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

2023
ANNUAL REPORT

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

Shop 8, Jingyuan Art Center
Guangqulu No. 3
Chaoyang District
Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F, Manulife Place
348 Kwun Tong Road
Kowloon
Hong Kong

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Ogier Global (Cayman) Limited
89 Nexus Way
Camana Bay
Grand Cayman
KY1-9009
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

LEGAL ADVISOR

Morrison & Foerster
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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10th Floor, Building 3, Yard 1
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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, 2023 RMB'000	2022 RMB'000	Year-on-year change
Revenue	**1,244,723**	1,066,157	16.7%
Gross profit	**420,717**	373,995	12.5%
Profit before tax	**271,671**	247,144	9.9%
Profit for the year	**263,935**	236,593	11.6%
Total comprehensive income for the year	**221,373**	257,465	(14.0%)
Basic and diluted earnings per share			
(RMB cents)	**14.6**	14.8	(1.4%)
Non-IFRS Measure:			
Adjusted net profit* (unaudited)	**273,971**	257,711	6.3%

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

Five Years' Financial Summary

	Year ended December 31,				
	2023	2022	2021	2020	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Operating results					
Revenue	**1,244,723**	1,066,157	595,290	338,598	250,942
Gross profit	**420,717**	373,995	175,516	104,704	75,325
Profits before tax	**271,671**	247,144	87,142	70,371	48,346
Profit for the year	**263,935**	236,593	71,719	60,252	41,879
Total comprehensive income for the year	**221,373**	257,465	71,719	60,252	41,879
Non-IFRS Measure:					
Adjusted net profit* (unaudited)	**273,971**	257,711	105,596	61,609	41,879

	As at December 31,				
	2023	2022	2021	2020	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial position					
Non-current assets	**228,621**	248,823	40,236	28,289	13,307
Current assets	**1,492,653**	1,278,627	543,279	362,311	203,672
Current liabilities	**268,142**	300,525	134,201	211,016	97,814
Net current assets	**1,224,511**	978,102	409,078	151,295	105,858
Non-current liabilities	**900**	1,520	2,744	167	—
Net assets	**1,452,232**	1,225,405	446,570	179,417	119,165

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

Chairman's Statement

Dear Shareholders,

As we mark the end of another financial year, we take this opportunity to reflect on our collective hard work and the substantial achievements of the past year. On behalf of the Board, I extend our deepest gratitude and respect to our Shareholders, business partners and colleagues who have consistently cared and supported the development of our Company.

The year 2023 was characterized by both challenges and opportunities. In terms of operation, in the face of a complex macroeconomic landscape and rapid advancements in technology, our position as a leading provider of content and services in the Metaverse industry allowed us to continue delivering high-quality digital content to our customers. We applied Metaverse-related technologies more broadly across various industries, making significant progress in all aspects of our operations. As we continued to optimize our business structure and expand our market share, both our customer base and the number of projects increased reached new record highs, resulting in steady revenue growth. Moreover, leveraging our well-established content creation and traffic distribution platforms, we ventured into international markets for the first time, initiating our global expansion strategy

In terms of business strategy, while maintaining our core B-end operations, we also targeted the broader C-end market and expanded into fields such as "XR+ content" as well as the development and operation services of digital characters, securing a leading position in this emerging field.

In terms of technological innovation, we have increased our investment in R&D, actively exploring the capabilities of AI+ applications. We have extensively applied AIGC-related technologies in our digital content production process. Furthermore, we continue to develop and iterate our self-developed AI vertical models, allowing new technologies such as AI to fully empower our business operations and support the Company's sustained growth, thus injecting new vitality into our development.

In terms of team building, we continuously optimize our internal management, focusing on talent training and recruitment, and we have built an efficient and professional team. In addition, we have established a sustainable remuneration and stock incentive system that aligns personal development of our employees with the Company's vision and goals, providing a solid talent foundation for the development of the Company.

Looking forward, we believe that the strong support from the Chinese government for digital technology and the digital industry, the rapid technological development and the continuous improvement of the industry ecosystem will place our industry on the "fast track" of growth. We will steadfastly focus on AR/VR content and services, consolidating existing businesses while exploring new businesses, new formats and new directions. We will enhance our investment and collaborations within the industrial chain, explore the integration of the Metaverse and Web 3.0, further expand into overseas markets and strive to build an internationally competitive outstanding enterprise that delivers more returns for our Shareholders and creates greater value for the society.

Last but not least, I would like to take this opportunity to extend my heartfelt gratitude once again to our Shareholders, investors, business partners and customers for your continued trust and support of Flowing Cloud, as well as to our Board, management and staff for your efforts and dedication. I hope that you will all continue to engage with and support the Company's development. Together, let us join hands and forge an even brighter future.

Chairman
Wang Lei

Management Discussion and Analysis

BUSINESS REVIEW

Business Update

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

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

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

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

AR/VR marketing services

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

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

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

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

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

AR/VR content

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

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

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

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

Digital twin platform of a city airport

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

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


A tourism exhibition center
in a city in Fujian Province


A metaverse city exhibition hall
in Zhejiang Province

AR/VR SaaS services

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

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

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

Exploring new business

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

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

Future Outlook

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

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

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

Outlook of the Company

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

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

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

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

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

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

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

FINANCIAL REVIEW

Revenue

The Group generated revenue primarily from the provision of AR/VR marketing services and the sale of AR/VR content. The revenue increased by 16.7% from RMB1,066.2 million for the year ended December 31, 2022 to RMB1,244.7 million for the year ended December 31, 2023, mainly attributable to the increase in the revenue generated from the AR/VR marketing services. The overall growth of the revenue was driven by our business expansion as a result of AR/VR gaining popularity.

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

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

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

AR/VR marketing services

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

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

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

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

AR/VR content

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

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

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

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

AR/VR SaaS

The Group generates revenue from the AR/VR SaaS business primarily through the provision of customized AR/VR SaaS products and customers' subscriptions to the standardized AR/VR SaaS services. The revenue from the AR/VR SaaS business increased by 31.7% from RMB43.7 million for the year ended December 31, 2022 to RMB57.6 million for the year ended December 31, 2023, primarily because of the increase in the number of customers who subscribed to our customized AR/VR SaaS projects.

Others

The Group's revenue from the other businesses in 2023 were generated from promotion services, advertising agency services and short drama operation, and historically technical services. Revenue from the other businesses increased by 80.1% from RMB4.5 million for the year ended December 31, 2022 to RMB8.0 million for the year ended December 31, 2023, primarily due to our active exploration of new businesses, revenue from the digital character development and operation services, and short drama production and operation business.

Cost of Revenue

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

The cost of revenue increased by 19.0% from RMB692.2 million for the year ended December 31, 2022 to RMB824.0 million for the year ended December 31, 2023, primarily driven by the increase in the traffic acquisition costs in relation to our AR/VR marketing services business in line with the growth of our AR/VR marketing services, slightly offset by a decrease in our subcontracting and development costs due to a decline in revenue from our AR/VR content business, and a decrease in our use of materials costs attributable to a decrease in customer demand for PGC video materials.

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

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

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

AR/VR marketing services

The cost of revenue from the AR/VR marketing services business increased from RMB526.1 million for the year ended December 31, 2022 to RMB654.8 million for the year ended December 31, 2023, primarily due to the increase in our traffic acquisitions costs driven by the growth of our AR/VR marketing services business.

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

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

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

AR/VR content

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

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

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

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

Gross Profit and Gross Margin

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

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

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

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

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

The gross margin of the AR/VR content business increased from 55.9% for the year ended December 31, 2022 to 57.5% for the year ended December 31, 2023, primarily because of the improvement in content production efficiency due to the increased in R&D investment of projects.

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

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

Other Income

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

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

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

Other Gains and Losses

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

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

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

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

Impairment losses under ECL model, net of reversal represent net impairment losses recognized or reversed in respect of trade receivables. Our impairment losses under ECL mode, net of reversal increased from RMB4.1 million in 2022 to RMB30.2 million in 2023, primarily due to the increase in our accounts receivables in line with our business expansion.

Distribution and Selling Expenses

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

Administrative Expenses

The administrative expenses of the Group primarily consist of (i) staff costs which include wages, bonuses and benefits for administrative personnel, (ii) rental and property management expenses, and (iii) professional service fees in relation to our financing activities which were not related to the Listing, among others. The administrative expenses increased by 49.4% from RMB33.2 million for the year ended December 31, 2022 to RMB49.6 million for the year ended December 31, 2023, primarily due to (i) the increase in the staff costs in line with our business expansion, (ii) the increase in our rental and property management expenses, office expenses as we rented more office space due to business expansion, and (iii) the increase in our professional service fees which were not related to the Listing.

Research and Development Expenses

The R&D expenses of the Group primarily consisted of (i) staff costs of R&D personnel, (ii) outsourced R&D expenses mainly in relation to outsourced interactive content modules for our Feitian Metaverse platform, and (iii) amortization expenses in relation to intelligent software purchased. The R&D expenses increased by 5.6% from RMB48.5 million for the year ended December 31, 2022 to RMB51.2 million for the year ended December 31, 2023, primarily due to (i) the increase in the staff costs of our R&D personnel, and (ii) the increase in the outsourced R&D expenses in line with the development and growth of our Feitian Metaverse platform. The Group did not capitalize any R&D expenditures for the year ended December 31, 2023.

Listing Expenses

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

Finance Costs

The finance costs of the Group primarily include interest expenses on bank borrowings and lease liabilities. The finance costs increased by 48.2% from RMB3.3 million for the year ended December 31, 2022 to RMB4.8 million for the year ended December 31, 2023, primarily due to the increase in the interest expenses on our bank borrowings in line with our business expansion.

Income Tax Expense

The income tax expense of the Group primarily decreased by 26.7% from RMB10.6 million for the year ended December 31, 2022 to RMB7.7 million for the year ended December 31, 2023, because Beijing Flowing Cloud was qualified to enjoy the preferential tax treatment of "two-year exemption and three-year half payment" for the year ended December 31, 2023 as a software enterprise. The effective tax rate for the year ended December 31, 2023 was 2.8%.

Profit for the Year and Net Profit Margin

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

Non-IFRS Measure: Adjusted Net Profit

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

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

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

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

Intangible Assets

The intangible assets of the Group consist of (i) adaptation rights for novels, IP images and cartoon characters for its own use, and (ii) software. The intangible assets increased from RMB47.9 million as at December 31, 2022 to RMB95.0 million as at December 31, 2023, primarily due to the increase in acquiring of adaptation rights and software in order to support the growth of our AR/VR SaaS business.

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

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

Contract Costs

The contract costs of the Group comprise (i) incremental costs to obtain contracts capitalized in relation to the incremental sales commissions paid to agents whose selling activities resulted in customers entering into agreements for the AR/VR SaaS business, and (ii) costs to fulfill contracts capitalized in relation to the setup cost to provide AR/VR content. The contract costs of the Group decreased from RMB1.7 million as at December 31, 2022 to RMB0.1 million as at December 31, 2023, primarily due to (i) the decrease in the setup costs in relation to our AR/VR content business as the customer accepted a number of AR/VR content projects in relation to which the costs to fulfill contracts were recognized, and (ii) changes to the settlement method of contract costs being the adoption of net amount settlement, where 60% of the revenue is confirmed directly without factoring in costs within the contract cost.

Trade and Other Receivables and Deposits

The trade receivables of the Group mainly relate to the amounts due from its customers who purchased AR/VR marketing services, AR/VR content or AR/VR SaaS products. Other receivables and deposits mainly consist of rental and other deposits and other receivables.

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

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

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

Prepayments

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

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

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

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

Trade and other payables

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

The trade and other payables increased from RMB139.6 million as at December 31, 2022 to RMB148.1 million as at December 31, 2023, primarily due to (i) the increase in our employee compensation payable caused by the increased number of employees and the increase in salary and bonus of our personnel in line with our business expansion, (ii) the increase in other tax payable, and (iii) the increase in payables for procurement of long-term assets.

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

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

Contract Liabilities

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

The contract liabilities decreased from RMB67.7 million as at December 31, 2022 to RMB13.1 million as at December 31, 2023. We recognized revenue amounting to RMB67.5 million for the year ended December 31, 2023, which relates to the contract liabilities balance at the beginning of the year.

Bank Borrowings

The bank borrowings of the Group comprise short-term borrowings from commercial banks in the PRC denominated in Renminbi. The bank borrowings slightly increased from RMB80.0 million as at December 31, 2022 to RMB95.0 million as at December 31, 2023, primarily due to operational funding needs in line with our business expansion.

Lease Liabilities

The lease liabilities of the Group, which were secured by rental deposits and unguaranteed. Our lease liabilities decreased from RMB5.9 million as at December 31, 2022 to RMB3.4 million as at December 31, 2023. The decrease in lease liabilities resulted from the approaching conclusion of lease agreements and our partial repayment of the liabilities.

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

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

Contingent Liabilities

As at December 31, 2023, the Group did not have any material contingent liabilities.

Liquidity and Capital Resources

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

As at December 31, 2023, the Group had bank balances and cash of RMB332.7 million denominated in Renminbi, United States dollars and Hong Kong dollars and net current assets.

Capital Expenditures

The capital expenditures of the Group for the year ended December 31, 2023 amounted to RMB87.6 million, which principally consist of expenditures on (i) intangible assets, (ii) right-of-use assets for leased offices, and (iii) property, plant and equipment.

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

Charge of Assets

As at December 31, 2023, the Group had no charge of assets.

Gearing Ratio

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

Foreign Exchange Risk Management

The Group mainly operates in the PRC with most transactions settled in Renminbi, and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars and Hong Kong dollars. As at December 31, 2023, the Group had bank balances denominated in Renminbi, United States dollars and Hong Kong dollars. Except for certain bank balances denominated in foreign currencies, the Group did not have significant foreign currency exposure from its operations as at December 31, 2023. The Group currently does not have any foreign currency hedging transactions. However, the management monitors the foreign exchange exposure and will consider hedging significant foreign exchange exposure of the Group should the need arise.

Financial Instrument

The Group did not have any financial instruments for hedging purposes as at December 31, 2023.

Treasury Policy

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

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

The Company held a significant investment, with a value of 5% or more of the Group's total assets as at December 31, 2023, in Hebei Yichen Industrial Group Corporation Limited (Stock Code: 1596) ("**Yichen**"). Yichen is principally engaged in R&D, manufacturing and sales of rail fastening system products, welding wire and railway sleeper products. As at December 31, 2023, the Group held 31,101,000 shares, representing 3.5% of the total issued share capital of Yichen. The investment costs were approximately HK$140,781,179. As at December 31, 2023, the fair value of this investment at FVTOCI was RMB112.5 million, representing approximately 6.5% of the Group's total assets as at December 31, 2023. The Group recorded a fair value loss on investments in equity instruments at FVTOCI of RMB39.4 million for the year ended December 31, 2023. Based on the interim report of Yichen for the six months ended June 30, 2023, Yichen recorded a revenue of RMB542.6 million and net loss of RMB33.5 million. As at the date of this annual report, the Company received dividend income of HK$1.6 million. As Yichen mainly produces rail fastening systems, welding wire products and railway sleeper products widely used in high-speed, heavy-haul, and regular and urban railways, Yichen's manufacturing and R&D processes present many opportunities for AR/VR applications including in the development of the prototypes, three-dimensional display of products, trainings of its employees and digitalization of its production lines. The Company further plans to explore business opportunities including providing AR/VR content and services to Yichen after the investment.

Save as disclosed above, there were no significant investments held, nor were there material acquisitions or disposals of subsidiaries, associates or joint ventures by the Group during the year ended December 31, 2023.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group intends to utilize the net proceeds raised from the Global Offering (as defined in the Prospectus) according to the plans set out in the section headed "Use of Proceeds from Listing" in this 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, 2023, the Group had 142 full-time employees, all of them are located in China.

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

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

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

DIRECTORS

Executive Directors

Mr. Wang Lei (汪磊), aged 41, 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 18 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 42, 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 17 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 41, 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 16 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 41, 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 18 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 39, 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 11 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 58, 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 38, 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 15 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. Han Yizhe (韓沂哲), aged 39, 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 15 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.

