (loss)/profit for the year adjusted by adding equity-settled share-based payments. Equity-settled share-based payments are non-cash in nature.			

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

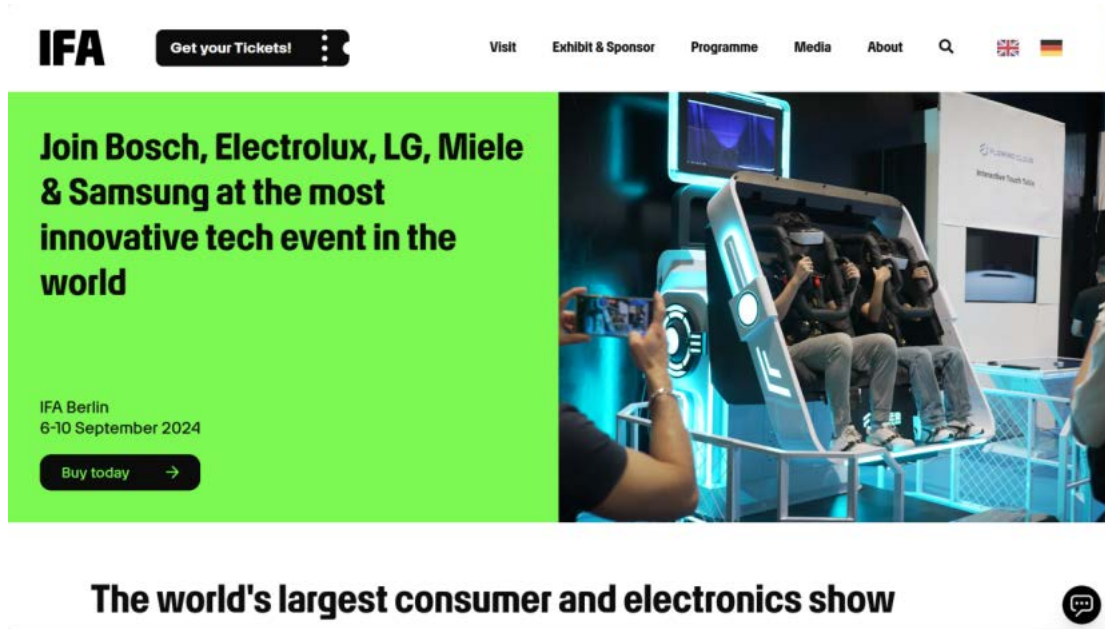
Strategic Expansion Built on Technology

In 2024, guided by principles of innovation and transformation, open collaboration, sincere trust and self-motivated discipline, the Company actively captured the industry opportunities and strategically expanded by building on its B-end business and innovatively exploring C-end business. The breakthrough development of artificial intelligence technology has significantly enhanced the anthropomorphism, perception, expression and cognitive abilities of AI virtual humans, leading to widespread applications in entertainment, media, finance, education and other fields. The virtual human industry, with advantages such as cost reduction, personalized customization, multilingual support and cross-platform operations, has also unlocked new growth opportunities and innovative potential. At the Global Digital Trade Expo, the Company's self-developed intelligent interactive virtual human won the Excellence Award in the "Digital Human Intelligence Debate Competition" (「數字人智辯大賽」實力獎).

With the emergence of a diversified live-streaming ecosystem, platforms like Douyin faced increasing demand for high-quality content and continuous refinement of streamer operations. Therefore, capitalizing on its unique technological innovation capabilities, the Company launched "FT Live", an intelligent live streaming control product, successfully establishing itself as a virtual idol MCN brand. With advanced 3D production capabilities, rich features and gameplay, precise traffic support and effective operational guidance, the Company has strengthened the virtual human IP content ecosystem. The Company's self-developed 3D engine provided efficient 3D production capabilities, enabling nearly limitless content creation at relatively low costs and high efficiency through continuous technological iteration. Strong support from platforms like Douyin ensures ample exposure for high-quality content, facilitating the development of diverse monetization models.

Entry into the European Market through Exhibitions and Technical Collaboration

Showcasing at International Exhibitions: through participation in international events such as the Internationale Funkausstellung (IFA) in Berlin, Germany, and the Smart City Expo World Congress, Flowing Cloud has showcased its metaverse solutions globally, including leading cases in the digital and intelligent industrial systems and digital cultural tourism. For instance, at the Convention Center in Barcelona, the Company demonstrated its real-time factory monitoring system based on 3D modeling and VR restoration technology for cultural heritage sites, which sparked interest in collaboration from multiple European enterprises.



The image shows a screenshot of the IFA Berlin website banner. The banner features a bright green background on the left with white text and a black button. On the right, there is a photograph of a VR experience booth with people wearing headsets and holding controllers. The website header includes the IFA logo, a 'Get your Tickets!' button, and navigation links for 'Visit', 'Exhibit & Sponsor', 'Programme', 'Media', and 'About'. There are also flags for the UK and Germany, and a search icon.

IFA Get your Tickets!

Visit Exhibit & Sponsor Programme Media About

Join Bosch, Electrolux, LG, Miele & Samsung at the most innovative tech event in the world

IFA Berlin
6-10 September 2024

Buy today →

The world's largest consumer and electronics show

Industry Leadership Position

In 2024, Flowing Cloud further solidified its position as a frontrunner in the metaverse sector. Leveraging cross-platform lightweight engine tools and real-time high-density 3D scene construction capabilities, the Company offered metaverse solutions spanning across multiple industries, facilitating the digital transformation of enterprises. The Company was recognized as a “2024 Beijing Intellectual Property Pilot Unit”, demonstrating its leadership in intellectual property protection and technological innovation. The Company was also recognized as one of the “2024 VR Top 50 Enterprises”, further cementing its dominant position in the virtual reality industry. As a member of the MIIT’s Metaverse Standardization Working Group, the Company participated in the development of national-level standards, including *Linking the Metaverse: Technology and Development* (《鏈接元宇宙:技術與發展》) and the *Spatial Computing Development Report (2024)* (《空間計算發展報告 (2024年)》), driving industry standardization.



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

Augmented reality and virtual reality (“AR&VR”) Marketing Services

AR&VR marketing services remained our primary revenue source in 2024. Through collaborations with media platforms and their agents, we primarily provided AR&VR marketing services to our advertising customers. In terms of revenue by geographical regions, the domestic marketing business realized revenue of RMB428.7 million, representing a year-on-year decrease of 42.5% as compared to RMB745.6 million of the same period last year. The decrease in revenue of this business segment was mainly attributable to the impact of the macro-economy and the general reduction in marketing budgets of domestic advertising customers. At the same time, the Company actively explored overseas markets and realized revenue of RMB144.4 million from overseas marketing business, representing a year-on-year increase of 45.0% as compared to the revenue of RMB99.6 million of the same period last year.