Mr. Na Yimu (那一牧), aged 39, joined the Group on May 1, 2023 and has been the senior vice president and the chief capital officer of the Group with immediate effect. He is primarily responsible for the strategic planning, investor relations, public relations, government relations, investment and capital operation and other related work of the Group.

Mr. Na has over 14 years of relevant experience in capital market related matters. Prior to joining the Group, from July 2010 to September 2016, Mr. Na worked in the investment banking department of Ping An Securities Co., Ltd. and Northeast Securities Co., Ltd., mainly engaging in underwriting sponsorship and merger and acquisition restructuring in the capital market. From October 2016 to April 2023, Mr. Na worked as a partner and investment director in Beijing Rongtuo Innovation Investment Management Co., Ltd. (北京融拓創新投資管理有限公司), a private equity investment fund manager based in Beijing, and was primarily responsible for fund raising, investment and management of the fund.

Mr. Na obtained his master's degree in quantitative economics from Fudan University in Shanghai, PRC in July 2010.

Mr. Hai Xuesen (海學森), aged 37, joined the Group on July 24, 2023 and has been the Chief Human Resource Officer of the Group since then. He is primarily responsible for the organization and talent management of the Group.

Mr Hai has over 15 years of experience in human resources and management. Prior to joining the Group, from September 2007 to May 2012, Mr Hai worked at Schneider Electric (China) Co., Ltd. (施耐德電氣（中國）有限公司) as an international project manager and human resources information development consultant, mainly responsible for project management and human resources information development. From May 2012 to November 2016, Mr Hai worked as a human resources consultant and senior manager at Baidu Online Network Technology (Beijing) Company Limited (百度在線網絡技術（北京）有限公司), responsible for the Group's recruitment platform and operation management. From November 2016 to July 2018, Mr Hai worked as a senior director at Beijing Yixin Information Technology Co., Ltd. (北京易鑫信息科技有限公司), responsible for the Group's human resources related work. After that, Mr Hai worked in Beijing Xiaochuan Technology Co., Ltd. (北京小川科技有限公司), Beijing YiPin WenHui Technology Co., Ltd. (北京屹品文惠科技有限公司) and Beijing Movie Book Technology Co., Ltd. (北京影譜科技股份有限公司), where he successively served as HR Partner, Managing Partner and HR VP.

Mr. Hai obtained his bachelor's degree in Engineering from Renmin University of China in July 2007.

The Directors are pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2023.

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, 2023.

FINANCIAL STATEMENTS

The financial performance of the Group for the year ended December 31, 2023 and the financial position of the Group as at December 31, 2023 are set out in the consolidated financial statements on pages 124 to 130 of this annual report.

GROUP FINANCIAL SUMMARY

A summary of the Group's results and assets and liabilities for the past five financial years is set out in the section headed "Five 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, 2023.

BUSINESS REVIEW

A review of the business of the Group during the year ended December 31, 2023, 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 30 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.

Accordingly, Mr. Li Yanhao, Ms. Xu Bing and Mr. Li Yao shall retire by rotation at the forthcoming AGM. All of the above Directors, being eligible, will offer themselves for re-election at the forthcoming 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 31 to 34 of this annual report.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has confirmed 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 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, 2023:

Intended application	Amount of net proceeds *(HK$ million)*	Percentage of total net proceeds	Net proceeds brought forward for the Reporting Period *(HK$ million)*	Utilized net proceeds as at December 31, 2023 *(HK$ million)*	Unutilized net proceeds as at December 31, 2023 *(HK$ million)*	Expected timetable for the use of unutilized net proceeds
To enhance our R&D capabilities and improve our services and products						
(1) to develop and optimize our algorithms and data analysis capabilities;	53.2	10.0%	39.6	22.2	17.4	By the end of 2024
(2) to upgrade and iterate our AR/VR development engines;	42.6	8.0%	28.3	16.1	12.2	By the end of 2024
(3) to improve our operation capabilities;	37.2	7.0%	23.0	7.5	15.5	By the end of 2024
(4) to develop of our AR/VR content business;	37.2	7.0%	24.7	13.6	11.1	By the end of 2024
(5) to develop our AR/VR SaaS business; and	26.6	5.0%	16.3	10.9	5.4	By the end of 2024
(6) to procure IPs in support of the growth of our AR/VR content business and AR/VR SaaS business.	16.0	3.0%	5.8	3.3	2.5	By the end of 2024

Intended application	Amount of net proceeds (HK$ million)	Percentage of total net proceeds	Net proceeds brought forward for the Reporting Period (HK$ million)	Utilized net proceeds as at December 31, 2023 (HK$ million)	Unutilized net proceeds as at December 31, 2023 (HK$ million)	Expected timetable for the use of unutilized net proceeds
To enhance our sales and marketing function:						
(1) to strengthen our brand image through marketing effort;	53.2	10.0%	35.4	18.9	16.5	By the end of 2024
(2) to enhance our brand awareness through online channels; and	26.6	5.0%	15.3	11.0	4.3	By the end of 2024
(3) to strengthen and optimize our sales and marketing network.	53.2	10.0%	47.3	16.3	31	By the end of 2024
For selected mergers, acquisitions, and strategic investments	79.8	15.0%	79.8	0	79.8	By the end of 2024
For the development of our Feitian Metaverse platform	53.1	10.0%	26.9	15.6	11.3	By the end of 2024
For our working capital and general corporate purposes	53.2	10.0%	30.6	16.5	14.1	By the end of 2024
Total	531.9	100.0%	373.0	151.9	221.1	

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

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended December 31, 2023, revenue from the Group's top five customers accounted for 26.03% (2022: 28.81%) of the Group's total revenues while revenue from the Group's largest customer accounted for 6.88% (2022: 7.59%) of the Group's total revenues.

Major Suppliers

For the year ended December 31, 2023, the expense paid to the Group's top five suppliers accounted for 50.47% (2022: 46.94%) of the total cost of revenue while the expense paid to the Group's largest supplier accounted for 12.78% (2022: 14.78%) 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 14 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 26 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, 2023 are set out in the consolidated statement of changes in equity and notes 27 and 35 to the consolidated financial statements.

BANK BORROWINGS

Details of bank borrowings of the Group as at December 31, 2023 are set out in note 24 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.

(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 number of options available for grant under the Post-IPO Share Option Scheme was 181,000,000 Shares and 108,503,000 Shares at the beginning and the end of the year ended December 31, 2023, respectively.

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 eight years and five months.

The table below shows details of the movements in the number of share options granted under the Post-IPO Share Option Scheme during the Reporting Period.

Name or category of grantees		Outstanding as of January 1, 2023	Date of grant	Granted	Exercised	Cancelled	Lapsed	Outstanding as of December 31, 2023
Post-IPO Share Option Scheme								
Directors								
Mr. Wang Lei	Note 1	—	July 14, 2023	1,800,000	—	—	—	1,800,000
Mr. Li Yanhao		—	July 14, 2023	1,800,000	—	—	—	1,800,000
Ms. Xu Bing		—	July 14, 2023	1,800,000	—	—	—	1,800,000
Mr. Li Yao		—	July 14, 2023	1,800,000	—	—	—	1,800,000
Employee participants in aggregate								
63 employees	Note 1	—	July 14, 2023	65,297,000	—	—	(10,832,000)	54,465,000
Total		**–**		**72,497,000**	**–**	**–**	**(10,832,000)**	**61,665,000**

Notes:

(1) Options with an exercise price of HK$1.78 per Share with a vesting period in three tranches: 30% of which shall be vested on the first anniversary of the date of grant; 30% of which shall be vested on the second anniversary of the date of grant; and 40% of which shall be vested on the third anniversary of the date of grant. The exercise period shall be five years from the date of grant (the "**Option Period**") and the Options shall lapse at the expiry of the Option Period.

The vesting of each tranche of the Options granted shall be subject to such Grantee not having been graded "D" for his/her monthly individual performance appraisal for more than two times during the 12-month period prior to the end of each vesting period. The Company has established an appraisal mechanism which uses a scoring system based on a matrix of qualitative and quantitative indicators that vary according to the roles and responsibilities of each individual in improving the Group's operational results and/or linked to the Group's strategic goals. The indicators include, but are not limited to, individual key performance indicators specific to each individual determined in accordance with the department he/she belongs to and the position held, as well as an overall evaluation on work attitude. In particular, individual key performance indicators evaluate each individual's regular duties and/or tasks assigned during the appraisal period in terms of work quality, efficiency, completion status and timeliness and/or team management, while factors such as compliance with the Company's rules and regulations and work commitment are taken into account for overall evaluation on work attitude. The closing price of the Shares on the business day immediately before the date of grant was HK$1.77 per Share. Please refer to note 28 to the consolidated financial statements for the fair value of options at the date of grant and the accounting standard and policy adopted.

(2) The number of Shares that may be issued in respect of options granted under all schemes of the Company during the year ended December 31, 2023 divided by the weighted average number of Shares of the relevant class in issue for the year was 3.4%.

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, 2023 or as at December 31, 2023.

CONTRACTS OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS

Save as disclosed in "Related Party Transactions" in note 32 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, 2023 or subsisted as at December 31, 2023. 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, 2023 or subsisted as at December 31, 2023.

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 10 to the consolidated financial statements.

No Director has waived or has agreed to waive any emoluments during the year ended December 31, 2023.

RETIREMENT AND EMPLOYEE BENEFITS SCHEME

Details of the retirement and employee benefits scheme of the Company are set out in note 31 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, 2023, 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 C3 to the Listing Rules were as follows:

Interests in Shares

Name of Directors	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding (%)	Long/short position
Mr. Wang	Beneficial owner(1) A party to concert party agreement(1) Interest in controlled corporation(1)	770,156,301	42.55	Long position
Mr. Li	Beneficial owner(1) A party to concert party agreement(1) Interest in controlled corporation(1)	770,156,301	42.55	Long position
Ms. Xu Bing	Beneficial owner(2)	1,800,000	0.10	Long Position
Mr. Li Yao	Beneficial owner(2)	1,800,000	0.10	Long Position

Note:

(1) Mr. Wang and Mr. Li jointly hold 42.55% 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.

As at December 31, 2023, each of Mr. Wang and Mr. Li was interested in 1,810,000 underlying Shares which comprised 1,800,000 share options granted to each of them pursuant to the Post-IPO Share Option Scheme.

(2) As at December 31, 2023, each of Ms. Xu Bing and Mr. Li Yao was interested in 1,810,000 underlying Shares which comprised 1,800,000 share options granted to each of them pursuant to the Post-IPO Share Option Scheme.

Interests in Shares of Associated Corporations

Name of Directors	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, 2023, 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, 2023, 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 Shareholders	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding (%)	Long/Short Position
Wanglei Co., Ltd.	Interest in controlled corporation[1]	768,056,301	42.43	Long position
LYH. Ltd.	Interest in controlled corporation[1]	768,056,301	42.43	Long position
Vistra Trust (Singapore) Pte. Limited	Trustee[2]	768,056,301	42.43	Long position
Cyber Warrior Holdings Limited	Interest in controlled corporation[2]	768,056,301	42.43	Long position
Ms. Zhang Zimo	Interest of spouse[3]	770,156,301	42.55	Long position
Ms. Feng Dasha	Interest of spouse[4]	770,156,301	42.55	Long position
Brainstorming Cafe Limited	Beneficial owner	768,056,301	42.43	Long position

Notes:

(1) Mr. Wang and Mr. Li jointly hold 42.55% 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.

As at December 31, 2023, each of Mr. Wang and Mr. Li was interested in 1,810,000 underlying Shares which comprised 1,800,000 share options granted to each of them pursuant to the Post-IPO Share Option Scheme.

(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, 2023, 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 30 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

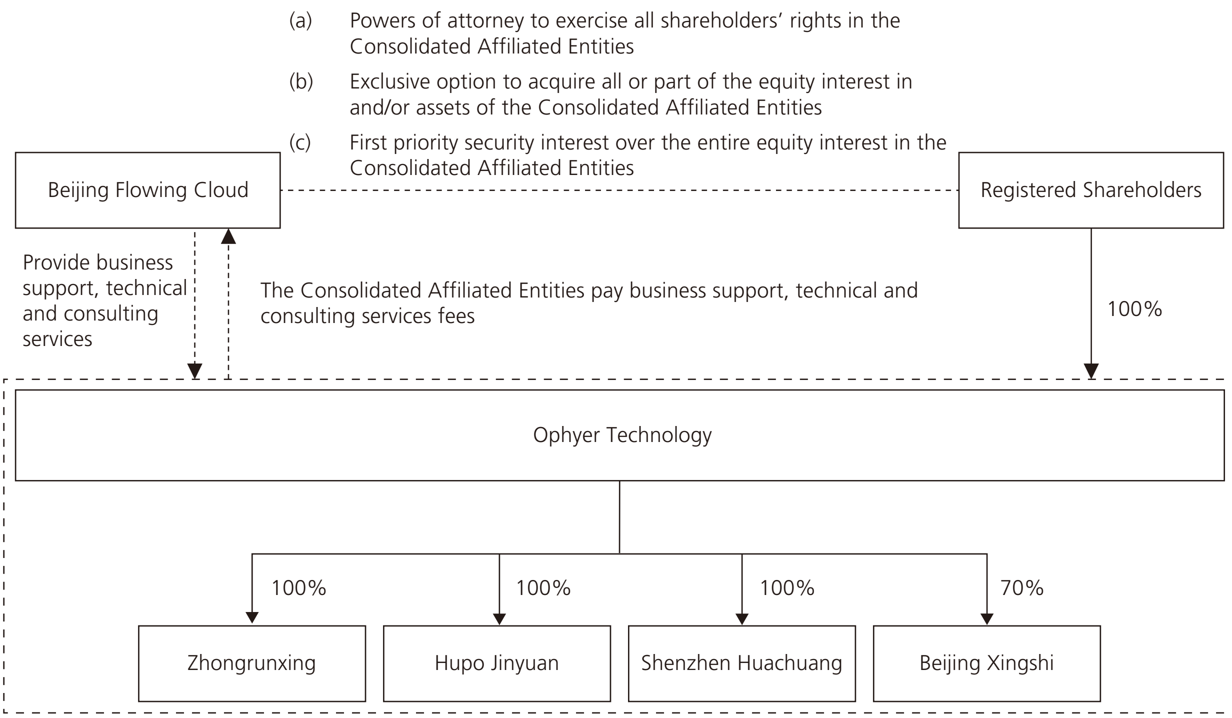
During the year ended December 31, 2023, the Group had entered into the following transactions, which constituted continuing connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14A of the Listing Rules.

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.

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. Upon completion of the internal restructuring on March 30, 2023, 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. Anji Flowing Cloud and Ophyer Technology entered into a cooperation agreement on March 13, 2023, pursuant to which Anji Flowing Cloud shall provide agency service for Ophyer Technology. This transaction is a transaction between subsidiaries as Ophyer Technology, one of the Consolidated Affiliated Entities, is treated as the Company's subsidiary. Save as the above, there is no other change to the Contractual Arrangements.

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, 2023, 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, 2023, are planned to operate the Relevant Businesses in the future.

(6) "→" denotes direct legal and beneficial ownership in the equity interest.

"- - ->" 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, 2023, the revenue subject to the Contractual Arrangements amounted to RMB625 million (2022: RMB704 million), while the total assets subject to the Contractual Arrangements as at December 31, 2023 amounted to RMB920 million (2022: RMB861 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, 2023 (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, 2023 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 32 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, 2023.

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, 2023, or subsisted at the end of December 31, 2023.

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

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

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

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the 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, 2023 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, 2023.

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, 2023) of the Group. The Audit Committee and the independent auditor considered that the annual results are in compliance with the applicable accounting standards, the Listing Rules and all other application legal requirements. Accordingly, the Audit Committee recommends the Board to approve the audited consolidated financial statements of the Group for the year ended December 31, 2023.

AUDITOR

The Company has appointed Deloitte Touche Tohmatsu as the auditor of the Company for the year ended December 31, 2023.

ANNUAL GENERAL MEETING

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

CLOSURE OF THE REGISTER OF MEMBERS

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

On behalf of the Board

Wang Lei
Chairman

Hong Kong, March 28, 2024

Corporate Governance Report

The board of directors of the Company (the "**Board**") is pleased to present this Corporate Governance Report in the annual report of the Company for the year ended December 31, 2023.

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 year ended December 31, 2023, 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 year ended December 31, 2023.

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' and Board Committee Members' 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.

The attendance records of each Director at the Board and Board committee meetings and the general meeting of the Company held during the year ended December 31, 2023 are set out in the table below:

	Attendance/Number of Meetings During His/her Tenure				
Name of Director	**Board**	**Nomination Committee**	**Remuneration Committee**	**Audit Committee**	**Annual General Meeting**
Wang Lei	4/4		1/1		1/1
Li Yanhao	4/4				1/1
Xu Bing	4/4				1/1
Li Yao	4/4				1/1
Jiang Yi	4/4	1/1		2/2	1/1
Tan Deqing	4/4	1/1	1/1	2/2	1/1
Wang Beili	4/4	1/1	1/1	2/2	0/1

Apart from regular Board meetings, the chairman of the Board also held one meeting with the independent non-executive Directors without the presence of other Directors on March 20, 2023. All the relevant Directors attended this meeting.

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 year ended December 31, 2023, 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 at least 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. Any Director so appointed 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. 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, 2023 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.

The Audit Committee held two meetings with the external auditor during the year ended December 31, 2023 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. The attendance records of the Audit Committee meetings are set out under "Board Meetings and Directors' and Board Committee Members' Attendance Records" on page 64.

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.

The Remuneration Committee held one meeting during the year ended December 31, 2023 to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and senior management and other related matters, as well as the matters relating to share schemes under Chapter 17 of the Listing Rules. The attendance records of the Remuneration Committee meeting are set out under "Board Meetings and Directors' and Board Committee Members' Attendance Records" on page 64.

The remuneration of the senior management (excluding executive Directors) during the year ended December 31, 2023 falls within the following bands:

Remuneration (HK$)	Number of Individuals
0 to HK$1,000,000	—
HK$2,000,001 to HK$2,500,000	3
HK$3,500,001 to HK$4,000,000	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.

The Nomination Committee held one meeting during the year ended December 31, 2023 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors, to consider the qualifications of the retiring Directors standing for election at the annual general meeting, and to consider and recommend to the Board on the appointment of Directors. The Nomination Committee has set a measurable objective implementing the Board Diversity Policy by appointing at least two Directors of a different gender on the Board by the end of 2024. The Nomination Committee considers that an appropriate balance of diversity perspectives of the Board is maintained. The attendance records of the Nomination Committee meeting are set out under "Board Meetings and Directors' and Board Committee Members' Attendance Records" on page 64.

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: 2 Directors 41–50: 4 Directors 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 58 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	14.29% (1)	85.71% (6)
Other employees	43.7% (59)	56.3% (76)
Overall workforce	42.96% (61)	57.04% (81)

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 28.57% (2) of female Directors, 14.29% (1) of female senior management and 40.68% (48) of female employees by the end of 2024. 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.

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 year ended December 31, 2023, 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 year ended December 31, 2023, 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 year ended December 31, 2023.

During the year ended December 31, 2023, 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 year ended December 31, 2023, 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, 2023, 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 for the year ended December 31, 2023 in respect of the annual audit service was RMB2.98 million and interim review service was RMB1.25 million. The remuneration paid and payable to the external auditor of the Company in respect of tax consulting services for the year ended December 31, 2023 was RMB0.18 million.

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, 2023, 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 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).

Pursuant to Rule 2.07A of the Listing Rules and the Articles of Association, the Company will disseminate the future corporate communications of the Company to its shareholders electronically and only send Corporate Communications in printed form to the shareholders upon request. Details of the arrangements (i) for dissemination of Corporate Communications and (ii) for requesting printed copy of Corporate Communications are published under the section "Investor relations" in the Company's website (https://www.flowingcloud.com).

(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 branch 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.

(f) Other Investor Relations Communication Platforms

During the year ended December 31, 2023, an annual general meeting was held on June 6, 2023 in PRC, and the topics discussed included: the consideration of the audited consolidated financial statements of the Group and reports of the Directors and of the auditors for the year ended December 31, 2022; approving the re-election of Directors and approving the re-appointment of Deloitte Touche Tohmatsu as auditors.

The forthcoming annual general meeting will be held on May 28, 2024.

During the year ended December 31, 2023, the Company has not made any changes to its Memorandum and Articles of Association. A latest 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 year ended December 31, 2023. 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 year ended December 31, 2023.

Environmental, Social and Governance (ESG) Report

ABOUT THIS REPORT

This report is the second Environmental, Social and Governance report (hereinafter referred to as the "**ESG Report**") published by Flowing Cloud Technology Ltd and its subsidiaries (hereinafter referred to as the "**Flowing Cloud**" or the "**Company**") to stakeholders.

REPORTING PERIOD AND BOUNDARY

This is an annual report, which covers the fiscal year from January 1, 2023 to December 31, 2023 (hereinafter referred to as the "**Reporting Period**") with additional related information incorporated which may have occurred outside the Reporting Period. The data and information disclosed in this report are derived from official documents and statistical reports.

BASIS AND PRINCIPLES FOR PREPARATION

This report is prepared in accordance with the *Environmental, Social and Governance Reporting Guide* issued by The Stock Exchange of Hong Kong Limited and the *Sustainability Reporting Standards ("GRI Standards")* 2021 of the Global Reporting Initiative. This report follows the reporting principles of the *Environmental, Social and Governance Reporting Guide* issued by The Stock Exchange of Hong Kong Limited as follows:

Materiality: During the preparation of this report, important stakeholders will be identified and the reporting will focus on the ESG issues which have effects on important stakeholders.

Quantitative: This report will disclose key performance indicators (KPIs) as measurable data.

Consistency: This report will use consistent disclosure methodologies to allow for comparison of KPIs.

Balance: This report will present the Company's ESG performance in an objective manner.

ACCESS TO THE REPORT

This report is prepared in Simplified Chinese, Traditional Chinese and English versions. In case of any discrepancy, the Traditional Chinese version shall prevail. Stakeholders are welcome to contact the Company to provide opinions and suggestions on the ESG Report through the following means:

Tel.: 010–83050736
Email: yao.li@flowingcloud.com

ABOUT FLOWING CLOUD

i. Introduction of the Company

Flowing Cloud is a leading supplier of core technologies such as the Metaverse in China, augmented reality, virtual reality, mixed reality ("**AR/VR/MR**"), artificial intelligence and big data, with business covering consumer, finance, industry, cultural tourism, education and other areas. The Company is dedicated to providing customers with high-quality technology solutions, helping enterprises achieve efficient business operations and digital upgrading and transformation.

The Company, with the mission of breaking the dimension barriers between the real and the virtual worlds, takes the initiative to build the Metaverse ecosystem. Leveraging its advanced research and development capabilities in the Metaverse scenario application, the Company empowered participants involved in the Metaverse application and underlying technologies, thereby pushing forward the development and growth of Metaverse.

ii. Honours of the Company in 2023

Awarded Time	Name of Award
February 2023	"The Most Influential Virtual Reality Enterprise" by the 21st China IT User Satisfaction Conference
July 2023	Member of Huzhou Culture Promotion Association
July 2023	Corporate Member of Beijing Charity Volunteer Federation
November 2023	Vice Chairman of Metaverse Committee of China Electronics Chamber of Commerce
December 2023	Member of Beijing Youth Entrepreneur Innovation & Development Association
December 2023	Best CEO in the 8th Zhitongcaijing Listed Companies Selection
December 2023	2023 Digital Economy Listed Unicorn Enterprise
January 2024	2023 (Industry) Leading Enterprise by Boao Enterprise Forum

MANAGEMENT OF SUSTAINABLE DEVELOPMENT

Flowing Cloud believes that actively practising the ESG concept and strategy is beneficial for enhancing the Company's competitiveness in sustainable development. In order to share growth with shareholders, users, partners and other stakeholders, the Company is continuously improving its ESG governance system and is building a long-term ESG working mechanism.

i. The Board's statement

The Company believes that the continuous improvement of the ESG system benefits the sustainability of business. The Board of Directors participates in formulating and promoting the Company's ESG-related strategy and bears the ultimate responsibility for the Company's ESG strategy and performance. The Company set up the Sustainability Committee to supervise and manage ESG issues with authorisation granted by the Board of Directors. The Board of Directors listens to the reporting of the Sustainability Committee on a regular basis, thereby ensuring timely and accurate mastery of the Company's ESG performance and trends. The Board of Directors is involved in the substantive analysis of ESG issues that are of concern to stakeholders as well as the assessment and prioritisation of important ESG issues. It proposes opinions and suggestions on ESG issues that may impact the Company's long-term sustainability and formulates the ESG management strategy.

During the year, the Company adhered to the principle of low-carbon development, actively safeguarded employee rights and interests, and offered customers high-quality products and services. The Company practised the protection of information security and privacy and promoted important ESG issues that were of concern to the Company's stakeholders to make phased progress.

ii. ESG management structure

The Company includes the sustainable development concept into every corner of business operations and sets up a top-down ESG management structure. The Board of Directors plays the supervision, guidance and decision-making role and the ESG Sustainability Committee and business divisions are responsible for promoting and implementing ESG tasks. At the same time, external professional advisors regularly assess the ESG risk management and internal monitoring system, so as to boost ESG management.

Board of Directors	**Decision-making** The Board of Directors is responsible for making the general decisions on and supervising the sustainable development of the Company, reviewing and approving ESG-related material events and key plans, assessing critical ESG risks faced by the Company, and formulating effective ESG management and internal monitoring systems.The Board regularly receives reports from the Sustainability Committee on ESG-related matters to stay informed about the Company's ESG performance, ensuring that ESG strategies, goals, and indicators are aligned with the Company's core business and overall strategy.
ESG Steering Group; The Sustainable Committee	**Leading** The ESG Steering Group is composed of senior management members of different ranks appointed by the Board of Directors, and is responsible for developing and executing medium- and long-term plans, deploying and tracking the progress of works in relation to sustainable development, improving the policies and procedures to cope with material ESG risks, and promoting the effective implementation of the Board of Directors' decisions across the Company.
External professional consultants	**Consultation** Consultants are responsible for reviewing the effectiveness of the Company's ESG risk management and internal monitoring systems.
ESG Execution Group; Heads of business departments	**Execution** The ESG Execution Group is responsible for implementing and executing the works in relation to sustainable development, and continuously assessing and identifying the ESG risks during business operation based on respective business characteristics and reporting them to the management.

ESG Management Structure and Responsibilities of Flowing Cloud

iii. Stakeholder communication

Stakeholders' trust and support are integral to the Company's sustainable development. The Company highlights opinions and advice from stakeholders. It builds multiple communication channels to consistently listen to the opinions of government and regulatory authorities, shareholders and investors, customers, employees, suppliers and partners, industry associations, the public, the community and other core stakeholders on ESG-related issues, thereby actively responding to their demands and expectations and striving to enhance the Company's sustainability.

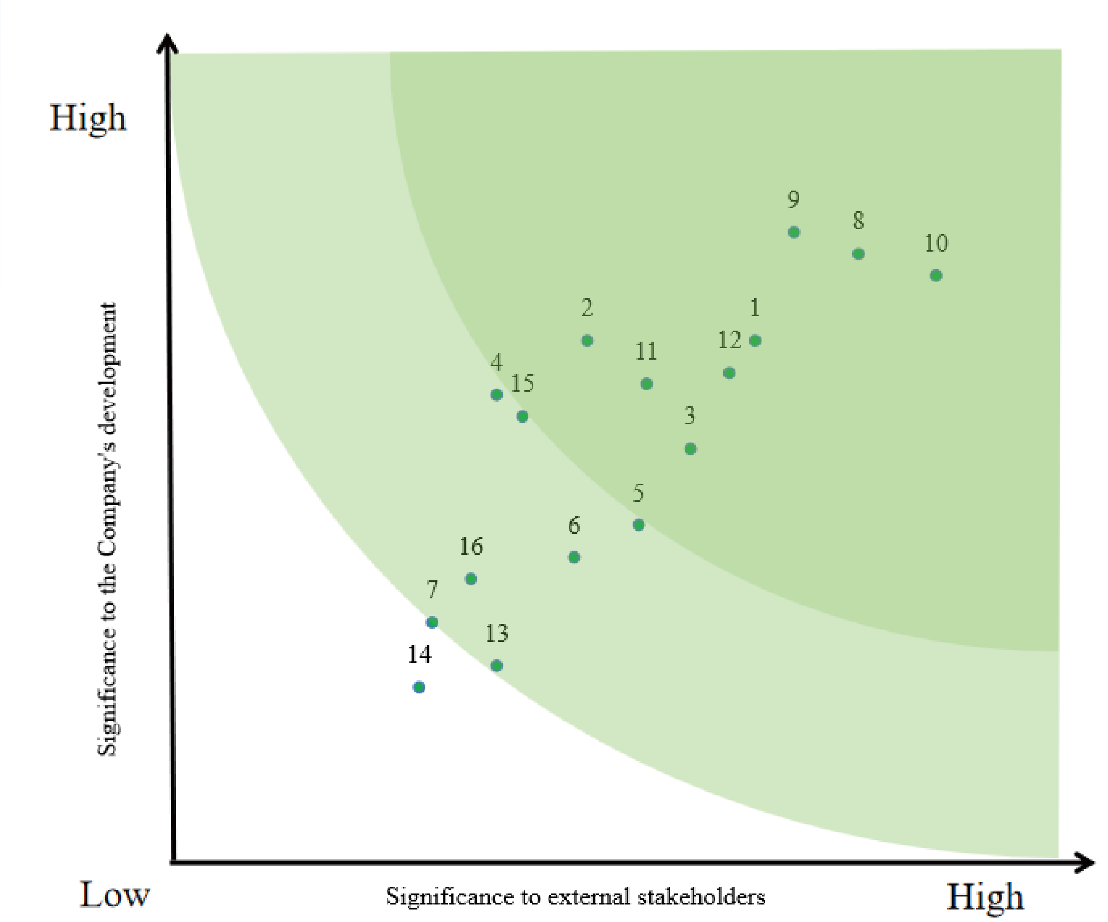
Stakeholders	Expectations and aspirations	Communication and responses
Government and regulatory authorities	• Compliant operations • Anti-corruption • Economic performance • Tackling climate change • Environmental protection	• Institutional inspection • Official document correspondence • Policy implementation • Information disclosure
Shareholders and investors	• Protection of shareholders' rights and interests • Accuracy and timeliness of information disclosure • Anti-corruption and upholding integrity • Compliant operations • Economic performance • Protection of intellectual property rights • Technology and innovation • Talent attraction and retention	• General Meeting of Shareholders • Information disclosure • Roadshows
Customers	• Product quality • Technology and innovation • Service quality • Protection of information security and privacy	• Quality management system • Customer service system • Satisfaction surveys • Information security management system
Employees	• Employees' rights, interests and benefits • Occupational health and safety • Employee training and development	• Internal communication platform • Employee appraisal and promotion • Employee training • Employee activities

Stakeholders	Expectations and aspirations	Communication and responses
Suppliers and partners	• Supply chain management • Sustainable partnerships	• Supplier management system • Supplier assessment • Supplier communication and training
Industry association	• Industry cooperation	• Industry forums • Exchange visits
The public and community	• Supporting community development • Co-building a harmonious society	• Public welfare actions • Volunteer services

iv. Analysis of material topics

The Company establishes a scientific procedure for identifying substantive issues and assessing their materiality, thereby fully understanding stakeholders' prioritised concerns. With reference to the *GRI Standards* and the *Environmental, Social and Governance Reporting Guide* issued by the Stock Exchange of Hong Kong Limited and in combination with the results of benchmark analysis with industry-leading enterprises and the Company's actual conditions, the Company has identified 16 issues covering three dimensions, namely environmental, social and corporate governance, which are closely related to the Company, and draw the matrix for ESG material issues on the basis of its operations.

Revolving around key issues, including product quality management, customer service management, compliance operations, and R&D innovation, the Company keeps identifying risks and opportunities during operations to improve its ESG performance.