Operating Metrics	As at/for the year ended	
	December 31, 2024	2023
AR&VR marketing services — Domestic		
Revenue — Domestic (<i>RMB in millions</i>)	428.7	745.5
Number of advertising customers	16	24
Monthly average number of advertising products promoted	51	69
Average spending per advertising customer (<i>RMB in thousands</i>)	26,795	31,064
Number of long-tail media institutions	4,459	4,780
AR&VR marketing services — Overseas		
Revenue — Overseas (<i>RMB in millions</i>)	144.4	99.6
Number of advertising customers	6	4
Monthly average number of advertising products promoted	27	25
Average spending per advertising customer (<i>RMB in thousands</i>)	24,060	24,891
Number of long-tail media institutions	710	374

AR&VR Content

We primarily utilize our self-developed AR&VR development engine to offer bespoke AR&VR content according to the needs of customers from various industries, including culture and tourism, education, technology and gaming, bringing end users a diversified and immersive virtual world experience.

During the Reporting Period, AR&VR content recorded revenue of RMB211.3 million, representing a year-on-year decrease of 36.7%, primarily due to the decrease in the number of projects and customers caused by fierce market competition, with the number of projects decreasing to 115 as compared to 170 of the same period last year. Leveraging AR&VR/MR integration technologies and the metaverse ecosystem as its technological foundation, the Company systematically advanced the integration of cultural and technological innovation by successfully implementing several industry-leading projects, covering digital preservation of cultural heritage, upgrades in cultural tourism scenarios, innovations in educational models, urban digital twin development and international communication capacity building. The Company completed the digital cultural heritage project for Zhang Zhihe Memorial Hall (張志和紀念館) and other cultural heritage restoration projects, achieving innovative breakthroughs in the digital preservation of cultural relics and cultural dissemination. The Company also designed the multi-dimensional narrative space for the “Huzhou Giraffe Rainforest Pavilion” (湖州長頸鹿雨林館) and the “Xining Cultural Tourism Metaverse” (西寧文旅元宇宙) platform, utilizing spatial computing and virtual-real integration technologies to build new online and offline cultural tourism consumption scenarios, and further demonstrating the value of digital technologies in upgrading the cultural tourism industry. By deeply integrating spatial positioning algorithms and naked-eye 3D imaging technologies, the Company developed a cross-dimensional astrophysical visualization engine, breaking through the spatial and temporal constraints of traditional educational settings. Through a multi-modal perception collaborative framework, the engine enables advanced teaching interactions, such as gravitational field simulations and dynamic star orbit predictions, allowing students to manipulate virtual celestial bodies and complete orbital mechanics experiments without wearable devices. This transforms abstract cosmic concepts into perceptible and verifiable cognitive models. The solution effectively addressed the industry pain point of “theory disconnected from observation” in astronomy education, improving teaching efficiency. It has been selected as a typical case for innovative literacy cultivation by the Ministry of Education, providing key technologies for building next-generation immersive science education infrastructure. The solution has also been extended to vertical fields, such as aerospace science popularization and geological exploration, creating a replicable matrix of educational technology products. The Company provides metaverse urban ecosystem solutions for state-owned and central stated-owned enterprise real estate clients, enabling full-cycle digital management of urban planning, operations and services through the application of digital twin technology, thereby reducing operational costs and carbon emissions in pilot project areas. The Company has built a national-level media metaverse space station integrating a multi-language intelligent interaction system and a global communication matrix, enhancing the international dissemination of Chinese culture and laying the foundation for customers to build global communication platforms.

Operating Metrics	As at/for the year ended December 31,		Change
	2024	2023	
Number of customers	32	75	(57.3%)
Number of projects	115	170	(32.4%)

Zhang Zhihe Memorial Hall:

Centered around the theme of “Seeking the Hermit: Zhang Zhihe” (尋隱·張志和), the memorial hall offered visitors a journey of discovery and elegance, with a fortuitous experience of encountering the legendary Zhang Zhihe. Drawing on the cultural essence of traditional fishing and seclusion, as well as the pursuit of Eastern aesthetics, the exhibition integrated new media art and innovative technologies to vividly bring to life the ethereal poetry and transform it into a grand spectacle of light and shadow. The hall was divided into five artistic spaces, namely “Admiration”, “Visit”, “Encounter”, “Journey” and “Farewell”, each progressively unfolding in a linear narrative structure. These interconnected spaces comprehensively and multi-dimensionally presented Zhang Zhihe’s legendary life, personal experiences and artistic achievements in poetry and painting.



Huzhou Giraffe Rainforest Pavilion:

We have created an immersive exhibition themed “Rainforest Secret Realm”, presenting a dazzling kaleidoscopic journey that guides visitors through the magical world of tropical rainforests. This experience allows audiences to witness the vibrant biodiversity and enchanting wonders of the rainforest while inspiring them to reflect on humanity’s relationship with nature. Through this sensory exploration, the exhibition conveys a profound message of harmonious coexistence between humans and the natural world, advocating for mutual respect and balanced cohabitation.



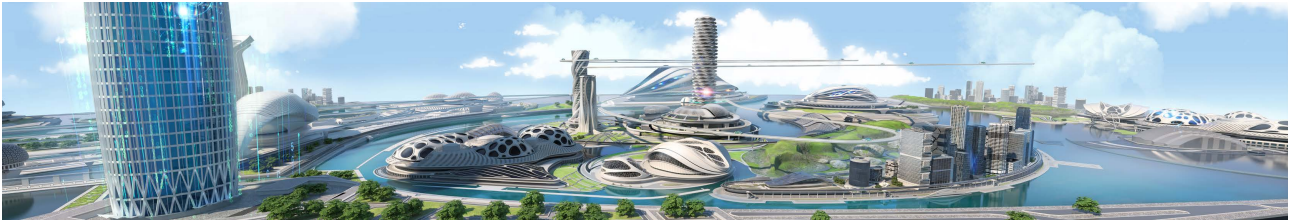
Astronomy virtual course:

Based on professional astronomy education scenarios and the astronomy curriculum for primary and secondary schools, we integrated VR virtual reality and AR augmented reality technologies, along with perceptual smart tokens, to build a comprehensive hardware-software simulation teaching platform. Through multi-sensory technologies and equipment, such as visual, auditory, tactile and kinesthetic systems, the course brought the “universe” into the classroom and the “stars” into the lesson. Learners can navigate and control the virtual environment without the need for 3D glasses or headsets and experience interactive learning that transcends time and space between the virtual and real worlds. By designing real-time interactions targeting the core content of specialized courses, a bridge can be built between theoretical learning and the cultivation of practical abilities, which can help foster students’ interest in astronomy courses, as well as their initiative and comprehensive scientific literacy.



Metaverse for a large state-owned real estate enterprise:

Through metaverse technology, we designed an immersive digital world for a leading real estate group, digitally replicating and integrating its diversified business sectors across residential, commercial, and urban development sectors. AI-driven interfaces enable stakeholders to interact with lifelike property models, conduct virtual tours, and simulate project scenarios in real time. This metaverse not only offered experiential client engagement but also laid a solid foundation for its expansion of metaverse ecosystem.



Xining Cultural Tourism Industry Service Center Metaverse:

Based on CAVE (Cave Automatic Virtual Environment) space, the center offered a one-stop fresh experience for recommending tourist attractions. The space integrated with the tourism resources of Qinghai Province, showcasing eight key tourist attractions, including Qinghai Lake, Chaka Salt Lake and Huangyuan Dangar Ancient Town. Visitors can feel the serenity of nature and the wonder of technology through immersive light and shadow effects, embarking on a magical journey that blended nature, ecology and innovation.