No.	Issue	No.	Issue
1	Compliant operations	9	R&D Innovation
2	Anti-corruption	10	Customer service management
3	Network and information security	11	Customer complaint response
4	Protection of intellectual property rights	12	Customer privacy protection
5	Employees' rights, interests and benefits	13	Social welfare
6	Occupational health and safety	14	Waste management
7	Supplier management	15	Tackling climate change
8	Product quality management	16	Green operations

LOW-CARBON OPERATION AND GREEN DEVELOPMENT

Flowing Cloud firmly practises the concept of green development. Making dedicated efforts to improve energy consumption structure, we advocate for a low-carbon lifestyle, and engage in green operations. Meanwhile, we utilise digital technology to provide green and smart solutions for various industries and scenarios and reduce the carbon footprint of products and services to mitigate their impact on climate change.

i. Tackling climate change

In the face of global environmental challenges, Flowing Cloud consistently upholds the concept of caring for the Earth and protecting the environment. It has taken an active part in the carbon emission reduction scheme, closely following the global trend of green and low-carbon development and proactively planned for a carbon-neutral future. Based on TCFD recommendations, the Company further refined the management of climate change risks and assessed key climate issues in a comprehensive manner. It developed countermeasures and policies to address climate change and set up objectives to track progress on a regular basis.

1. Governance

The Company established a climate change management system with the Board of Directors as the supreme leadership and authorized the Sustainability Committee to take charge of implementation.

Governance of Tackling Climate Change

Board of Directors	• Authorising the Sustainability Committee to supervise climate-related matters, including the control of climate risks and opportunities, the emission reduction objectives of greenhouse gas (“**GHG**”), the resource conservation objectives, and annual progress.
The Management	• The Sustainability Committee is responsible for guiding and implementing the management of the Company’s climate risks and opportunities. The Committee consists of Senior Management at different levels appointed by the Board of Directors, primarily taking charge of identifying and assessing climate-related risks and opportunities, formulating climate-addressing plans and carrying out mitigation measures, as well as exploring commercial opportunities. Moreover, the Committee is responsible for setting climate-related objectives and indicators to track the project’s progress on a regular basis.

2. Strategy

Climate change poses risks and opportunities to Flowing Cloud at the same time. For potential risks and opportunities caused by climate change, the Company attaches great importance to climate-changing trends and the impact of domestic and international regulation changes on business operations, thereby actively identifying risks and commercial opportunities of climate change and formulating tackling strategies for identified risks and opportunities. Climate risks identified by the Company include physical risks and transition risks. Physical risks refer to the risks related to the potential physical and negative impacts of climate change, while transition risks are risks that the Company may face during its low-carbon transition.

Category of risks	Climate Change Risks Potential impact	Strategy
Physical risks		
Acute risks	• Extreme weather will bring about damages to the Company's Property, plant and equipment and employee safety accidents.	• Building a management, emergency and recovery system for extreme natural disasters; preparing self-owned emergency power generation systems and related disaster response equipment; conducting planned drills regularly to promote disaster response awareness among all employees.
	• Extreme climate conditions, such as typhoons and floods, may interrupt the operation of the data centre as well as the Company's routine business, thereby having a potential negative impact on the Company's normal operations.	• Developing emergency plans for information security incidents, regularly backing up server information and material data, organising urgent drills and defining the division of responsibilities, early warning procedures and associated measures.
Chronic risks	• Frequent extreme weather caused by global warming may affect employees' commuting safety and health. Meanwhile, continuous high-temperature weather may have potential impacts on commercial office electricity burden, power supply and water availability, posing probable challenges to business continuity.	• Making efforts to reduce electricity and water used in offices, enhance employees' awareness of water conservation and implement green office projects. • Popularising healthy and environmentally friendly life and working styles and encouraging low-carbon travel, healthy diet and routine environmental conservation awareness cultivation among employees.

Category of risks	Climate Change Risks Potential impact	Strategy
Transition risks		
Policy and legal risk	• As the national regulations on tackling climate change continue to evolve, the disclosure requirements associated with enterprises' addressing climate change are increasingly stricter. • National policies for corporate carbon emissions management are gradually deepened and implemented and new regulatory rules are continuously issued.	• Strengthening identification capabilities of climate change risks, focusing on national and local early warnings and new regulations for climate change and incorporating relevant impacts into the Company's climate change management systems, as well as actively improving the Company's disclosure capabilities. • Increasing the use proportion of renewable energy, committing the Company to environmentally friendly, energy-saving and efficient operations, promoting refinement management of energy use, and accurately calculating carbon emissions.
Technology risk	• The national "carbon peaking and carbon neutrality" policies have increasingly stricter regulation and governance for corporate low-carbon energy conservation and emission reduction.	• Optimising energy use efficiency of the data centre, boosting green electricity transformation and building a green data centre based on low-carbon energy conservation capabilities and local climate conditions.
Market risk	• The enhanced low-carbon and environmentally friendly awareness among the public arouses more attention to green operations.	• Actively exploring the green and low-carbon potential in various processes of the corporate value chain. • Strengthening close collaboration with the public, enhancing corporate image, striving to convey a green corporate culture through effective communication mechanisms, and actively incorporating public suggestions.

Category of opportunities	Climate Change Opportunities Description of opportunities	Strategy
Low-carbon products and services	• With the transition to a low-carbon economy, there is an increasing demand in society for green and low-carbon products and services.	• The different scenarios offered by the Metaverse will alter traditional living and working models, resulting in reduced physical-world activity and energy consumption. Expanding the development and provision of low-carbon Metaverse products, services and solutions, the Company seeks to better cater to market demands and secure additional growth.
Reputation	• With the increasing awareness of environmental protection among consumers, building an environmentally friendly corporate image provides an opportunity to earn recognition and preference from sustainability-minded users.	• Upholding the principle of green development, implementing green operations and creating a brand image that shoulders the responsibility of environmental protection.

3. Risk management

The Company incorporates climate risk management into its risk assessment and control system. At present, it has formed and applied the following risk management procedures:

Step	Risk control measures
Risk list	• Identifying preliminary risks with the categories of climate risks and opportunities under the TCFD framework as a benchmark. • Analysing the best practices in the industry, interviewing climate risk-related business departments and outlining a list of climate risks and opportunities.
Risk quantification	• Streamlining the transmission pathway of the financial impact of climate risks and opportunities and quantifying the financial impacts of key risks and opportunities.
Risk addressing	• Developing management policies for key risks and opportunities. • Assessing the effectiveness of formulated risk countermeasures.

4. Indicators and objectives

The Company has selected suitable climate indicators and set corresponding objectives for tracking. During the Company's operations, the GHG emissions primarily stem from the use of outsourced electricity, as it does not involve the consumption of fuel for official travel vehicles or natural gas for stoves. The summary and objective of the Company's GHG emissions for the year are as follows:

Category of GHG emissions	**Unit**	**Discharge amount (2023)**	Discharge amount (2022)
GHG emissions			
Scope 1 Direct GHG emissions	Carbon dioxide equivalent (tonnes)	0	0
Scope 2 Indirect GHG emissions from energy consumption	Carbon dioxide equivalent (tonnes)	253.31	152.11
Total GHG emissions	Carbon dioxide equivalent (tonnes)	253.31	152.11
Intensity of GHG emissions			
Per employee (Scope 1)	Carbon dioxide equivalent (tonnes)/employee	0	0
Per employee (Scope 2)	Carbon dioxide equivalent (tonnes)/employee	1.78	1.27

Based on the Company's performance in GHG emissions for the year, we set our GHG emissions target by using 2023 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 1.78 carbon dioxide equivalent (tonnes)/employee for the next three years. The Company has put a number of measures in place to reduce GHG emissions, the details of which were set out in the "Green Operations" section.

ii. Green operations

Flowing Cloud has integrated the green and low-carbon concept into its operation and management. Strictly following the Environmental Protection Law of the People's Republic of China and other relevant laws and regulations and supervised by relevant authorities for environmental management matters, the Company continues the promotion and education of environmental protection concepts among employees, strengthens its waste management and advocates energy conservation and emission reduction, thereby enhancing the use efficiency of energy and resources and creating a green ecosystem in together with employees.

1. Waste management

The waste generated by Flowing Cloud in daily office activities is mainly domestic waste. The Company has engaged qualified sanitation companies to handle daily cleaning and waste sorting. We encourage our employees to use double-sided printing and reduce colour printing, stationery and waste. The Company advocates for employees to reduce the use of disposable tableware, and support the "Clean Your Plate Campaign" to avoid food waste.

The Company does not generate hazardous waste that pollutes the atmosphere and actively advocates for green travel. Regarding necessary official travel, the Company has established corresponding reimbursement policies. For the business department's visits to customers, we stipulate that in principle, only public transportation (such as buses and subways) expenses can be reimbursed, and taxi expenses are not supported. If it is necessary to take a taxi, we encourage the use of electric vehicles to reduce air pollutant emissions.

2. Use of resources

Flowing Cloud is dedicated to reducing the consumption of resources under the condition of efficient operations, striving to reduce the impact of the Company's operations on the natural environment. The Company mainly impacts the environment in electricity use, paper consumption and water for domestic use in the offices. It has taken a series of measures of energy consumption and water resources management to ensure the achievement of environmental protection goals.

Regarding the use of energy, the Company vigorously manages the use of energy, focuses on the monitoring of major energy-consumption equipment, calculates the consumption regularly, and standardises the equipment operation process to fully and effectively utilise energy. We will find out the cause and look for rectification measures in investigating any abnormal or excessive consumption. The Company continuously circulates environmental protection information to employees and provides practical suggestions on environmental protection lifestyles. During the year, the Company adopted several measures in order to achieve emission reduction targets, including (i) promoting energy conservation and emission reduction; (ii) marking slogans such as "light should be turned off before leaving"; (iii) replacing the automatic sensor switch for corridors to save electricity.

With the Company's efforts to constantly promote energy efficiency and strengthen the promotion of energy conservation to employees, the energy consumption and intensity during the year are as follows:

	Unit	2023
Power consumption	MWh	286.45
Total power consumption intensity	MWh/employee	2.02
Direct energy	MWh	0.00
Indirect energy	MWh	286.45
Total energy consumption	MWh	286.45
Energy consumption intensity	MWh/employee	2.02

Based on the Company's performance in energy consumption for the year, we set our energy consumption target by using 2023 as the baseline year. Assuming there are no significant changes in the Company's business, we aim to maintain the energy consumption intensity of 2.02 MWh/employee for the next three years.

When it comes to water resources management, the Company's water sources from the urban water supply system connected to the leased office building. The water used by the Company is primarily concentrated in office and domestic water, and wastewater treatment is under the supervision of external supervision organisations. The Company 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 area of the Company to improve employees' water-saving awareness. The non-contact induction faucets are adopted to achieve the purpose of saving water. As of December 31, 2023, the water consumption of the Company and its intensity are as follows:

	Unit	2023
Water consumption	Ton	1,203.00
Total water consumption intensity	Ton/employee	8.47

Based on the Company's performance in water consumption for the year, we set our water consumption target by using 2023 as the baseline year. Assuming there are no significant changes in the Company's business, we aim to maintain the water consumption intensity of 8.47 tons/employee for the next three years.

PEOPLE-ORIENTED AND HARMONIOUS WORKING ENVIRONMENT

The Company's business development and innovation rely on outstanding talents, so the Company is committed to creating a diverse, equal, safe and healthy working environment and practicing the equal employment policy by protecting the rights and interests of employees and offering competitive remuneration and benefits while guaranteeing adequate study resources and equal promotion opportunities for employees and supporting employees and the Company to grow together.

i. Protection of employees' rights and interests

Upholding the "people-oriented" management philosophy, the Company highlights the protection of employees' legitimate rights and interests under strict observation of the *Labor Law of the People's Republic of China, Labor Contract Law of the People's Republic of China, Labor Dispute Mediation and Arbitration Law of the People's Republic of China, Employment Promotion Law of the People's Republic of China* and the *Employment Services and Employment Regulations*. The Company established Employee Handbook which clearly stipulates the recruitment, employment and resignation procedures to ensure that employee recruitment and dismissal procedures comply with legal requirements. During the Reporting Period, the Company recorded no violation of any relevant laws and regulations regarding recruitment and dismissal.

During recruitment and work, the Company always adheres to the equal employment policy and the diversified recruitment policy to ensure no discrimination on the grounds of gender, age or other factors. In 2023, female employees accounted for 43% of all employees in the Company.

In strict accordance with the *Labor Law of the People's Republic of China, Protection of Minors of the PRC and Provisions on the Prohibition of Using Child Labor*, the Company sternly prohibits the use of child labour and objects to forced labour and overtime work. By examining candidates' identity documents, education certificates and proof of termination of labour relationship with former employers, the Company makes sure that all candidates are at least 18 years old. The Company sticks to the 5×8 work schedule (i.e., working for 8 hours per day and 5 days per week), and assigns attendance managers to adjust the rest arrangements for employees who have worked overtime according to overtime records. During the Reporting Period, the Company recorded no use of child labour or forced labour.

To keep abreast of the feedback from employees and address employees' opinions in a just and rational manner, the Company encourages employees to send emails to give feedback and make suggestions, which will be regularly checked and collected by the internal control department and reported to the senior management of the Company for consideration.

Flowing Cloud's Employee Composition and Turnover Rate

Composition	**Unit**	**2023**	2022
Total number of employees	Person	142	120
Number of employees by gender			
— Male	Person	81	75
— Female	Person	61	45
Number of employees by age			
— <30 years old	Person	46	38
— 30 to 40 years old	Person	75	77
— 41 to 50 years old	Person	19	5
— >50 years old	Person	2	0

Flowing Cloud's Employee Composition and Turnover Rate

Composition	Unit	2023	2022
Employee turnover rate by gender			
— Male	%	25.11	33.17
— Female	%	12.11	20.00
Employee turnover rate by age			
<30 years old	%	15.70	27.80
30 to 40 years old	%	17.94	21.95
41 to 50 years old	%	3.59	2.44
>50 years old	%	0.00	0.98

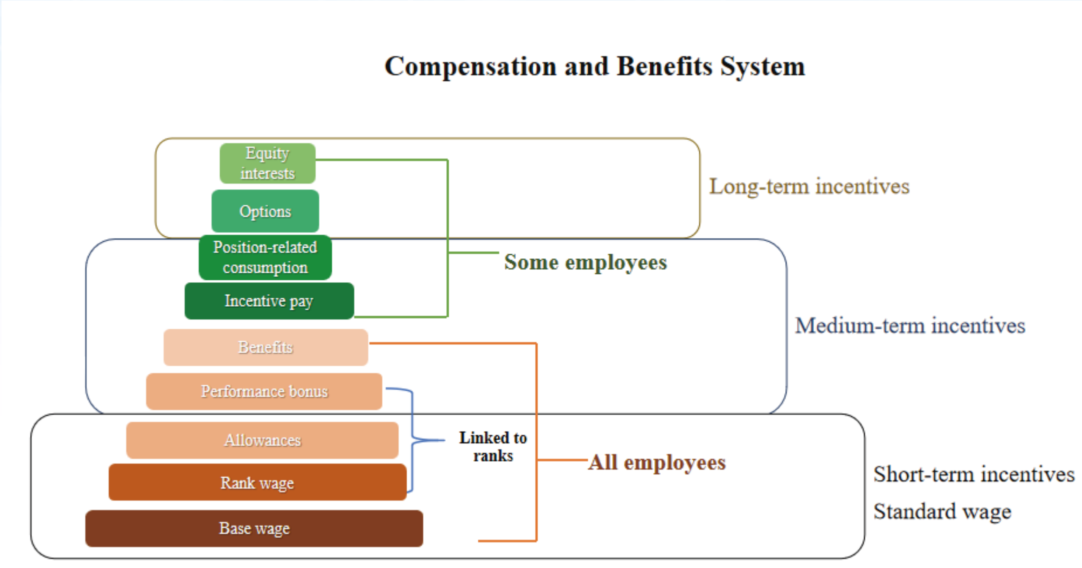
ii. Remuneration and benefits system

Based on the principle of "fair appraisal of employee performance and rewarding the advanced and spurring on the less advanced", the Company has built a fair and equitable remuneration and benefits system that offers employees competitive remuneration and benefits to employees and shares with employees the Company's fruits of development.

The Company's *Remuneration Policy* specifies that employee remuneration is composed of the base wage, the rank wage, allowances, performance bonus, incentive pay, options, equity interests, position-related consumption and benefits, of which the performance bonus depends on the employee's work performance and other appraisal results. At the end of each year, the Company adjusts the rank wage of each employee according to the annual performance appraisal result and the job appointment policy.

Besides, the Company continues refining the employee benefits system by: (i) purchasing insurance and provident funds for employees; (ii) granting benefits to employees on Women's Day, Dragon Boat Festival, Mid-Autumn Festival and other holidays; (iii) allowing employees to have paternity leaves and parental leaves in addition to statutory holidays to encourage employees to care for their families while working hard; (iv) allowing minority employees to have special holidays to encourage them to engage in their important ethnic activities; (v) setting up special bonuses to award individuals or teams with outstanding work performance.

To make employees feel more attached to the Company, a variety of activities, including (i) quarterly birthday parties for employees, (ii) periodic badminton, basketball and other sports games among employees, and (iii) autumn trips and other team building activities among employees, are held on a regular basis to enrich the life of employees, create a healthy and friendly working environment for employees, and improve employees' well-being. In October 2023, the Company held a party to celebrate the first anniversary of its listing, at which it shared with employees the honours and achievements it had made in 2023.



Flowing Cloud's Remuneration and Benefits System

Flowing Cloud's Party to Celebrate the First Anniversary of Listing

Flowing Cloud's Employee Birthday Party

Flowing Cloud's Team-building Autumn Trip

Flowing Cloud's Christmas Party

Flowing Cloud's 2023 Annual Conference

iii. Career development and employee training

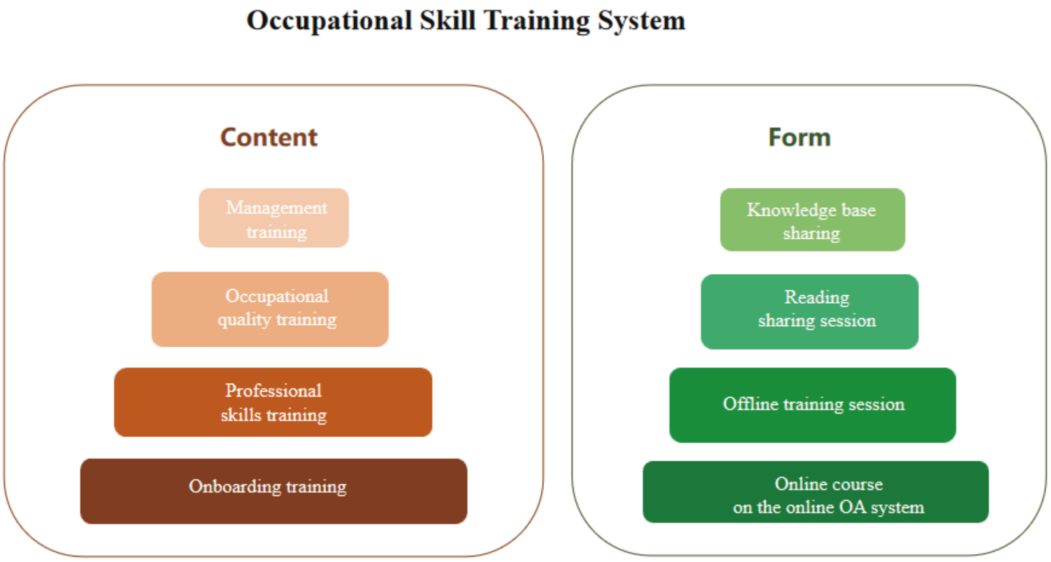
Flowing Cloud attaches great importance to the career development of employees, and is committed to providing employees with smooth promotion paths and an all-sided talent cultivation system with diversified study, training and promotion opportunities, in order to continuously enhance employees' occupational quality and professional skills and maximise each employee's value.

The Company provides employees with two career development paths from the profession aspect and the management aspect respectively, so that employees may achieve long-term development based on their own interests and strengths. Based on fair promotion standards, the Company assesses and appraises employees' performance, abilities and professional levels on a regular basis, and promises employees smooth career development paths.

Based on the needs of strategic development and business expansion, as well as employees' competence and demands, the Company offers training on professional and common skills in various forms to improve employees' capabilities and quality and advance the mutual development between employees and the Company. Moreover, the Company continues shaping a study-centric corporate culture by encouraging internal knowledge sharing, organising periodic reading gatherings, building an internal database for knowledge sharing among employees, and encouraging employees to learn from and share with each other and enhance their personal competitiveness by publishing articles to summarise, present and share their experience in work and personal skills.

Flowing Cloud's Occupational Training for Employees

	Percentage of Trained Employees (%)	
	2023	2022
By gender		
— Male	57.00	66.7
— Female	43.00	33.3
By rank		
— Chief executive	4.93	8.1
— Senior management	3.52	5.7
— Middle management	7.75	14.9
— General staff	83.80	71.3



Flowing Cloud's Occupational Skill Training System

Flowing Cloud's Organisational Leadership Training

iv. Occupational health and safety

The Company has established an occupational health and safety management system in strict accordance with the *Fire Control Law of the People's Republic of China* and *Regulations on Work-related Injury Insurance* to create a safe and healthy working environment for employees.

The Company takes multiple measures to guarantee workplace safety, including: (i) completely banning smoking in the office area, and carrying out full-coverage fire drills at least once a year; (ii) developing the *Reception Management System* to specify the procedures for visitor registration and management and preventing visitors from accessing the office area during non-working hours to avoid safety accidents; (iii) formulating the *Employee Handbook* to regulate employee behaviours, and offering anti-fraud training to employees on a regular basis to intensify employees' consciousness of safety. The Company also cares for employees' physical and mental health. It arranges periodic physical examinations for employees and offers mental health training to employees.

In 2023 and the past three years, Flowing Cloud recorded no work-related employee injuries or death, or any penalties for violation of Chinese laws and regulations on health and safety.

SUPERIOR PRODUCTS DRIVEN BY INNOVATION

Flowing Cloud, insisting on data-reality integration, provides enterprise customers with innovative digital resolutions, continues improving customer service quality, facilitates the digital transformation of various industries, and enriches digital living services for users.

i. R&D innovation

Based on openness and interconnection, the Company boosts innovation, keeps improving its R&D strength, and is committed to providing customers with high-quality, innovative solutions and empowering enterprise customers' upgrading and transformation with digital technology.

1. Innovative solutions

Flowing Cloud offers innovative solutions to customers in cultural tourism, entertainment, film and TV and consumption sectors, supporting industries and enterprises to achieve digital upgrading and transformation and improve market competitiveness.

In active response to the *Opinions on Promoting the Implementation of the National Cultural Digitalisation Strategy*, the Company energises digital cultural tourism in China by developing diversified digital products of cultural innovation. The Company developed the VR products of Sanxingdui Ruin Site and Anji Ancient City Ruin Site to allow users to directly perceive cultural heritages. In cooperation with Nanjing Cultural Investment Holding Group, the Company built the country's first city-level Metaverse ecological platform themed on literature, allowing teachers and students to interact online and offline in the platform's Metaverse class. Joining hands with Jiangning High-tech Zone, Jiangsu Province, the Company created the 3D Internet space to allow tourists to wander in 3D spaces based on 3D virtual images. The Company also developed the Digital Dunhuang Figure that can interact and communicate with tourists to further energise the digital development of cultural tourism.

In addition, the Company proactively advances the innovative application of digital technology in entertainment, film and TV and consumption sectors. The Company produced an XR video with Beijing LetinVR Digital Technology Co., Ltd. to jointly provide audiences with brand-new concert experience and also produced China's first science fiction live-action show with Beijing Magic Seed Pictures Culture Media Co., Ltd. to inject new vitality into the VR interactive entertainment industry. The Company worked with Alibaba to develop the Metaverse of e-commerce to provide users with immersive shopping experience.

Flowing Cloud Creates the 3D Internet Space with Jiangning High-tech Zone

2. Stronger R&D strength

As business development is driven by innovation, Flowing Cloud adheres to independent development and takes the initiative to share cutting-edge technologies with partners to keep improving its product development strength, and takes a variety of different measures to stimulate the innovation vitality of employees.

The Company continues increasing input in technological development. On its own, it developed the AI-based 3D model generator, AI-based text-video converter and WANMUYUN SaaS platform to meet users' diversified demands in Metaverse. By enhancing the cooperation with leading Internet enterprises, the Company shared and exchanged technology application and boosted its product development strength, striving to provide users with a more realistic and intelligent virtual experience.

To stimulate the innovation vitality of employees, the Company formulated incentive policies, included innovation and application in performance appraisals, encouraged employees to apply for as many patents as possible, and awarded bonuses to commend them. The Company also organised new technology seminars on a regular basis to conduct in-depth analysis of implementation principles of new technologies, discuss application directions and develop demonstrations, in a bid to promote technological innovation and application to strengthen the Company's innovation competitiveness and R&D strength and reinforce the Company's leading position in the Metaverse industry.

ii. Products and services

For excellent product quality and high-quality user experience, Flowing Cloud continues improving product quality management, enhancing customer service capabilities, emphasising the protection of customers' rights and interests, optimising the customer complaint handling procedure, and improving customer satisfaction.

1. Product quality management

The Company has established a systematic product quality management system for strict quality control of self-developed products in strict accordance with the *Product Quality Law of the People's Republic of China*. Product quality management procedures include: Quality target setting, internal regulation and standard formulation, design-state testing, code review, continuous integration, automated testing, problem tracking and management, defective prevention actions, test coverage assessment, quality threshold setting, and user test and feedback. Besides, the Company improves product quality management by carrying out periodic assessments and optimising the quality management measures for each process, thus guaranteeing the stability and reliability of product quality and improving customer satisfaction.

2. Customer experience improvement

To improve customer experience, the Company developed systematic customer service procedures to keep in contact with customers through various means and to ensure that customers' demands will be met in a timely fashion.

The Company has developed systematic customer service procedures. First, it communicates with customers through phone, email, chat apps or face to face to gather information on the key problems. Secondly, it records customers' problems in detail and divides them by priority, to ensure that urgent and important problems will be handled first, and it also analyses the problems and develops solutions with relevant departments. After the problem is solved, it will contact the customer to get feedback promptly and to confirm satisfactory resolution of the problem. On a regular basis or after each service, the Company investigates customer satisfaction, collects customers' comments and suggestions on the service process and results, and continuously optimises and improves the service competence and response timeliness of the customer service team. Meanwhile, the Company has built a fair and transparent performance appraisal mechanism and included customer service performance in appraisal, and awards and offers promotion opportunities to employees with excellent customer service performance.

Furthermore, the Company has established a refined customer service training system, including on-boarding training for new employees, regular business knowledge updates, drills, and practice experience sharing.

3. Protection of customers' rights and interests

The Company values customer privacy protection, and adopts strict compliant marketing management to ensure legal and authentic marketing activities. First, the Company assigns full-time employees to review in advance and monitor the implementation process of marketing strategies, advertisements and promotion activities and, in strict accordance with relevant laws and regulations, respects and protects customers' personal information while using user data for exact marketing. Secondly, it offers regular special trainings to the marketing team to help the team understand and observe relevant laws and regulations such as the *Advertising Law of the People's Republic of China* and the *Law of the People's Republic of China on Protecting Consumers' Rights and Interests*. Moreover, the Company requires salesmen not to accept or ask for improper benefits to guard the fairness of sales prices. All materials for external publicity are to be reviewed by PR departments, and to be further reviewed by the person in charge of public relations, and approved according to the Company approval procedure. Publicity materials related to third-party cooperations shall be released only with the approval of both parties.

Regarding the protection of customer privacy, the Company always seeks customers' consent before collecting their information and always notifies customers of the use of their information. During business operation, the Company's system will anonymise or de-identify customer information to lower the risk of data leakage. Moreover, it explicitly specifies in the *Employee Handbook* that employees must strictly protect customer information during business operation.

4. Customer complaint response

The Company has developed a standardised customer complaint handling process to make sure that customers' complaints are addressed in a timely and effective manner. General complaints will be handled within one business day, and complex complaints will be handled within two days. After the project manager receives a complaint, he/she will immediately communicate with the department head to jointly address the complaint and ensure smooth progress of the project. For all complaints, the Company will determine reasonable and feasible solutions, and timely feed back investigation results and solutions to customers. Moreover, it takes complaints as resources for internal improvement, and summarises experience and draws lessons from them to prevent similar complaints from arising again. Chief responsible departments, including project managers, business managers and persons in charge of accounting and legal issues, will coordinate and determine solutions.

VALUE CO-CREATION THROUGH COOPERATION

Flowing Cloud, committed to building a sustainable supply chain, continuously deepens strategic cooperation with all sectors of society, proactively communicates with domestic and foreign partners in the industry, and complements each other with respective strengths and achieve mutual benefits, mutual win and value co-creation during close cooperation with all stakeholders.

i. Supply chain management

The Company continues strengthening supply chain management, standardising supplier development and management procedures, attaching importance to the impact of suppliers on environment and society, and integrating ESG concepts into supply chain management. We also pay attention to any negative news related to sustainability issues concerning our suppliers. If any issues are identified, the Company will discuss internally about the possibility of replacing the supplier in a timely manner. The Company's special measures for supply chain management include: (i) formulating the *Procurement Management System,* the *Management Measures for Procurement and Use of Commonly Used Intangible Assets* and the *Supplier Management System* to define the responsibilities of business departments in procurement, as well as the procurement procedure, and require all relevant departments to assess and feed back supplier quality and product quality; (ii) formulating the *Requirements for Qualification of Suppliers and Customers* to set access standards for the size, place of registration and business competence of suppliers; (iii) requiring suppliers to sign the *Statement of Good Faith* to further avoid risks arising from procurement.

Flowing Cloud's Supplier Screening Procedure

Information collection	Purchasers collect the information about suppliers' product quality, prices and delivery terms and learn about their basic information through news reports, industry association releases and industry reports of suppliers, and ask suppliers to fill in the *Approval Form for New Partners Application*.
Initial screening	Suppliers applying for cooperation must meet the *Requirements for Qualification of Suppliers and Customers*. The Company assesses whether suppliers are effectively qualified and have the corresponding service competence.
Access	Relevant departments of the Company review suppliers' qualification, service competence, waste discharge, and other environmental performance, as well as their social performance such as past industry opinions, and officially determine partner suppliers recognised by the Company.
Agreement conclusion	The Company concludes procurement agreements or contracts with suppliers, and requires suppliers to sign the *Statement of Good Faith*.

During the Reporting Period, the Company had 5 suppliers, all meeting the Company's regulations on responsible procurement.

Supplier's region	Number	Number of suppliers meeting the Group's screening requirements
Beijing	4	4
Shenzhen	1	1

ii. Industry development promotion

Flowing Cloud takes the initiative to boost strategic cooperation, explore production-education integration, carry out open communication and exchange, advance interaction and cooperation with ecological partners, enhance industry chain coordination, and work together to promote industrial and technological development of the digital industry.

In terms of strategic cooperation, the Company maintains deep cooperation with Baidu. By linking itself to ERNIE Bot, Baidu's generative conversation product, it used Baidu's pioneer intelligent conversation technology in the Metaverse technology service market to make virtual NPCs and digital figures behave more similar to real human and thus improve user experience. It also used Baidu AI Cloud's advanced cloud computing capacity and AI technology to develop the Metaverse platform, Baidu XiRang, for co-creation of Metaverse ecology.

Signing Ceremony of Becoming a Partner of Baidu in Meta-universe Ecology
Flowing Cloud Becomes a Partner of Baidu in Meta-universe Ecology

In terms of production-education integration, the Company takes the cultivation of Metaverse technical talents as its important mission as encouraged by the "Digital China" strategy. It worked with universities and scientific institutes to build a Metaverse talent training base, worked closely with the Interactive Arts and Technology Institute of China Academy of Art in talent cultivation, technology development and art creation and intensified research and interaction, and worked with Yangtze Delta Region Institute of Tsinghua University, Zhejiang, to develop China's leading digital skill training platform to offer practical engineering and innovation courses, explore production-education integration modes, jointly cultivate high-level professionals in the Metaverse field with the superior resources and core capacities of various parties, and provide strong support for the development of the Metaverse industry.