Official media space station:

With the design philosophy of “Connecting China with the World, Bridging Global Communication” and guided by the principle of international expression of Chinese culture, the space station has been crafted to embody a modern media platform that is global, distinctly Chinese and technologically advanced. Leveraging metaverse technology, we presented the customers’ development journey, brand programs and digital cultural creations to visitors in a three-dimensional format. The space station constructed a multi-dimensional and cross-temporal virtual world, providing global visitors with a boundless and multi-faceted interactive platform to gain deeper insights into customers.



Integrated Marketing

To meet the comprehensive needs of our customers, the Group newly introduced integrated marketing business in 2024. Revenue from the integrated marketing business amounted to RMB179.5 million for the year ended December 31, 2024. The Company leveraged the innovative capabilities and deep industry expertise of our professional team to provide our customers with customized and full-range marketing services. Based on the unique product characteristics and market positioning of our customers, we have independently designed precise marketing solutions and integrated resources from core media platforms like Douyin, to achieve value transformation through the following core service highlights:

Intelligent advertising strategy

Led by a seasoned operation team, the Company implemented dynamic ad placements on platforms like Douyin, precisely reaching the target users to drive efficient traffic conversion.

Long-term value co-creation

Through annual framework agreements, the Company has established deep collaborative relationships with customers, and has assisted customers in achieving sales growth and enhancing brand influence with consistent service delivery and continuous strategy iteration.

AR&VR SaaS Services

Based on our extensive experience in developing AR&VR content and service projects, we have developed a standardized, simplified-code and user-friendly AR&VR SaaS platform. Our AR&VR SaaS platform provides our small and medium-sized customers with a range of online AR&VR interactive content design, development and distribution tools and empowers our customers to create platforms that offer experiences such as AR&VR exhibition, live-streaming, marketing and content experiencing, with the goal to improve the participation level and experience of their end users. During the Reporting Period, our AR&VR SaaS service business recorded revenue of RMB22.2 million, representing a year-on-year decrease of 61.5%. The decrease in revenue was mainly due to the simultaneous decrease in the number of paid subscribers and the number of customized projects.

Operating Metrics	As at/for the year ended		
	December 31,		
	2024	2023	Change
AR&VR SaaS			
Number of registered users	17,078	41,880	(59.2%)
Number of paid subscribers	3,415	9,283	(63.2%)
Number of customized projects	58	402	(85.6%)
Average daily active users	2,424	10,028	(75.8%)

Virtual idol live streaming operations and virtual human union

Leveraging our deep expertise in virtual reality (VR), augmented reality (AR) and digital human technology, and in response to the rapidly growing market demand, the Company has commenced the organization of a virtual human live streaming union in addition to its self-operation of virtual human live streaming accounts last year, serving as a professional virtual human MCN agency with technological advantages. Capitalizing on our first-mover advantages in AR&VR content creation, live streaming control systems and digital human operations, we focused on incubating and contracting virtual streamers who resonated with the preferences of the younger generation.



During the Reporting Period, the Company has established a virtual IP ecosystem and a PGC/UGC virtual asset ecosystem and made breakthrough progress in four key areas, including virtual asset production, virtual live streaming operations, live streaming control tool development and digital asset trading, with successful commercialization of virtual IPs, monthly revenue growth exceeding 25% and the number of virtual streamers surpassing 100. The Company pioneered a “virtual-real integration” operational model, facilitating the transformation of experienced talent streamers into virtual human while simultaneously incubating pure virtual streamers, so as to create a differentiated competitive advantage. The Company has developed a closed-loop system that connected creator economy, streamer demand and tool support, ensuring the protection of digital asset copyrights. With a paid user utilization rate of 27.91%, it will serve as a sustainable source of content for the Group’s virtual content library going forward.

Flowing Cloud’s technological engines, such as the Uni-Play engine, Uni-AR engine, Uni-VR engine and rendering engine, provided a solid foundation for creating high-quality virtual avatars. These tools not only supported rapid content production, but also enabled highly customized virtual character designs to meet diverse user needs. Additionally, the Company’s self-developed live streaming control platform has made virtual live streaming on mobile and computer devices more convenient and efficient, significantly lowering the barrier to entry for live streaming while ensuring high-quality experience. During the Reporting Period, the Company allocated its resources to create short video content and live interactive effects for virtual influencers, to attract and retain audience interest. Our goal is to build a virtual world with deep interactivity and rich content, allowing viewers to fully immerse themselves in the experience.

XR games

In 2024, the Company’s XR gaming business achieved significant progress in category expansion and technological advancement. Building on breakthroughs in hardware adaptation and casual games in the first half of the year, we further expanded our product lines in the second half to include fighting, racing and board/card games, creating a multi-dimensional XR entertainment matrix that provided global users with more abundant and immersive gaming experiences.

Future Outlook

B-end:

Building on the comprehensive XR product lineup and technological breakthroughs achieved in 2024, the Company will deepen its global market penetration and strengthen its industrial ecosystem by focusing on core business areas. Through technological upgrades and content quality enhancement, the global competitiveness of its AR&VR content and services will be enhanced. The Company will expand its product matrix of the MR content ecosystem, and develop open-world games that support mixed reality environments, enabling dynamic interactions between virtual characters and physical spaces. The Company will also implement offline VR large-scale space solutions that integrate motion capture, force feedback devices and spatial computing to deliver ultra-low-latency competitive experiences.

C-end:

We will continue to drive technological innovation to promote the sustainable development of the Group's MCN business, including but not limited to further optimizing the existing multi-modal 3D production workflow, reducing content production costs while improving efficiency, and supporting the growth and development of virtual idol IPs. By integrating the technological capabilities and market insights of Flowing Cloud, it can be foreseen that in the near future, a comprehensive virtual human MCN agency that combines content creation, virtual live streaming and fan economy will not only enhance the market competitiveness of the Company, but also have a positive impact on the development of the entire industry.

Industrial clusters

Through the acquisition and integration of high-quality XR studios worldwide, we aim to incubate 30+ ecosystem partners within a year, forming a hundred-billion-level industrial cluster.

Long-term value anchors

The Company is committed to becoming a core content service provider in the era of the "Spatial Internet" and aims to redefine the connections between humans, the digital world and physical spaces by deeply integrating AI and XR technologies.

FINANCIAL REVIEW

Revenue

The Group generated revenue primarily from the provision of AR&VR marketing services and the sale of AR&VR content. The revenue decreased by 20.0% from RMB1,244.7 million for the year ended December 31, 2023 to RMB995.3 million for the year ended December 31, 2024, mainly attributable to the decrease in the revenue generated from the AR&VR content and AR&VR marketing services.