Signing Ceremony of Strategic Cooperation in Production-Education Integration
Signing Ceremony of Strategic Cooperation between Flowing Cloud and Interactive Arts and Technology Institute of China Academy of Art

Signing Ceremony of Strategic Cooperation between Flowing Cloud and Yangtze Delta Region Institute of Tsinghua University, Zhejiang

In terms of international exchange and cooperation, the Company takes the initiative to attend exchange seminars, fairs for trade in services, and other international events to proactively share cutting-edge innovation ideas and show their innovative digital solutions to the international market. In 2023, Flowing Cloud attended the China International Fair for Trade in Services as a high-tech representative, at which it offered innovative digital solutions for countries along the Belt and Road Initiative for their application in the global service industry, explored the potential for digital transformation and development, and drove the development of the digital industry.

Flowing Cloud Attends the 2023 China International Fair for Trade in Services

COMPLIANT OPERATIONS AND RESPONSIBLE MANAGEMENT

Sound cooperate governance is an important cornerstone for the sustainable development of enterprises. Flowing Cloud, in strict accordance with national laws and regulations, as well as the codes of business ethics, refines its internal compliance management system, keeps improving its risk control capacity, strengthens anti-corruption and intellectual property protection, improves information security management, and continuously optimises corporate governance to guarantee the Company's long-term healthy development.

i. Compliance with the law

The Company sticks to the business bottom line of legal compliance, and has established a sound compliance management system based on industry and business characteristics for all-sided and continuous compliance management, and incorporates compliance control measures into business flow to ensure lawful and compliant business operation and management.

The Company regulates related party transactions by formulating the Internal Control System to specify that related party transactions shall not harm the legitimate rights and interests of the company, shareholders, especially minority shareholders. In accordance with the *Anti-Unfair Competition Law of the People's Republic of China, Anti-Money Laundering Law of the People's Republic of China* and other relevant laws and regulations, the Company opposes unfair competition, monopoly and money laundering of any form, and strives to safeguard a fair, free and transparent market competition environment.

It also continues reinforcing the compliance culture, organises regular compliance training, arranges legal directors to convey compliance knowledge and analyses in depth real-life cases to enhance employees' awareness of compliance and improve their capability to cope with compliance risks.

ii. Risk control

Flowing Cloud attaches great importance to risk prevention, and has established a sound risk control mechanism by: (i) formulating the *Internal Control System* to specify that internal control must cover all business processes in business operation, including sale and payment receipt, procurement and payment, production, R&D, fixed asset management, currency and capital management, security and financing management, investment management and human resources management; (ii) formulating the *Risk Management System* to specify that the General Manager and internal audit managers shall be responsible for monitoring the risk management procedure, and heads of departments shall cooperate in implementing it; (iii) specifying that risk identification and assessments shall be carried out every year, and risk management improvement plans shall be developed with regards to the problems identified in risk assessment; (iv) analysing and continuously monitoring the critical causes of material risks identified, and adjusting risk control measures and developing contingency plans according to the changes in situations to maintain safe and healthy operation of the Company and reduce risk events.

iii. Anti-corruption

In strict accordance with the *Interim Provisions on Prohibition of Commercial Bribery* and other relevant laws and regulations, Flowing Cloud always sticks to "zero tolerance" towards demanding and accepting bribes. To prevent corruption, the Company keeps improving the integrity management system by: (i) formulating the *Anti-bribery, Anti-corruption and Antifraud and Whistle-blowing Management System* to specify that the Audit Committee of the Board of Directors of the Company, as the leading body of anti-corruption, shall guide and supervise relevant works, and the Management shall implement the relevant internal control and take appropriate and effective remediation measures for bribery, corruption and malpractices that have occurred; (ii) standardising the reporting and appealing procedure to encourage employees to immediately report in real name or anonymously violations and fraud to the Company. The Company rewards employees who provide valuable clues, promises to keep all whistleblowers and all data they provide confidential, and prohibits retaliation against whistleblowers and employees who assist in investigations.

To continuously enhance employees' awareness of integrity and strengthen their professional conduct and moral ethics, the Company organises anti-corruption training for the Board of Directors and all employees at least once a year to emphasise the Board of Directors' awareness of responsibility for anti-corruption and help employees identify violations. In the *Employee Handbook*, the Company explicitly provides the punishments for bribery, encouraging employees to abide by laws and regulations and properly deal with improper conflicts of interest and temptations in work.

iv. Protection of intellectual property rights

The Company highlights the protection of intellectual property rights. In strict accordance with the *Trademark Law of the People's Republic of China, the Patent Law of the People's Republic of China,* the *Copyright Law of the People's Republic of China* and other relevant laws and regulations, the Company continues refining intellectual property management, always lays emphasis on the protection of its copyright values during product launch and promotion, and uses legal means to safeguard their legitimate rights and interests and consolidate its intellectual achievements. Meanwhile, the Company respects and protects others' intellectual property rights. It has formulated the *Management System for Legitimate Use of Commercial Fonts and Management System for Genuine Software* to specify that the Company shall purchase genuine software and commercial fonts uniformly. In the *Employee Handbook*, the Company explicitly specifies that, to ensure the Company's legal use of others' intellectual property rights and avoid infringement, employees must use genuine or authorised works that they have purchased while using IP materials in image, text and video forms.

v. Information security

The Company strictly abides by national laws and regulations on information security, and has set up a special team for information security management and taken multiple measures to monitor and protect information security, to ensure safe, stable and sustainable operation of the Company's information system and network. These measures include: (i) Encrypting data; (ii) ensuring that only authenticated users can access the system and data; (iii) keeping data access logs and records; (iv) scanning system security vulnerabilities and fixing them on a regular basis to ensure the Company's information system security and prevent hacker attacks and data leakage; (v) deploying software and hardware firewalls on the server of the SaaS platform to cope with cyber-attacks.

GIVING BACK TO SOCIETY BY SUPPORTING WELFARE

Flowing Cloud takes the initiative to undertake its social responsibility and regards it as an integral part, and to fulfil its obligation to support social development and keep abreast of social changes. In 2023, the Company made no public welfare donations. However, it still undertakes that it will attach greater importance to giving back to society in the future by applying advanced technologies to social affairs more extensively to serve the general public and make greater contributions to public welfare. In the future, the Company will focus on the field of environmental protection, further developing and providing low-carbon digital products, services, and solutions. By reducing the carbon footprint of products and services, we aim to mitigate climate change and contribute to environmental protection.

APPENDICES

i. Key performance

Key Performance Indicators	Unit	2023	2022
Environmental			
Emissions			
Scope 1 greenhouse gas emission	tCO2 equivalent	0.00	0.00
Scope 2 greenhouse gas emission	tCO2 equivalent	253.31	152.11
Scope 1 greenhouse gas emission intensity	tCO2 equivalent/ number of employees	0.00	0.00
Scope 2 greenhouse gas emission intensity	tCO2 equivalent/ number of employees	1.78	1.27
Other emissions	Tonnes	0.00	0.00
Other emission intensity	Tonnes/number of employees	0.00	0.00
Total hazardous waste	Tonnes	0.00	0.00
Intensity of hazardous waste	Tonnes/number of employees	0.00	0.00
Total non-hazardous waste	Tonnes	0.00	0.00
Intensity of non-hazardous waste	Tonnes/number of employees	0.00	0.00
Use of resources			
Total electricity consumption	MWh	286.45	173.69
Energy consumption intensity (electricity)	MWh/number of employees	2.02	1.45
Total water consumption	m^3	1,203.00	1,358.00
Water use density	m^3/number of employees	8.47	11.32
Total packaging material used for finished products	Tonnes	0.00	0.00
Density of packaging material used for finished products	Tonnes/RMB1 million of operating revenue	0.00	0.00

Key Performance Indicators	Unit	2023	2022
Social			
Employment			
Total number of employees	Person	142	120
Number of male employees	Person	81	75
Number of female employees	Person	61	45
Chief executive	Person	7	7
Senior management personnel	Person	5	5
Middle management personnel	Person	11	16
Other employees	Person	119	92
Number of employees under age of 30	Person	46	38
Number of employees aged 30 to 40	Person	75	77
Number of employees aged 41 to 50	Person	19	5
Number of employees over age of 50	Person	2	0
Number of employees in the Chinese mainland	Person	142	120
Number of overseas employees	Person	0	0
Turnover rate of male employees	%	25.11	33.17
Turnover rate of female employees	%	12.11	20.00
Turnover rate of employees under age of 30	%	15.70	27.80
Turnover rate of employees aged 30 to 40	%	17.94	21.95
Turnover rate of employees aged 41 to 50	%	3.59	2.44
Turnover rate of employees over age of 50	%	0.00	0.98
Turnover rate of employees in the Chinese mainland	%	37.22	53.17
Turnover rate of overseas employees	%	0.00	0.00
Health and safety			
Number of work-related employee deaths in the past three years (including 2023)	Person	0	0
Rate of work-related employee deaths in the past three years (including 2023)	%	0.00	0.00
Lost days due to work injury	Day	0	0
Development and training			
Percentage of trained male employees	%	57.00	66.70
Percentage of trained female employees	%	43.00	33.30
Percentage of trained chief executives	%	4.93	8.10
Percentage of trained senior management personnel	%	3.52	5.70
Percentage of trained middle management personnel	%	7.75	14.90
Percentage of trained general staff	%	83.80	71.30
Average training hours of male employees	Hour	0.10	0.12
Average training hours of female employees	Hour	0.26	0.20
Average training hours of chief executives	Hour	0.26	0.43
Average training hours of senior management personnel	Hour	1.62	1.00
Average training hours of middle management personnel	Hour	0.16	0.31
Average training hours of general staff	Hour	0.06	0.05

Key Performance Indicators	Unit	2023	2022
Supply chain management			
Number of suppliers by region	Supplier	Beijing: 4 Shenzhen: 1	Beijing: 4 Shenzhen: 1
Number of suppliers meeting the Group's requirements for responsible procurement	Supplier	Beijing: 4 Shenzhen: 1	Beijing: 4 Shenzhen: 1
Product responsibility			
Percentage of total products sold or shipped subject to recalls for safety and health reasons	%	0.00	0.00
Number of complaints	Case	0	0
Community investment			
Donation amount	CBY10,000	0.00	0.00
Governance			
Number of anti-corruption training for Board members	Training	1	1
Coverage of anti-corruption training for Board members	%	100.00	100.00
Number of anti-corruption training for employees	Training	1	1
Number of employees participating receiving anti-corruption training	Person-time	142	120
Number of corruption proceedings	Case	0	0

ii. Indicator index

HKEx ESG indicators		GRI Standards	Disclosure section/ interpretation
A. Environmental			
A1: Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	305, 306	Tackling Climate Change and Waste Management
A1.1	The types of emissions and respective emissions data.	305–1, 305–2, 305–4, 305–6, 305–7	Tackling climate change
A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	305–1, 305–2, 305–4, 305–6, 305–7	Tackling climate change
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	306–3	N/A
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	306–3	Key Performance
A1.5	Description of emission target(s) set and steps taken to achieve them.	305–5	Tackling climate change
A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	306–2, 306–4	Waste Management

HKEx ESG indicators		GRI Standards	Disclosure section/ interpretation
A2: Use of resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	301, 302, 303	Use of resources
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	302–1, 302–2, 302–3	Use of resources
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	303–1, 303–3, 303–4, 303–5	Use of resources
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	302–4, 302–5	Use of resources
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	303–3, 303–4, 303–5	Use of resources
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	301–1	Key performance
A3: The environment and natural resources			
General Disclosure	Policies on minimising the issuer's significant impacts on the environment and natural resources.	301, 302, 303, 304, 305, 000	N/A
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	303–1, 303–2, 304–2, 306–3, 306–5	Use of resources
A4: Climate change			
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	201–2	Tackling climate change
A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	201–2	Tackling climate change

HKEx ESG indicators		GRI Standards	Disclosure section/ interpretation
B. Social			
Employment and Labour Practices			
B1: Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	202, 401, 405, 406, 2–19	Protection of Employees' Rights and Interests, Remuneration and Benefits System
B1.1	Total workforce by gender, employment type (for example, full-or part-time), age group and geographical region.	2–7, 2–8, 405–1	Protection of Employees' Rights and Interests, Key Performance
B1.2	Employee turnover rate by gender, age group and geographical region.	401–1	Protection of Employees' Rights and Interests, Key Performance
B2: Health and safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	403	Occupational Health and Safety
B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	403–9	Occupational Health and Safety
B2.2	Lost days due to work injury.	403–9	Occupational Health and Safety
B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	403–1	Occupational Health and Safety

HKEx ESG indicators		GRI Standards	Disclosure section/ interpretation
B3: Development and training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	404–2	Career Development and Employee Training
B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	404–1	Career Development and Employee Training, Key Performance
B3.2	The average training hours completed per employee by gender and employee category.	404–1	Key Performance
B4:Labour standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	408, 409	Protection of Employees' Rights and Interests
B4.1	Description of measures to review employment practices to avoid child and forced labour.	408, 409	Protection of Employees' Rights and Interests
B4.2	Description of steps taken to eliminate such practices when discovered.	408, 409	Protection of Employees' Rights and Interests
Operating Convention			
B5: Supply chain management			
General Disclosure	Policies on managing environmental and social risks of the supply chain.	204,308,414	Supply chain management
B5.1	Number of suppliers by geographical region.	2–6	Supply Chain Management
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	308–1, 308–2, 414	Supply Chain Management
B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	308–2, 414	Supply Chain Management
B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	308–1	Supply Chain Management

HKEx ESG indicators		GRI Standards	Disclosure section/ interpretation
B6: Product responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	416–2, 417–2, 417–3, 418–1	Products and Services
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	—	Key Performance
B6.2	Number of products and service related complaints received and how they are dealt with.	—	Customer Complaint Response
B6.3	Description of practices relating to observing and protecting intellectual property rights.	—	Protection of Intellectual Property Rights
B6.4	Description of quality assurance process and recall procedures.	—	Product Quality Management
B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	418	Protection of Customers' Rights and Interests
B7: Anti-corruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	205	Anti-corruption
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	205–3	Key Performance
B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	205	Anti-corruption
B7.3	Description of anti-corruption training provided to directors and staff.	205–2	Anti-corruption, Key Performance

HKEx ESG indicators		GRI Standards	Disclosure section/ interpretation
Community			
B8: Community investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	413	Giving Back to Society by Supporting Welfare
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	203–1, 413–1	Giving Back to Society by Supporting Welfare
B8.2	Resources contributed (e.g. money or time) to the focus area.	413–1	Giving Back to Society by Supporting Welfare

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 124 to 185, which comprise the consolidated statement of financial position as at December 31, 2023, 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 material accounting policy information and other explanatory information.

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, 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") 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 of 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	
Revenue from contracts with customers in respect of provision of AR/VR marketing service for the year was RMB845,124,000, representing 68% 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 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 volumes 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 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 are set out in Note 5 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 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, 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 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 of 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 28, 2024

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2023

	NOTES	Year ended December 31, 2023 RMB'000	2022 RMB'000
Revenue	5	**1,244,723**	1,066,157
Cost of revenue		**(824,006)**	(692,162)
Gross profit		**420,717**	373,995
Other income		**6,530**	4,167
Other gains and losses	6	**(505)**	(7,336)
Impairment losses under expected credit loss ("**ECL**") model, net of reversal	7	**(30,176)**	(4,050)
Distribution and selling expenses		**(19,309)**	(13,602)
Administrative expenses		**(49,577)**	(33,189)
Research and development expenses		**(51,181)**	(48,466)
Listing expenses		**—**	(21,118)
Finance costs	8	**(4,828)**	(3,257)
Profit before tax	9	**271,671**	247,144
Income tax expense	11	**(7,736)**	(10,551)
Profit for the year		**263,935**	236,593
Other comprehensive (expense)/income			
Item that will not be reclassified to profit or loss:			
Fair value (loss)/gain on investments in equity instruments at fair value through other comprehensive income ("**FVTOCI**")		**(41,393)**	20,872
		(41,393)	20,872
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(1,169)**	—
		(1,169)	—
Other comprehensive (expense)/income for the year		**(42,562)**	20,872
Total comprehensive income for the year		**221,373**	257,465

For the year ended December 31, 2023

	NOTES	Year ended December 31, 2023 RMB'000	2022 RMB'000
Profit/(loss) for the year attributable to:			
Owners of the Company		**263,938**	236,746
Non-controlling interests		**(3)**	(153)
		263,935	236,593
Total comprehensive income/(expense) attributable to:			
Owners of the Company		**221,376**	257,618
Non-controlling interests		**(3)**	(153)
		221,373	257,465
Basic earnings per share (RMB cents)	12	**14.6**	14.8
Diluted earnings per share (RMB cents)	12	**14.6**	14.8

Consolidated Statement of Financial Position

At December 31, 2023

	NOTES	As at December 31, 2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**8,756**	2,128
Right-of-use assets	15	**4,002**	5,917
Intangible assets	16	**94,995**	47,934
Equity instruments at FVTOCI	17	**112,456**	190,526
Contract costs		**—**	386
Deferred tax assets	18	**8,412**	1,932
		228,621	248,823
CURRENT ASSETS			
Trade and other receivables and deposits	19	**565,784**	387,266
Contract costs		**111**	1,326
Prepayments	20	**593,970**	485,534
Restricted bank deposits	21	**120**	—
Bank balances and cash	21	**332,668**	404,501
		1,492,653	1,278,627
CURRENT LIABILITIES			
Trade and other payables	22	**148,076**	139,624
Lease liabilities	23	**2,495**	4,368
Bank borrowings	24	**95,000**	80,000
Contract liabilities	25	**13,061**	67,714
Income tax payable		**9,510**	8,819
		268,142	300,525
NET CURRENT ASSETS		**1,224,511**	978,102
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,453,132**	1,226,925
NON-CURRENT LIABILITY			
Lease liabilities	23	**900**	1,520
		900	1,520
NET ASSETS		**1,452,232**	1,225,405

At December 31, 2023

	NOTES	As at December 31, **2023** **RMB'000**	2022 RMB'000
CAPITAL AND RESERVES			
Share capital	26	**128**	128
Share premium		**521,249**	521,249
Reserves	27	**928,125**	701,295
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**1,449,502**	1,222,672
Non-controlling interests		**2,730**	2,733
TOTAL EQUITY		**1,452,232**	1,225,405

The consolidated financial statements on pages 124 to 185 were approved and authorized for issue by the board of directors on March 28, 2024 and are signed on its behalf by:

Wang Lei	**Li Yanhao**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended December 31, 2023

	Attributable to owners of the Company												
	Share capital	Share premium	Treasury shares	Capital reserve	Other reserve	Translation reserve	Share-based payments reserve	FVTOCI reserve	Statutory reserve funds	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2022	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 26)	20	543,348	—	—	—	—	—	—	—	—	543,368	—	543,368
Capitalization issue (Note 26)	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
Profit/(loss) for the year	—	—	—	—	—	—	—	—	—	263,938	263,938	(3)	263,935
Other comprehensive expense	—	—	—	—	—	(1,169)	—	(41,393)	—	—	(42,562)	—	(42,562)
Total comprehensive (expense)/income for the year	—	—	—	—	—	(1,169)	—	(41,393)	—	263,938	221,376	(3)	221,373
Recognition of equity-settled share-based payments	—	—	—	—	—	—	10,036	—	—	—	10,036	—	10,036
Appropriation of statutory reserve funds	—	—	—	—	—	—	—	—	25,835	(25,835)	—	—	—
Repurchase of shares	—	—	(4,575)	—	—	—	—	—	—	—	(4,575)	—	(4,575)
Transaction costs attributable to repurchase of shares	—	—	(7)	—	—	—	—	—	—	—	(7)	—	(7)
At December 31, 2023	128	521,249	(4,582)	174,174	34,520	(1,169)	10,036	(20,521)	53,760	681,907	1,449,502	2,730	1,452,232

Consolidated Statement of Cash Flows

For the year ended December 31, 2023

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit before tax	**271,671**	247,144
Adjustments for:		
Interest income	**(2,505)**	(709)
Dividends from equity instruments at FVTOCI	**(1,448)**	—
Exchange (gains)/losses	**(449)**	4,528
Depreciation of property, plant and equipment	**2,753**	1,152
Depreciation of right-of-use assets	**4,498**	3,539
Amortization of intangible assets	**28,519**	17,923
Amortization of software license	**6,733**	612
Impairment losses recognized on trade receivables	**30,176**	4,050
Share-based payment expense	**10,036**	—
Finance costs	**4,828**	3,257
Operating cash flows before movements in working capital	**354,812**	281,496
Increase in trade and other receivables and deposits	**(215,427)**	(222,106)
Increase in prepayments	**(125,131)**	(326,230)
Decrease in contract costs	**1,601**	8,789
Increase in restricted bank deposits	**(120)**	—
(Decrease)/increase in trade and other payables	**(169)**	70,723
(Decrease)/increase in contract liabilities	**(54,653)**	46,623
Cash used in operations	**(39,087)**	(140,705)
Income tax paid	**(13,525)**	(14,790)
Net cash used in operating activities	**(52,612)**	(155,495)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(9,203)**	(1,288)
Purchase of intangible assets	**(50,224)**	(45,478)
Purchase of software license within one year	**—**	(8,300)
Purchase of equity instruments at FVTOCI	**—**	(169,654)
Dividends received from equity investments at FVTOCI	**1,448**	—
Proceeds from disposal of equity instruments at FVTOCI	**36,677**	—
Interest received	**2,505**	709
Net cash used in investing activities	**(18,797)**	(224,011)

Consolidated Statement of Cash Flows

For the year ended December 31, 2023

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
FINANCING ACTIVITIES		
New bank borrowings raised	**105,000**	105,000
Repayment of bank borrowings	**(90,000)**	(47,300)
Repayment of lease liabilities	**(5,076)**	(2,839)
Interests paid	**(4,828)**	(3,257)
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	**(56)**	(5,088)
Payment on repurchase of shares	**(4,575)**	—
Transaction costs attributable to repurchase of shares	**(7)**	—
Net cash from financing activities	**458**	574,256
Net (decrease)/increase in cash and cash equivalents	**(70,951)**	194,750
Cash and cash equivalents at the beginning of the year	**404,501**	214,279
Effect of foreign exchange rate changes	**(882)**	(4,528)
Total cash and cash equivalents at the end of the year represented by bank balances and cash	**332,668**	404,501

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

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

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

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

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

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

Basis of preparation of consolidated financial statements

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

Contractual Arrangements

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

- exercise effective financial and operational control over the Consolidated Affiliated Entities;
- exercise equity holders' voting rights of the Consolidated Affiliated Entities;

1. GENERAL INFORMATION AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

Basis of preparation of consolidated financial statements *(Continued)*

Contractual Arrangements *(Continued)*

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

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

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

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

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

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

2. APPLICATION OF NEW AND AMENDMENTS TO IFRSs

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

In the current year, the Group has applied the following new and amendments to IFRSs issued by IASB for the first time, which are mandatorily effective for the Group's annual period beginning on January 1, 2023 for the preparation of the consolidated financial statements:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS17)	Insurance Contracts
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform — Pillar Two Model Rules
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies

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

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

The Group has applied the amendments for the first time in the current year. IAS 1 *Presentation of Financial Statements* is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

IFRS Practice Statement 2 *Making Materiality Judgements* (the "**Practice Statement**") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies set out in Note 3.

2. APPLICATION OF NEW AND AMENDMENTS TO IFRSs *(Continued)*

Amendments to IFRSs in issue but not yet effective

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

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

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION

Basis of consolidation

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

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

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

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

Revenue from contracts with customers

Information about the Group's accounting policies relating to contracts with customers is provided in Notes 5 and 25.

Foreign currencies

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

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

Equity-settled share-based payment transactions

Share options granted to employees

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

Share options granted to employees *(Continued)*

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

Taxation

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

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

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

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

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Taxation *(Continued)*

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

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

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

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

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

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

Intangible assets

Intangible assets acquired separately

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

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Intangible assets *(Continued)*

Research and development expenditure

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

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

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

Financial instruments

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

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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

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

(i) *Amortized cost and interest income*

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

(ii) *Equity instruments designated as at FVTOCI*

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

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

Impairment of financial assets

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

The Group always recognizes lifetime ECL for trade receivables.

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

(i) Significant increase in credit risk

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

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

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

(ii) *Definition of default*

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

(iii) *Credit-impaired financial assets*

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

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

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

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

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

(iv) *Write-off policy*

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

(v) *Measurement and recognition of ECL*

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

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

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

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

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

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

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

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

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

Foreign exchange gains and losses

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

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

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Derecognition of financial assets

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

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

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

Financial liabilities at amortized cost

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, 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 advisor, 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.

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 the 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 doubt on collection of receivables or credit-impaired which are assessed individually. The debtors with significant doubt on collection of receivables 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. For trade receivables assessed collectively, the 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. The provision of ECL is sensitive to changes in estimates. Details of the ECL on the Group's trade receivables are disclosed in Note 30.

5. REVENUE AND SEGMENTAL INFORMATION

Disaggregation of revenue from contracts with customers

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

Timing of revenue recognition

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

Performance obligations for contracts with customers and revenue recognition policies

AR/VR marketing service

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

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

AR/VR content

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

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

5. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Performance obligations for contracts with customers and revenue recognition policies *(Continued)*

AR/VR SaaS services

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

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

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

Others

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

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

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

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

Segment information

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

5. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Segment information *(Continued)*

Geographical information

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

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

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

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

Information about major customers

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

6. OTHER GAINS AND LOSSES

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

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

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Impairment losses recognized on trade receivables	**30,176**	4,050
	30,176	4,050

Details of impairment assessment are set out in Note 30.

8. FINANCE COSTS

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

9. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

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

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

(a) Directors' and chief executive's emoluments

Directors' and chief executive's remuneration, disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, is as follows:

For the year ended December 31, 2023

	Fee RMB'000	Salaries and other benefits RMB'000	Contribution to retirement benefits scheme RMB'000	Discretionary bonus (Note) RMB'000	Equity-settled share-based expense RMB'000	Total RMB'000
Executive directors						
Wang Lei (Chief Executive Officer)	–	687	65	576	394	1,722
Li Yanhao	–	453	65	260	394	1,172
Xu Bing	–	335	63	247	394	1,039
Li Yao	–	334	63	197	394	988
	–	1,809	256	1,280	1,576	4,921
Independent non-executive directors						
Wang Beili	72	–	–	–	–	72
Jiang Yi	72	–	–	–	–	72
Tan Deqing	72	–	–	–	–	72
	216	–	–	–	–	216

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

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

For the year ended December 31, 2022

	Fee RMB'000	Salaries and other benefits RMB'000	Contribution to retirement benefits scheme RMB'000	Discretionary bonus (Note) RMB'000	Equity-settled share-based expense RMB'000	Total RMB'000
Executive directors						
Wang Lei (Chief Executive Officer)	—	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

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

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

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

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

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

(b) Employees' emoluments

The five highest paid employees of the Group during the year included one director (2022: two directors), details of whose remuneration are set out above. Details of the remuneration for the year of the remaining four (2022: three) highest paid employees who were neither a director nor chief executive officer of the Company are as follows:

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Salaries and other benefits	**940**	1,195
Contributions to retirement benefits schemes	**137**	174
Discretionary bonus	**492**	763
Equity-settled share-based expense	**7,752**	—
	9,321	2,132

The number of the highest paid employees who are not the directors whose remuneration fell within the following bands is as follows:

	2023	2022
	No. of employees	No. of employees
Nil to HK$1,000,000	**—**	3
HK$2,000,001 to HK$2,500,000	**3**	—
HK$3,500,001 to HK$4,000,000	**1**	—
	4	3

During the year, certain non-director and non-chief executive highest paid employees were granted share options, in respect of their services to the Group under the post-IPO share option scheme (the "**Scheme**") of the Company. Details of the Scheme are set out in Note 28.

During the year ended December 31, 2023, 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 (2022: none).

11. INCOME TAX EXPENSE

	Year ended December 31, 2023 RMB'000	2022 RMB'000
Current tax		
PRC Enterprise Income Tax	**8,802**	11,468
Hong Kong	**3,793**	—
	12,595	11,468
Under/(over) provision in prior year	**1,621**	(310)
Deferred tax (Note 18)	**(6,480)**	(607)
	7,736	10,551

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

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

Cayman Islands

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

11. INCOME TAX EXPENSE *(Continued)*

Hong Kong

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

PRC

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

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

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

12. EARNINGS PER SHARE

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

Earnings figures are calculated as follows:

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

12. EARNINGS PER SHARE *(Continued)*

Number of shares

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

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

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

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

13. DIVIDENDS

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

14. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and equipment RMB'000
COST	
At January 1, 2022	3,064
Additions	1,140
At December 31, 2022	4,204
Additions	**9,381**
At December 31, 2023	**13,585**
DEPRECIATION	
At January 1, 2022	924
Provided for the year	1,152
At December 31, 2022	2,076
Provided for the year	**2,753**
At December 31, 2023	**4,829**
CARRYING VALUES	
At December 31, 2023	**8,756**
At December 31, 2022	2,128

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

15. 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, 2022	9,464
Additions	2,964
Derecognition upon expiration of the term	(1,184)
At December 31, 2022	11,244
Additions	**2,583**
At December 31, 2023	**13,827**
DEPRECIATION	
At January 1, 2022	2,972
Charge for the year	3,539
Derecognition upon expiration of the term	(1,184)
At December 31, 2022	5,327
Charge for the year	**4,498**
At December 31, 2023	**9,825**
CARRYING VALUES	
At December 31, 2023	**4,002**
At December 31, 2022	5,917

The Group regularly entered into short-term leases for properties. During the year ended December 31, 2023, expenses relating to short-term leases of buildings amounting to RMB453,000 (2022: RMB552,000) was recognized.

During the year ended December 31, 2023, the total cash outflow for leases was RMB5,688,000 (2022: RMB3,805,000).

16. INTANGIBLE ASSETS

	Softwares RMB'000	IPs RMB'000 (Note)	Total RMB'000
COST			
At January 1, 2022	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
Additions	**47,300**	**28,302**	**75,602**
Expiration of authorization	**—**	**(15,236)**	**(15,236)**
At December 31, 2023	**55,712**	**81,337**	**137,049**
AMORTIZATION			
At January 1, 2022	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
Provided for the year	**8,984**	**19,535**	**28,519**
Expiration of authorization	**—**	**(15,236)**	**(15,236)**
Exchange adjustments	**22**	**—**	**22**
At December 31, 2023	**11,142**	**30,912**	**42,054**
CARRYING VALUES			
At December 31, 2023	**44,570**	**50,425**	**94,995**
At December 31, 2022	6,276	41,658	47,934

Note: Intellectual Properties ("**IPs**") refer to the Group's adaptation right for production of AR/VR SaaS pattern plates, AR/VR content 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	3–5 years
IPs	3–5 years

17. EQUITY INSTRUMENTS AT FVTOCI

	As at December 31, 2023 RMB'000	2022 RMB'000
Listed		
— Equity securities	**112,456**	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 fair value is determined by the quoted bid prices in an active market and the fair value hierarchy is categorized as Level 1.

During the year ended December 31, 2023, the Group disposed of certain equity investments at FVTOCI of RMB36,677,000.