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,			
	2024		2023	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
AR&VR marketing services	573,072	57.6	845,124	68.0
AR&VR content	211,286	21.2	334,026	26.8
Integrated marketing	179,477	18.0	—	—
AR&VR SaaS	22,171	2.2	57,556	4.6
Others ^(Note)	9,341	1.0	8,017	0.6
Total	<u>995,347</u>	100.0	<u>1,244,723</u>	100.0

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

AR&VR marketing services

The Group generates revenue from the AR&VR marketing services business primarily through provision of AR&VR marketing services to its advertising customers. The revenue from AR&VR marketing services business decreased by 32.2% from RMB845.1 million for the year ended December 31, 2023 to RMB573.1 million for the year ended December 31, 2024. During the Reporting Period, affected by the lower-than-expected market demand and the centralization of advertising traffic platforms, there was a decrease in the number of advertising customers and the average monthly number of advertising products we promoted compared to 2023.

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,			
	2024		2023	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Gaming	172,581	30.0	106,429	12.6
Entertainment	101,002	17.6	190,008	22.5
Internet	86,588	15.1	165,514	19.6
Culture and tourism	67,336	11.8	132,164	15.6
Commercial services	52,489	9.2	25,560	3.0
E-commerce	27,407	4.8	83,959	9.9
Education	23,960	4.2	21,119	2.6
Automobiles	18,542	3.2	51,920	6.1
Real estate	12,715	2.2	36,515	4.3
Healthcare	8,421	1.5	15,756	1.9
Live streaming	2,031	0.4	5,479	0.6
Finance	—	—	10,701	1.3
Total	<u>573,072</u>	100.0	<u>845,124</u>	100.0

Our revenue from the gaming industry increased from RMB106.4 million in 2023 to RMB172.6 million in 2024 due to the increase in the number of our customers. Our revenue from the e-commerce industry decreased from RMB84.0 million to RMB27.4 million during the same period because our major customers in the e-commerce industry reduced their spending in 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 decreased by 36.7% from RMB334.0 million for the year ended December 31, 2023 to RMB211.3 million for the year ended December 31, 2024, primarily due to the decrease in the number of projects and customers caused by fierce market competition. Our number of customers with respect to AR&VR content business decreased from 75 in 2023 to 32 in 2024. The number of AR&VR content projects we carried out decreased from 170 in 2023 to 115 in 2024.

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,			
	2024		2023	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Gaming	159,175	75.4	108,415	32.5
Science and technology, culture and tourism, and others	28,981	13.7	16,913	5.0
Education	22,658	10.7	69,159	20.7
Entertainment	472	0.2	139,539	41.8
Total	<u>211,286</u>	100.0	<u>334,026</u>	100.0

Our revenue from gaming industries increased from RMB108.4 million in 2023 to RMB159.2 million in 2024, mainly due to an increase in the number of our customers from the gaming industry.

Integrated Marketing

The Company leveraged the innovative capabilities and deep industry expertise of our professional team to provide our customers with customized and full-range marketing services. In 2024, the Group newly introduced integrated marketing business. Revenue from the integrated marketing business amounted to RMB179.5 million for the year ended December 31, 2024.

AR&VR SaaS

The Group generates revenue from the AR&VR SaaS business primarily through the provision of customized AR&VR SaaS products and customers' subscriptions to the standardized AR&VR SaaS services. The revenue from the AR&VR SaaS business decreased by 61.5% from RMB57.6 million for the year ended December 31, 2023 to RMB22.2 million for the year ended December 31, 2024, primarily due to the scale-down of our customized AR&VR SaaS business.

Others

The Group's revenue from the other businesses in 2024 was generated from promotion services, advertising agency services and short drama operation, and historically technical services. Revenue from the other businesses increased by 16.5% from RMB8.0 million for the year ended December 31, 2023 to RMB9.3 million for the year ended December 31, 2024, primarily due to our active exploration of new businesses, revenue from the digital character development and operation services, and short drama production and operation business.

Cost of Revenue

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

The cost of revenue decreased by 3.5% from RMB824.0 million for the year ended December 31, 2023 to RMB795.3 million for the year ended December 31, 2024, primarily due to the decrease in revenue from our AR&VR marketing services and AR&VR content business.

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,			
	2024		2023	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Traffic acquisitions costs	655,091	82.4	647,293	78.6
Subcontracting and development costs	98,884	12.4	105,593	12.8
Others ^(Note)	41,336	5.2	71,120	8.6
Total	<u>795,311</u>	100.0	<u>824,006</u>	100.0

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

AR&VR marketing services

The cost of revenue from the AR&VR marketing services business decreased by 25.8% from RMB654.8 million for the year ended December 31, 2023 to RMB485.9 million for the year ended December 31, 2024, primarily due to the decrease in our traffic acquisitions costs driven by the reduction 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,			
	2024		2023	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Gaming	145,838	30.0	81,634	12.5
Entertainment	75,282	15.5	146,313	22.4
Internet	72,098	14.8	127,482	19.5
Culture and tourism	50,750	10.4	101,426	15.5
Education	44,315	9.1	17,188	2.6
Commercial services	38,384	8.0	20,276	3.1
E-commerce	22,176	4.6	64,977	9.9
Automobiles	16,674	3.4	40,561	6.2
Real estate	9,698	2.0	28,347	4.3
Healthcare	9,145	1.9	12,908	2.0
Live streaming	1,549	0.3	4,824	0.7
Finance	—	—	8,821	1.3
Total	<u>485,909</u>	100.0	<u>654,757</u>	100.0

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

AR&VR content

The cost of revenue from the AR&VR content business decreased by 20.9% from RMB142.0 million for the year ended December 31, 2023 to RMB112.3 million for the year ended December 31, 2024, primarily due to the decrease in costs driven by the decline of our AR&VR content business, as well as the reduction in project development costs by leveraging our extensive industry-related and project experiences and the application of AIGC.

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

	For the year ended December 31,			
	2024		2023	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Gaming	74,522	66.4	40,743	28.7
Entertainment	20,589	18.3	57,980	40.8
Education	13,092	11.6	27,541	19.4
Science and technology	4,023	3.6	10,751	7.6
Culture and tourism	58	0.1	4,995	3.5
Total	<u>112,284</u>	100.0	<u>142,010</u>	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 decreased by 52.5% from RMB420.7 million for the year ended December 31, 2023 to RMB200.0 million for the year ended December 31, 2024, primarily due to the decrease in our revenue. The gross profit margin of the Group decreased from 33.8% in 2023 to 20.1% in 2024. The decrease in the gross profit margin was driven by net effect of the increase of integrated marketing business as a percentage in revenue, resulting from the impact of the macroeconomic environment and the change of revenue mix of the Group.

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

	For the year ended December 31,			
	2024		2023	
	<i>Gross Margin</i>		<i>Gross Margin</i>	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
AR&VR marketing services	87,163	15.2	190,367	22.5
AR&VR content	99,752	47.2	192,016	57.5
Integrated marketing	2,177	1.2	—	—
AR&VR SaaS	12,172	54.2	45,623	79.3
Others ^(Note)	(1,228)	(13.1)	(7,289)	(90.9)
Total	<u>200,036</u>	20.1	<u>420,717</u>	33.8

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

The gross margin of the AR&VR marketing services business decreased from 22.5% for the year ended December 31, 2023 to 15.2% for the year ended December 31, 2024, primarily because of a slight increase in traffic prices due to the trend of increased concentration of traffic platforms.

The gross margin of the AR&VR content business decreased from 57.5% for the year ended December 31, 2023 to 47.2% for the year ended December 31, 2024, primarily due to the increase in R&D investment of projects.

The gross margin of the AR&VR SaaS business decreased from 79.3% for the year ended December 31, 2023 to 54.9% for the year ended December 31, 2024, primarily due to certain fixed costs (including staff costs and costs of servers) incurred despite the scale-down of business.

The gross margin of other businesses increased from -90.9% for the year ended December 31, 2023 to -13.1% for the year ended December 31, 2024, primarily due to the expansion of our digital character development and operation services, and short drama production and operation business.

Other Income

Other income of the Group consists of dividend income, tax refund, interest income on bank deposits and government grants. Other income decreased by 90.9% from RMB6.5 million for the year ended December 31, 2023 to RMB0.6 million for the year ended December 31, 2024 mainly due to decrease in interest revenue and other tax refund.

Other Gains/(Losses), net

Other gains/(losses), net of the Group primarily consist of foreign exchange gains, and others which include miscellaneous gains and losses. We recorded other losses of RMB0.5 million in 2023 and other gains of RMB2.1 million in 2024 due to the liquidated damages received and foreign exchange gains.

Impairment Losses of Trade Receivables

Impairment losses of trade receivables represent net impairment losses recognized or reversed under expected credit loss (“ECL”) model in respect of trade receivables. Our impairment losses under ECL mode, net of reversal decreased from RMB30.2 million in 2023 to RMB17.4 million in 2024, primarily due to the net decrease in the ECL rates.

Distribution and Selling Expenses

The distribution and selling expenses of the Group primarily consist of (i) staff costs, (ii) advertising and marketing costs, (iii) traveling expenses, (iv) office expenses, and (v) others. The distribution and selling expenses increased by 356.5% from RMB19.3 million for the year ended December 31, 2023 to RMB88.2 million for the year ended December 31, 2024, primarily due to: (i) the increase in staff costs due to the increase in our headcounts driven by the expansion of our business and the increase in the average compensation level, and (ii) the increase in promotion expenses as we strengthened our brand and product promotion.

Administrative Expenses

The administrative expenses of the Group primarily consist of (i) staff costs which include wages, bonuses and benefits for administrative personnel, (ii) rental and property management expenses, and (iii) professional service fees in relation to our financing activities which were not related to the Listing, among others. The administrative expenses increased by 3.5% from RMB49.6 million for the year ended December 31, 2023 to RMB51.3 million for the year ended December 31, 2024, primarily due to (i) the increase in the staff costs in line with our business expansion, and (ii) the increase in our rental and property management expenses, office expenses as we rented more office space due to business expansion.

Research and Development Expenses

The R&D expenses of the Group primarily consisted of (i) staff costs of R&D personnel, (ii) outsourced R&D expenses mainly in relation to outsourced interactive content modules for our Feitian Metaverse platform, and (iii) amortization expenses in relation to intelligent software purchased. The R&D expenses increased by 64.7% from RMB51.2 million for the year ended December 31, 2023 to RMB84.3 million for the year ended December 31, 2024, primarily due to the increase in the outsourced R&D expenses in line with the development and growth of our Feitian Metaverse platform. The Group did not capitalize any R&D expenditures for the year ended December 31, 2024.

Finance Costs

The finance costs of the Group primarily include interest expenses on bank borrowings and lease liabilities. The finance costs increased by 32.8% from RMB4.8 million for the year ended December 31, 2023 to RMB6.4 million for the year ended December 31, 2024, primarily due to the increase in the interest expenses on our bank borrowings in line with our business expansion.

Income Tax Credit/(Expense)

The income tax expense of the Group changed from RMB7.7 million for the year ended December 31, 2023 to income tax credit of RMB1.1 million for the year ended December 31, 2024, due to the change from income tax expense to income tax credit resulting from the loss of the Group recorded for the year ended December 31, 2024.

Beijing Flowing Cloud was qualified to enjoy the preferential tax treatment of “two-year exemption and three-year half payment” for the year ended December 31, 2023 as a software enterprise. The effective tax rate for the year ended December 31, 2024 was 12.5%.

(Loss)/Profit for the Year and Net Profit Margin

As a result of the foregoing, the Group recorded a loss of RMB43.7 million for the year ended December 31, 2024, representing a change of 116.6% as compared to a profit of RMB263.9 million for the year ended December 31, 2023. The net profit margin of the Group decreased from 21.2% in 2023 to -4.4% in 2024 mainly due to combined impact of factors including the decrease in gross profit margins and increase in distribution and selling expenses.

Non-IFRS Measure: Adjusted Net (Loss)/Profit

To supplement the Group's consolidated financial statements presented in accordance with IFRS, the Groups also uses non-IFRS measure, namely adjusted net (loss)/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 (loss)/profit" is not defined under IFRS. However, the presentation of adjusted net (loss)/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 (loss)/profit as (loss)/profit for the year adjusted by adding equity-settled share-based payments. Equity-settled share-based payments are non-cash in nature.

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

	For the year ended	
	December 31,	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Reconciliation of (loss)/profit for the year to adjusted net (loss)/profit:		
(Loss)/profit for the year	(43,703)	263,935
Add:		
Equity-settled share-based payments	13,060	10,036
Non-IFRS measure:		
Adjusted net (loss)/profit (unaudited)	<u>(30,643)</u>	<u>273,971</u>

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 RMB95.0 million as at December 31, 2023 to RMB99.7 million as at December 31, 2024, primarily due to the increase in acquiring of adaptation rights and software in order to support the growth of our AR&VR SaaS business.

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

	As at December 31,	
	2024	2023
	RMB'000	RMB'000
Adaptation rights	44,100	50,425
Software	55,576	44,570
Total	99,676	94,995

Contract Costs

The contract costs of the Group comprise (i) incremental costs to obtain contracts capitalized in relation to the incremental sales commissions paid to agents whose selling activities resulted in customers entering into agreements for the AR&VR SaaS business, and (ii) costs to fulfill contracts capitalized in relation to the setup cost to provide AR&VR content. The contract costs of the Group increased from RMB0.1 million as at December 31, 2023 to RMB1.2 million as at December 31, 2024, primarily due to the increase in the setup costs in relation to our AR&VR content business.

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 RMB561.5 million as at December 31, 2023 to RMB641.9 million as at December 31, 2024, as the customers' cash conversion cycle generally lengthened and payment periods of certain customers extended under the impact of macroeconomic environment.

Prepayments

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

The prepayments increased from RMB594.0 million as at December 31, 2023 to RMB755.4 million as at December 31, 2024, primarily due to the increase in our prepayments for purchases of advertising traffic related to our AR&VR marketing services and integrated marketing services in line with the management's expectations for the overall growth of our AR&VR marketing services and integrated marketing business in the future.