18. DEFERRED TAX

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

	As at December 31, 2023 RMB'000	2022 RMB'000
Deferred tax assets	**8,412**	1,932

The deferred tax assets recognized by the Group and the movements thereon during the current year are as follows:

	Tax losses RMB'000	ECL provisions RMB'000	Total RMB'000
At January 1, 2022	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
(Charge) credit to profit or loss	**(133)**	**6,124**	**5,991**
Effect of change in tax rate	**—**	**489**	**489**
As at December 31, 2023	**—**	**8,412**	**8,412**

18. DEFERRED TAX *(Continued)*

At the end of the reporting period, the Group has unused tax losses of approximately RMB17,571,000 (2022: RMB10,996,000) available for offset against future profits. As at December 31, 2022, a deferred tax asset has been recognized in respect of approximately of RMB1,063,000 (2023: nil) of such losses and no deferred tax asset has been recognized in respect of the remaining approximately RMB9,933,000 (2023: RMB17,571,000) due to the unpredictability of future profit streams. The unrecognized tax losses will expire in the following years:

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
2024	**1,028**	1,028
2025	**388**	388
2026	**3,879**	3,879
2027	**4,638**	4,638
2028	**7,638**	—
	17,571	9,933

At the end of the reporting period, the Group has deductible temporary differences of approximately RMB879,000 (2022: RMB520,000), 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 RMB706,870,000 (2022: RMB488,261,000), 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.

19. TRADE AND OTHER RECEIVABLES AND DEPOSITS

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

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

19. TRADE AND OTHER RECEIVABLES AND DEPOSITS *(Continued)*

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

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

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

Details of impairment assessment of trade and other receivables and deposits are set out in Note 30.

20. PREPAYMENTS

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

21. BANK BALANCES AND CASH/RESTRICTED BANK DEPOSITS

	As at December 31, 2023 RMB'000	2022 RMB'000
Bank balances and cash	**332,668**	404,501
Restricted bank deposits	**120**	—
	332,788	404,501

Bank balances carried interest at market interest rate ranging from 0.001% to 0.875% per annum as at December 31, 2023 (2022: 0.001% to 0.625%). Bank balances and cash as at December 31, 2023 amounting to RMB22,455,000 (2022: RMB162,979,000) was denominated in United States Dollar ("**USD**") and amounting to RMB379,000(2022: RMB3,672,000) was denominated in Hong Kong Dollar ("**HKD**"), respectively.

As at December 31, 2023, restricted bank deposits carried interest at market interest rate of 0.2% are deposits for performance bonds (2022: nil).

22. TRADE AND OTHER PAYABLES

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

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

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Within 6 months	**36,585**	36,287
6–12 months	**7,659**	16,107
1–2 years	**6,648**	2,900
Over 2 years	**18,840**	17,135
	69,732	72,429

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

23. LEASE LIABILITIES

	As at December 31, 2023 RMB'000	2022 RMB'000
Lease liabilities payable:		
Within one year	**2,495**	4,368
Within a period of more than one year but not exceeding two years	**900**	1,313
Within a period of more than two years but not exceeding five years	**—**	207
	3,395	5,888
Less: Amount due for settlement with 12 months shown under current liabilities	**(2,495)**	(4,368)
Amount due for settlement after 12 months shown under non-current liabilities	**900**	1,520

As at December 31, 2023, the weighted average incremental borrowing rate applied to lease liabilities is 4.62% (2022: 4.90%) per annum.

24. BANK BORROWINGS

The analysis of the carrying amount of bank borrowings is as follows:

	As at December 31, 2023 RMB'000	2022 RMB'000
Bank borrowings payable within one year:		
Unsecured	**95,000**	80,000
	95,000	80,000

24. BANK BORROWINGS *(Continued)*

The carrying amounts of the bank borrowings and the range of interest rates are as below:

	As at December 31, 2023		As at December 31, 2022	
	RMB'000	**%**	RMB'000	%
Fixed rate bank borrowings	**70,000**	**4.00–5.80**	60,000	3.85–5.50
Variable rate bank borrowings	**25,000**	**2.80–4.45**	20,000	4.45–5.35

As at December 31, 2023, bank borrowings amounted to RMB25,000,000(2022: RMB15,000,000) were guaranteed by third-party financial guarantee companies.

25. CONTRACT LIABILITIES

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Provision of AR/VR marketing service	**7,083**	59,535
Delivery of AR/VR content	**5,500**	5,793
Provision of AR/VR SaaS service	**88**	2,386
Others	**390**	—
	13,061	67,714

As at January 1, 2022, contract liabilities amounted to RMB21,091,000.

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. 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, 2023, the Group recognized revenue amounting to RMB67,494,000 (2022: RMB18,180,000), which relate to the contract liabilities balance at the beginning of the year.

During the year ended December 31, 2023, there was no revenue recognized that related to performance obligations that were satisfied in prior years (2022: nil).

26. SHARE CAPITAL

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

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

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

26. SHARE CAPITAL *(Continued)*

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

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

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

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

27. 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

Capital reserve represents capital reserve of Ophyer Technology and amount recognized upon the termination of the preferred rights of shares of Ophyer Technology and conversion of preferred shares of the Company before the Listing.

Other reserve

Other reserve mainly represented the adjustments arising from the modification, and subsequent termination of preferred rights of shares of Ophyer Technology before the Listing, and adjustment arising from the reorganization of the Group.

Statutory reserve

Pursuant to the relevant PRC rules and regulations, the Company's subsidiaries (including Consolidated Affiliated Entities) established in the PRC are required to transfer no less than 10% of its profits after taxation, after offsetting any prior years' loss as determined under the Company Law of the PRC, 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 these PRC subsidiaries (including Consolidated Affiliated Entities).

28. SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

Details of specific categories of options are as follows:

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

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

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

28. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

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

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

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

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

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

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

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

29. 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 23 and 24 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 26 and 27 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, share buy-backs, issue of new debt, or the repayment of the existing debts.

30. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Financial assets		
Financial assets at amortized cost	**895,337**	781,579
Equity instruments at FVTOCI	**112,456**	190,526

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
Financial liabilities		
Financial liabilities at amortized cost	**175,487**	157,654

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, restricted bank deposits, 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.

(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 is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and bank borrowings 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.

30. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(i) Market risk *(Continued)*

Interest rate risk *(Continued)*

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, 2023 would decrease/increase by approximately RMB94,000(2022: RMB75,000).

Currency risk

The Group has bank balances denominated in USD and HKD and trade and other payables denominated in USD 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.

Sensitivity analysis

The Group is mainly exposed to USD. The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD. 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 (negative) number below indicates an increase (decrease) in post-tax profit where RMB strengthen 5% against USD. For a 5% weakening of RMB against USD, there would be an equal and opposite impact on the post-tax profit.

		USD Impact	
		2023	2022
		RMB'000	RMB'000
Profit for the year	(i)	**313**	(8,149)

(i) This is attributable to the exposure outstanding on bank balances and trade and other payables at year end.

30. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(i) Market risk *(Continued)*

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 at FVTOCI. The Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to equity price risk at the reporting date. If the prices of the respective equity instruments had been 5% (2022: 5%) higher/lower, the other comprehensive income would increase/decrease by RMB5,623,000 (2022: RMB9,526,000) as a result of the changes in fair value of equity instruments 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, restricted bank deposits, 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 trade receivables, 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 9.4% (2022: 8.4%) of the total trade receivables were due from the Group's largest debtor as at December 31, 2023, and 31.9% (2022: 33.5%) of the total trade receivables were due from the Group's five largest debtors as at December 31, 2023.

30. 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. The ECL on these assets are individually assessed for debtors with significant doubt on collection of receivables 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 and restricted bank deposits

The Group mainly transact with banks with high credit ratings. The credit risk for bank balances and restricted bank deposits as at December 31, 2023 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, 2023 and 2022 and thus no impairment loss was recognized.

30. 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, 2023	**Notes**	**External credit rating**	**Internal credit rating**	**12m or lifetime ECL**	**Average loss rate**	**Gross carrying amount RMB'000**
Trade receivables — contracts with customers	19	N/A	(Note a)	Lifetime ECL (assessed collectively)	**4.4%**	**505,155**
				Lifetime ECL (not credit-impaired and assessed individually)	**15.7%**	**93,393**
				Lifetime ECL (credit-impaired and assessed individually)	**100.0%**	**4,192**
Other receivables and deposits	19	N/A		12m ECL	**5.4%**	**1,094**
Restricted bank deposits	21	AAA	—	12m ECL	**—**	**120**
Bank balances	21	AAA	—	12m ECL	**—**	**332,668**

December 31, 2022	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Average loss rate	Gross carrying amount RMB'000
Trade receivables — contracts with customers	19	N/A	(Note a)	Lifetime ECL (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	19	N/A		12m ECL	3.6%	1,619
Bank balances	21	AAA	—	12m ECL	—	404,501

30. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(ii) Credit risk and impairment assessment *(Continued)*

Note:

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 doubt on collection of receivables 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 is significant doubt on collection of receivables 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.

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, 2023		
	Average loss rate	**Gross carrying amount RMB'000**	**Impairment loss allowance RMB'000**
Trade receivables			
Low risk	**1.29%**	**260,907**	**3,361**
Watch list	**7.77%**	**244,248**	**18,981**
		505,155	**22,342**

30. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

(ii) Credit risk and impairment assessment *(Continued)*

	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

In addition, trade debtors with gross carrying amount of RMB93,393,000 which is not credit-impaired as at December 31, 2023 (2022: RMB3,019,000) were assessed individually. The impairment allowance of RMB14,692,000 (2022: RMB4,000) were made on these balances as at December 31, 2023.

Credit-impaired trade receivables with gross carrying amount of RMB4,192,000 as at December 31, 2023 (2022: RMB1,581,000) were assessed individually. The impairment allowance of RMB4,192,000 (2022: RMB1,581,000) were made on these balances as at December 31, 2023.

30. 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, 2022	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**
Changes due to financial instruments recognized as at January 1, 2023:			
— Transfer to credit-impaired	**(246)**	**246**	**—**
— Impairment losses reversed	**(9,009)**	**—**	**(9,009)**
— Impairment losses recognized	**2,694**	**2,365**	**5,059**
New financial assets originated	**34,126**	**—**	**34,126**
As at December 31, 2023	**37,034**	**4,192**	**41,226**

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, 2022	**59**	**—**	**519**	**578**
Write off	**—**	**—**	**(519)**	**(519)**
As at December 31, 2022 and 2023	**59**	**—**	**—**	**59**

30. 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, 2023						
Bank borrowings	**2.80–5.80**	**96,702**	**—**	**—**	**96,702**	**95,000**
Trade and other payables		**80,487**	**—**	**—**	**80,487**	**80,487**
		177,189	**—**	**—**	**177,189**	**175,487**
Lease liabilities	**4.62**	**2,598**	**932**	**—**	**3,530**	**3,395**

	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

30. FINANCIAL INSTRUMENTS *(Continued)*

Fair value measurement of financial instruments

Details of fair value of the Group's financial assets that are measured at fair value on a recurring basis are set out in Note 17.

There were no transfers among different levels of fair values measurement during the year.

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.

31. 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 RMB3,657,000 for the year ended December 31, 2023 (2022: RMB3,770,000) represented contributions paid and/or payable to the scheme by the Group.

At December 31, 2023 and 2022, the Group had no forfeited contributions under the above retirement benefit scheme which may be used by the Group to reduce the existing level of contributions. There were also no forfeited contributions available at December 31, 2023 and 2022 under such scheme which may be used by the Group to reduce the contribution payable in future years.

32. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

	Year ended December 31,	
	2023	2022
	RMB'000	RMB'000
Salaries and other benefits	**3,546**	3,114
Contributions to retirement benefits scheme	**515**	457
Discretionary bonus	**2,423**	2,473
Equity-settled share-based expense	**5,938**	—
	12,422	6,044

33. 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	Accrued share issue costs RMB'000	Total RMB'000
At January 1, 2022	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**
Increase of lease liabilities	**—**	**2,583**	**—**	**2,583**
Financing cash flows	**10,331**	**(5,235)**	**(56)**	**5,040**
Finance costs	**4,669**	**159**	**—**	**4,828**
At December 31, 2023	**95,000**	**3,395**	**—**	**98,395**

34. 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, 2023	2022	Principal activities
Directly held:						
FTYD Ltd.	Limited liability company	BVI July 19, 2021	USD50,000	**100%**	100%	Investment holding
Indirectly held:						
Flowing Cloud Technology (HK) Limited	Limited liability company	Hong Kong August 10, 2021	HKD550,000,000	**100%**	100%	Investment holding
安吉飛天雲動科技有限公司 Anji Flowing Cloud Technology Co., Ltd. (i)	Wholly-foreign owned enterprise	PRC October 31, 2022	RMB200,000,000	**100%**	100%	Agency of AR/VR marketing services

34. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

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: (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, 2023	2022	Principal activities
北京飛天雲動科技有限公司 Beijing Flowing Cloud Technology Co., Ltd. (i)	Limited liability company	PRC November 17, 2021	RMB200,000,000	**100%**	100%	AR/VR content, AR/VR SaaS and others
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%**	100%	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%**	100%	Not yet commence business
上海飛天雲動數字技術有限公司 Shanghai Flowing Cloud Digital Technology Co., Ltd. (i)	Limited liability company	PRC April 11, 2023	RMB1,000,000	**100%**	N/A	Not yet commence business
安吉雲動未來職業技能培訓學校有限公司 Anji Yundong Future Vocational Skills Training School Co., Ltd (i)	Limited liability	PRC June 30, 2023	RMB2,000,000	**100%**	N/A	Not yet commence business
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, 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%	Others
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%	Others

34. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

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: (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, 2023	2022	Principal activities
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%	Others
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%	Others

(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.

35. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	As at December 31,	
	2023	2022
	RMB'000	RMB'000
NON-CURRENT ASSETS		
Investment in subsidiaries	**323,317**	171,170
Equity instruments at FVTOCI	**112,456**	190,526
	435,773	361,696
CURRENT ASSETS		
Trade and other receivables and deposits	**107**	38
Amounts due from subsidiaries	**65,242**	4,441
Prepayments	**—**	50,581
Bank balances and cash	**741**	118,815
	66,090	173,875
CURRENT LIABILITY		
Other payables	**8,549**	1,993
	8,549	1,993
NET CURRENT ASSETS	**57,541**	171,882
TOTAL ASSETS LESS CURRENT LIABILITY	**493,314**	533,578
NET ASSETS	**493,314**	533,578
CAPITAL AND RESERVES		
Share capital	**128**	128
Share premium	**521,249**	521,249
Reserves	**(28,063)**	12,201
TOTAL EQUITY	**493,314**	533,578

35. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *(Continued)*

Reserves of the Company

	Share premium RMB'000	Treasury shares RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Share-based payments reserve RMB'000	FVTOCI reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At January 1, 2022	—	—	27,480	2,448	—	—	(14,225)	15,703
Profit/(loss) and total comprehensive income/(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**
Loss and total comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**(41,393)**	**(4,325)**	**(45,718)**
Recognition of equity-settled share-based payments	**–**	**–**	**–**	**–**	**10,036**	**–**	**–**	**10,036**
Repurchase of shares	**–**	**(4,575)**	**–**	**–**	**–**	**–**	**–**	**(4,575)**
Transaction costs attributable to repurchase of shares	**–**	**(7)**	**–**	**–**	**–**	**–**	**–**	**(7)**
At December 31, 2023	**521,249**	**(4,582)**	**27,480**	**2,448**	**10,036**	**(20,521)**	**(42,924)**	**493,186**

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 C1 to the Listing Rules
"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
"Group", "Flowing Cloud", "our", "we" or "us"	the Company, its subsidiaries and the Consolidated Affiliated Entities at the relevant time
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"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
"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)
"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 C3 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 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, an indirect wholly-owned subsidiary of the Company
"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
"Renminbi" or "RMB"	Renminbi Yuan, the lawful currency of China
"Reporting Period"	the one-year period from January 1, 2023 to December 31, 2023
"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$0.00001 each in the share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Shenzhen Huachuang"	Shenzhen Huachuang Yunjing Technology Co., Ltd.* (深圳市華創雲景科技有限公司), a limited liability company established under the laws of the PRC on January 12, 2021 and one of the Consolidated Affiliated Entities
"Stock Exchange" or "HKEx"	The Stock Exchange of Hong Kong Limited
"subsidiary" or "subsidiaries"	has the meaning ascribed thereto under the Listing Rules
"United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"United States dollars" or "US$"	United States dollars, the lawful currency of the United States
"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.