Trade and other payables

The trade and other payables of the Group mainly comprise (i) trade and bills payables, (ii) employee compensation payable, and (iii) other tax payable. The trade and bills payables were mainly 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 RMB148.1 million as at December 31, 2023 to RMB253.6 million as at December 31, 2024, primarily due to (i) the increase in the amount of traffic purchased from suppliers in line with our business expansion, and (ii) a general extension of payment cycles across the industry, resulting from looser credit policies offered by suppliers to stabilize customers under the impact of macroeconomic environment.

Contract Liabilities

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

The contract liabilities increased from RMB13.1 million as at December 31, 2023 to RMB29.1 million as at December 31, 2024. We recognized revenue amounting to RMB13.1 million for the year ended December 31, 2024, which relates to the contract liabilities balance at the beginning of the year.

Borrowings

The borrowings of the Group comprise short-term borrowings from commercial banks and third party in the PRC denominated in Renminbi. The borrowings slightly decreased from RMB95.0 million as at December 31, 2023 to RMB88.0 million as at December 31, 2024, primarily due to lower funding needs as a result of the decline in revenue.

Lease Liabilities

The lease liabilities of the Group, which were secured by rental deposits and unguaranteed. Our lease liabilities decreased from RMB3.4 million as at December 31, 2023 to RMB1.7 million as at December 31, 2024. The decrease in lease liabilities resulted from the approaching conclusion of lease agreements and our partial repayment of the liabilities.

Contingent Liabilities

As at December 31, 2024, the Group did not have any material contingent liabilities.

Liquidity and Capital Resources

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

As at December 31, 2024, the Group had bank and cash balances of RMB162.4 million denominated in Renminbi, United States dollars and Hong Kong dollars.

Capital Expenditures

The capital expenditures of the Group for the year ended December 31, 2024 amounted to RMB42.6 million, which principally consist of expenditures on (i) intangible assets, (ii) right-of-use assets for leased offices, and (iii) equipment.

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

Charge of Assets

As at December 31, 2024, the Group had no charge of assets.

Gearing Ratio

Gearing ratio equals net debt divided by total equity as at the end of the period and multiplied by 100%. Net debt equals borrowings and lease liabilities less bank and cash balances 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, 2024, the Group had bank balances denominated in Renminbi, United States dollars and Hong Kong dollars. Except for certain bank balances denominated in foreign currencies, the Group did not have significant foreign currency exposure from its operations as at December 31, 2024. The Group currently does not have any foreign currency hedging transactions. However, the management monitors the foreign exchange exposure and will consider hedging significant foreign exchange exposure of the Group should the need arise.

Financial Instrument

The Group did not have any financial instruments for hedging purposes as at December 31, 2024.

Treasury Policy

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2024

	<i>Notes</i>	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Revenue	3	995,347	1,244,723
Cost of revenue		(795,311)	(824,006)
Gross profit		200,036	420,717
Other income		597	6,530
Other gains/(losses), net		2,099	(505)
Distribution and selling expenses		(88,150)	(19,309)
Administrative expenses		(51,290)	(49,577)
Research and development expenses		(84,294)	(51,181)
Impairment losses of trade receivables		(17,433)	(30,176)
Finance costs		(6,411)	(4,828)
(Loss)/profit before tax		(44,846)	271,671
Income tax credit/(expense)	4	1,143	(7,736)
(Loss)/profit for the year	5	<u>(43,703)</u>	<u>263,935</u>
Other comprehensive expense after tax:			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value loss on equity investments fair value through other comprehensive income		(37,574)	(41,393)
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		(384)	(1,169)
Other comprehensive expense for the year, net of tax		<u>(37,958)</u>	<u>(42,562)</u>
Total comprehensive (expense)/income for the year		<u>(81,661)</u>	<u>221,373</u>

	<i>Note</i>	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
(Loss)/profit for the year attributable to:			
— Owners of the Company		(43,702)	263,938
— Non-controlling interests		(1)	(3)
		<u>(43,703)</u>	<u>263,935</u>
Total comprehensive (expense)/income for the year attributable to:			
— Owners of the Company		(81,660)	221,376
— Non-controlling interests		(1)	(3)
		<u>(81,661)</u>	<u>221,373</u>
		<i>RMB cents</i>	<i>RMB cents</i>
(Loss)/earnings per share			
— Basic and diluted	7	<u>(2.42)</u>	<u>14.58</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2024

	<i>Notes</i>	2024 RMB'000	2023 <i>RMB'000</i>
Non-current assets			
Equipment		5,222	8,756
Right-of-use assets		1,963	4,002
Intangible assets		99,676	94,995
Equity investments at fair value through other comprehensive income		84,882	112,456
Deferred tax assets		10,512	8,412
		<u>202,255</u>	<u>228,621</u>
Current assets			
Trade receivables	8	641,885	561,514
Contract costs		1,157	111
Prepayments	9	755,418	593,970
Deposits and other receivables		4,698	4,270
Current tax assets		2,674	—
Restricted bank deposits		—	120
Bank and cash balances		162,422	332,668
		<u>1,568,254</u>	<u>1,492,653</u>
Current liabilities			
Trade and bills payables	10	190,821	69,732
Contract liabilities		29,059	13,061
Other payables and accruals		62,739	78,344
Borrowings		88,000	95,000
Lease liabilities		1,693	2,495
Current tax liabilities		1,195	9,510
		<u>373,507</u>	<u>268,142</u>
Net current assets		<u>1,194,747</u>	<u>1,224,511</u>
Total assets less current liabilities		<u>1,397,002</u>	<u>1,453,132</u>

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Non-current liabilities		
Amount due to controlling shareholders	14,000	—
Lease liabilities	<u>—</u>	<u>900</u>
	14,000	900
NET ASSETS	<u>1,383,002</u>	<u>1,452,232</u>
Capital and reserves		
Share capital	128	128
Reserves	<u>1,380,145</u>	<u>1,449,374</u>
Equity attributable to owners of the Company	1,380,273	1,449,502
Non-controlling interests	<u>2,729</u>	<u>2,730</u>
TOTAL EQUITY	<u>1,383,002</u>	<u>1,452,232</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Flowing Cloud Technology Limited (the “**Company**”) was incorporated in the Cayman Islands with limited liability. The addresses of its registered office and its principal place of business are 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands and Shop 8, Jingyuan Art Centre, Guangqulu No. 3, Chaoyang District, Beijing, the People’s Republic of China (“**PRC**”) respectively. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The Company is an investment holding company. The principal activities of the subsidiaries of the Company is provision of augmented reality and virtual reality (“**AR & VR**”) marketing services, AR & VR content, integrated marketing services and relevant services.

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

2. ADOPTION OF NEW AND REVISED IFRS ACCOUNTING STANDARDS

In the current year, the Company and its subsidiaries (collectively referred to as the “**Group**”) has adopted all the new and revised IFRS Accounting Standards issued by the International Accounting Standards Board (the “**IASB**”) that are relevant to its operations and effective for its accounting year beginning on 1 January 2024. IFRS Accounting Standards comprise International Financial Reporting Standards (“**IFRS**”); International Accounting Standards; and Interpretations. The adoption of these new and revised IFRS Accounting Standards did not result in significant changes to the Group’s accounting policies, presentation of the Group’s consolidated financial statements and amounts reported for the current year and prior years.

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

3. REVENUE AND SEGMENT INFORMATION

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Major service		
Provision of AR & VR marketing service	573,072	845,124
Delivery of AR & VR content	211,286	334,026
Provision of integrated marketing services	179,477	—
Provision of AR & VR Software as a Service	22,171	57,556
Others	9,341	8,017
	<u>995,347</u>	<u>1,244,723</u>
Geographical markets		
Mainland, the PRC	850,077	1,145,156
Hong Kong	145,270	99,567
	<u>995,347</u>	<u>1,244,723</u>
Timing of revenue recognition		
At a point in time	977,922	1,222,461
Over time	17,425	22,262
	<u>995,347</u>	<u>1,244,723</u>

Segment information

For management purposes, the Group does not organise 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.

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

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Mainland, the PRC	93,922	90,755
Hong Kong	12,939	16,998
	<u>106,861</u>	<u>107,753</u>

Information about major customer

During the year ended 31 December 2024, no (2023: no) single customer contributed over 10% of the total revenue of the Group.

4. INCOME TAX (CREDIT)/EXPENSE

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Current tax		
— PRC Enterprise Income Tax	658	8,802
— Hong Kong	74	3,793
— Under provision in prior years	225	1,621
	<hr/>	<hr/>
Total current tax	957	14,216
Deferred tax	(2,100)	(6,480)
	<hr/>	<hr/>
Total income tax (credit)/expense	<u>(1,143)</u>	<u>7,736</u>

5. (LOSS)/PROFIT FOR THE YEAR

The Group's (loss)/profit for the year is stated after charging the following:

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Depreciation of equipment	3,984	2,753
Depreciation of right-of-use assets	5,161	4,498
Amortisation of intangible assets (included in cost of revenue and research and development expenses)	33,872	28,519
Auditor's remuneration	3,190	4,230
Staff costs including directors' emoluments		
— Salaries and other benefits	25,593	23,547
— Discretionary bonus	11,630	9,651
— Equity-settled share-based payments	13,060	10,036
— Retirement benefits scheme contributions	4,148	3,657
	<hr/>	<hr/>
	<u>54,431</u>	<u>46,891</u>

6. DIVIDEND

No (2023: no) dividend was paid or declared by the Company for the year ended 31 December 2024.

7. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share is based on the following:

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
(Loss)/earnings		
(Loss)/earnings for the purpose of calculating basic and diluted (loss)/earnings per share	<u>(43,702)</u>	<u>263,938</u>
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted (loss)/earnings per share	<u>1,806,682</u>	<u>1,809,866</u>

Diluted (loss)/earnings per share is the same as basic (loss)/earnings per share as the Company did not have any dilutive potential ordinary shares during the years ended 31 December 2024 and 2023.

8. TRADE RECEIVABLES

The ageing analysis of trade receivables, based on billing date, and net of provision for loss allowance is as follows:

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Within 6 months	282,108	374,830
Over 6 months but within 1 year	220,084	171,893
Over 1 year	<u>139,693</u>	<u>14,791</u>
	<u>641,885</u>	<u>561,514</u>

9. PREPAYMENTS

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Prepayments for purchases of advertising traffic	742,383	570,803
Prepayments for outsourcing service	9,007	14,753
Prepayments for intangible assets	1,689	1,799
Others	2,339	6,615
	<u>755,418</u>	<u>593,970</u>

10. TRADE AND BILLS PAYABLES

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Trade payables	170,821	69,732
Bills payables	20,000	—
	<u>190,821</u>	<u>69,732</u>

The ageing analysis of trade payables, based on date of billing documents, is as follows:

Within 6 months	100,448	36,585
Over 6 months but within 1 year	28,834	7,659
Over 1 year but within 2 years	22,887	6,648
Over 2 years	18,652	18,840
	<u>170,821</u>	<u>69,732</u>

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, 2024, in Hebei Yichen Industrial Group Corporation Limited (Stock Code: 1596) (“**Yichen**”). Yichen is principally engaged in R&D, manufacturing and sales of rail fastening system products, welding wire and railway sleeper products. As at December 31, 2024, the Group held 31,101,000 shares, representing 3.5% of the total issued share capital of Yichen. The investment costs were approximately HK\$140,781,179. As at December 31, 2024, the fair value of this investment at FVTOCI was RMB74.9 million, representing approximately 4.2% of the Group's total assets as at December 31, 2024. The Group recorded a fair value loss on investments in equity instruments at FVTOCI of RMB37.6 million for the year ended December 31, 2024. Based on the interim report of Yichen for the six months ended June 30, 2024, Yichen recorded a revenue of RMB498.7 million and net loss of RMB42.2 million. As at the date of this announcement, the Company received dividend income of HK\$0.3 million. As Yichen mainly produces rail fastening systems, welding wire products and railway sleeper products widely used in high-speed, heavy-haul, and regular and urban railways, Yichen's manufacturing and R&D processes present many opportunities for AR&VR applications including in the development of the prototypes, three-dimensional display of products, trainings of its employees and digitalization of its production lines. The Company further plans to explore business opportunities including providing AR&VR content and services to Yichen after the investment.

Save as disclosed above, there were no significant investments held, nor were there material acquisitions or disposals of subsidiaries, associates or joint ventures by the Group during the year ended December 31, 2024.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

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

EMPLOYEES AND REMUNERATION POLICIES

As at December 31, 2024, the Group had 124 full-time employees, all of them are located in China.

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

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

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

USE OF PROCEEDS FROM LISTING

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

The Over-allotment Option (as defined in the Prospectus) was not exercised. The table below sets forth the intended application of the net proceeds and actual usage as at December 31, 2024:

Intended application	Amount of net proceeds (HK\$ million)	Percentage of total net proceeds	Net proceeds brought forward for the Reporting Period (HK\$ million)	Utilized net proceeds as at December 31, 2024 (HK\$ million)	Unutilized net proceeds as at December 31, 2024 (HK\$ million)	Expected timetable for the use of unutilized net proceeds
To enhance our R&D capabilities and improve our services and products						
(1) to develop and optimize our algorithms and data analysis capabilities;	53.2	10.0%	17.4	17.4	0.0	—
(2) to upgrade and iterate our AR&VR development engines;	42.6	8.0%	12.2	12.2	0.0	—
(3) to improve our operation capabilities;	37.2	7.0%	15.5	15.5	0.0	—
(4) to develop of our AR&VR content business;	37.2	7.0%	11.1	11.1	0.0	—
(5) to develop our AR&VR SaaS business; and	26.6	5.0%	5.4	5.4	0.0	—
(6) to procure IPs in support of the growth of our AR&VR content business and AR&VR SaaS business.	16.0	3.0%	2.5	2.5	0.0	—
To enhance our sales and marketing function:						
(1) to strengthen our brand image through marketing effort;	53.2	10.0%	16.5	16.5	0.0	—
(2) to enhance our brand awareness through online channels; and	26.6	5.0%	4.3	4.3	0.0	—
(3) to strengthen and optimize our sales and marketing network.	53.2	10.0%	31.0	31.0	0.0	—
For selected mergers, acquisitions, and strategic investments	79.8	15.0%	79.8	10.0	69.8	By the end of 2025
For the development of our Feitian Metaverse platform	53.1	10.0%	11.3	11.3	0.0	—
For our working capital and general corporate purposes	53.2	10.0%	14.1	14.1	0.0	—
Total	531.9	100.0%	221.1	151.3	69.8	

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

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended December 31, 2024.

COMPLIANCE WITH THE CORPORATE GOVERNANCE PRACTICES

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

The Board is of the view that the Company has complied with all applicable principles and code provisions of the Corporate Governance Code throughout the year ended December 31, 2024 and up to the date of this announcement, except for a deviation from the code provision C.2.1 of the Corporate Governance Code, that the roles of Chairman and chief executive officer of the Company are not separated and are both performed by Mr. Wang Lei. With extensive experience in the technology services and game development industry, Mr. Wang Lei has been responsible for the strategic development, overall operation and management and major decision-making of the Group and been instrumental to its growth and business expansion since he joined the Group. The Board considers that vesting the roles of Chairman and chief executive officer in the same person is beneficial to the management of the Group. During the year ended December 31, 2024, the balance of power and authority was ensured by the operation of the senior management and the Board, which comprised experienced and visionary individuals. During the year ended December 31, 2024, the Board comprised three executive Directors (with Mr. Li Yanhao resigned with effect from November 3, 2024) and three independent non-executive Directors and therefore had a fairly strong independence element in its composition. Decisions to be made by the Board require approval by at least a majority of the Directors. Mr. Wang Lei and the other Directors are aware of and undertake to fulfil their fiduciary duties as Directors, which require, among other things, that he/she acts for the benefit and in the best interests of the Company and will make decisions of the Group accordingly. The Board will continue to review the effectiveness of the corporate governance structure of the Company in order to assess whether separation of the roles of Chairman and chief executive officer is necessary. Save as disclosed above, the Company is in compliance with all applicable code provisions as set out in Part 2 of the Corporate Governance Code during the Reporting Period and up to the date of this announcement.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

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

Having made specific enquiries to all Directors, all of them have confirmed that they have complied with the Model Code throughout the year ended December 31, 2024 and up to the date of this announcement.

AUDIT COMMITTEE

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

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

The Audit Committee has jointly discussed with the management and the external auditor of the Company about the accounting principles and policies adopted by the Company, and discussed and reviewed internal control, risk management and financial reporting matters (including the review of the annual results for the year ended December 31, 2024) 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 applicable legal requirements. Accordingly, the Audit Committee recommends the Board to approve the consolidated financial statements of the Group for the year ended December 31, 2024.

SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED

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

PURCHASE, SALE OR REDEMPTION OF THE SECURITIES OF THE COMPANY

During the year ended December 31, 2024, the Company bought back a total of 1,182,000 Shares at prices ranging from HK\$0.52 to HK\$0.62 per Share on the Stock Exchange, with an aggregate consideration of approximately HK\$689,000 (excluding commissions and other expenses). Details of the share buy-backs by the Company on the Stock Exchange during the year ended December 31, 2024 are as follows:

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

The Board believes that the share buy-backs could reflect the Board's confidence in the Company's long-term business prospects. As at the date of this announcement, 3,854,000 Shares of the bought Shares are yet to be cancelled.

Save as disclosed above, neither the Company, nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities (including the sale of treasury shares) throughout the year ended December 31, 2024.

SUFFICIENCY OF PUBLIC FLOAT

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

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

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

ANNUAL GENERAL MEETING

The forthcoming AGM will be held on Wednesday, May 28, 2025. A notice convening the AGM and all other relevant documents will be published and despatched to the Shareholders who have elected to receive printed copies in April 2025.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, May 23, 2025 to Wednesday, May 28, 2025, 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 Thursday, May 22, 2025, being the last registration date.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (<https://www.hkexnews.hk>) and the Company (<https://www.floatingcloud.com>). The annual report for the year ended December 31, 2024 will be dispatched to the Shareholders who have elected to receive printed copies and published on the above websites in due course.

DEFINITIONS

“advertising customer(s)”	advertising customers include advertisers and their agents
“AGM”	the annual general meeting of the Company
“AI”	artificial intelligence
“AIGC”	AI generated content
“AR”	augmented reality, an interactive experience of a real-world environment where the objects that reside in the real world are enhanced by computer-generated perceptual information
“Audit Committee”	the audit committee of the Board
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“B-end”	business-end
“Beijing Flowing Cloud”	Beijing Flowing Cloud Technology Co., Ltd.* (北京飛天雲動科技有限公司), a limited company established in the PRC on November 17, 2021 and an indirect wholly-owned subsidiary of the Company

“Board”	the board of Directors of the Company
“C-end”	customer-end
“Chairman”	the chairman of the Board
“China” or “the PRC”	the People’s Republic of China excluding, for the purposes of this announcement, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Company”	Flowing Cloud Technology Ltd, an exempted company incorporated in the Cayman Islands with limited liability on June 24, 2021, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 6610)
“Consolidated Affiliated Entities”	the entities the Group controls through the Contractual Arrangements
“Contractual Arrangements”	the series of contractual arrangements entered into by, among others, Beijing Flowing Cloud, the Consolidated Affiliated Entities and the Registered Shareholders (as defined in the Prospectus), the details of which are set out in the section headed “Contractual Arrangements” in the Prospectus
“Corporate Governance Code”	the Corporate Governance Code as set out in Appendix C1 to the Listing Rules
“Director(s)”	the director(s) of the Company or any one of them
“FVTOCI”	fair value through other comprehensive income
“Group”, “Flowing Cloud”, “our”, “we” or “us”	the Company, its subsidiaries and the Consolidated Affiliated Entities at the relevant time
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFRS”	IFRS Accounting Standards

“IP”	intellectual property
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“Main Board”	the Main Board of the Stock Exchange
“MCN”	multi-channel network
“MIIT”	the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) (formerly known as the Ministry of Information Industry of the PRC (中華人民共和國信息產業部))
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix C3 to the Listing Rules
“MR”	mixed reality, a blend of physical world and digital world
“PGC”	professionally generated content
“Post-IPO Share Option Scheme”	the post-IPO share option scheme conditionally adopted by the Company on September 8, 2022
“Prospectus”	the prospectus issued by the Company dated September 29, 2022
“R&D”	research and development
“Renminbi” or “RMB”	Renminbi Yuan, the lawful currency of China
“Reporting Period”	the one-year period from January 1, 2024 to December 31, 2024
“SaaS”	software as a service, a software licensing and delivery model in which software is licensed on a subscription basis and is centrally hosted

“Share(s)”	ordinary share(s) with nominal value of US\$0.00001 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries” or “subsidiary”	has the meaning ascribed thereto under the Listing Rules
“VR”	virtual reality, the computer generated simulation of a three-dimensional image or environment that can be interacted with in a seemingly real or physical way
“XR”	extended reality, a combined term for AR, VR and MR
“%”	percent

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

Hong Kong, March 31, 2025

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