UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2023
or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .
Commission File No. 001-40519

MicroCloud Hologram Inc.

(Exact name of registrant as specified in its charter)

Cayman Islands	Not Applicable
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Room 302, Building A, Zhong Ke Na Neng Building,
Yue Xing Sixth Road, Nanshan District, Shenzhen,
People's Republic of China 518000
(Address of principal executive offices) (Zip Code)

+86 (0755) 2291 2036
(Registrant's telephone number, including area code)

Golden Path Acquisition Corporation
100 Park Avenue, New York, New York 10017
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Ordinary Shares, par value $0.0001 per share	HOLO	The Nasdaq Stock Market LLC
Warrants, each warrant exercisable for one-half ordinary share at an exercise price of $11.50 per share	HOLOW	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

50,812,035 shares of ordinary, par value $0.0001 per share, outstanding as of March 31, 2023.

MicroCloud Hologram Inc.
FORM 10-Q
For the Quarterly Period Ended March 31, 2023

INDEX

EXPLANATORY NOTE

On September 16, 2022 (the “Closing Date”), MicroCloud Hologram Inc., a Cayman Islands exempted company (formerly known as Golden Path Acquisition Corporation (“Golden Path”)), consummated (the “Closing”) the previously announced Business Combination (as defined below) pursuant to the Business Combination and Merger Agreement dated September 10, 2021 (as amended on August 5, 2022 and August 10, 2022, the “Merger Agreement”), by and among Golden Path, Golden Path Merger Sub Corporation (“Golden Path Merger Sub”), a Cayman Islands exempted company incorporated for the purpose of effectuating the Business Combination, and MC Hologram Inc. (“MC”), a Cayman Islands exempted company. Please see “Item 1 Financial statements - Note 1 - Nature of Business and Organization” for additional detail regarding the Business Combination.

Unless stated otherwise, this Quarterly Report on Form 10-Q (this “Quarterly Report”) contains information about Golden Path before the Business Combination. References to the “Company,” “we,” “us,” “our,” in this Quarterly Report refer to Golden Path before the consummation of the Business Transaction or MicroCloud Hologram Inc. and/or its consolidated subsidiaries after the Business Combination, as the context suggests.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain statements related to future results, or states our intentions, beliefs, and expectations or predictions for the future, all of which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements represent management's expectations or forecasts of future events. Forward-looking statements are typically identified by words such as "anticipate," "believe," "estimate," "expect," "forecast," "project," "intend," "plan," "probably," "potential," "looking forward," "continue," and other similar terms, and future or conditional tense verbs like "could," "may," "might," "should," "will," and "would." You can also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from either historical or anticipated results depending on a variety of factors. Forward-looking statements in this Form 10-Q may include, for example, statements concerning:

- changes in the competitive environment, due to macroeconomic conditions or otherwise, or damage to our reputation;
- fluctuations in currency exchange, interest or inflation rates that could impact our financial condition or results;
- changes in our accounting estimates and assumptions on our financial statements;
- the impact of, and potential challenges in complying with, laws and regulations of the jurisdictions in which we operate, particularly given the possibility of differing or conflicting laws and regulations, or the application or interpretation thereof, across such jurisdictions;
- failure to protect intellectual property rights or allegations that we have infringed on the intellectual property rights of others;
- the failure to retain, attract and develop experienced and qualified personnel;
- the effects of natural or man-made disasters, including the effects of the COVID-19 and other health pandemics and the impacts of climate change;
- any system or network disruption or breach resulting in operational interruption or improper disclosure of confidential, personal, or proprietary data, and resulting liabilities or damage to our reputation;
- our ability to develop, implement, update and enhance new technology;
- the actions taken by third parties that perform aspects of our business operations and client services; and
- our ability to continue, and the costs and risks associated with, growing and developing our business, and entering into new lines of business or products.

Any or all of our forward-looking statements may turn out to be inaccurate, and there are no guarantees about our performance. The factors identified above are not exhaustive. We operate in a dynamic business environment in which new risks may emerge frequently. Accordingly, readers should not place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. We are under no (and expressly disclaim any) obligation to update or alter any forward-looking statement that we may make from time to time, whether as a result of new information, future events, or otherwise, except as may be required under applicable securities laws.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MICROCLOUD HOLOGRAM INC. AND ITS SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS

	March 31 2023	December 31 2022,
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 20,328,906	$ 21,910,338
Accounts receivable, net	9,581,046	11,650,012
Prepayments and other current assets	880,151	894,479
Due from related parties	-	8,740
Inventories, net	274,828	254,879
Total current assets	31,064,931	34,718,448
NON-CURRENT ASSETS		
Property and equipment, net	245,863	238,920
Prepayment and deposits, net	77,509	60,460
Intangible assets, net	2,006,803	2,229,386
Investments in unconsolidated entities	87,367	-
Right-of-use assets, net	531,765	589,301
Goodwill	3,080,537	3,067,317
Total non-current assets	6,029,844	6,185,384
Total assets	$ 37,094,775	$ 40,903,832
LIABILITIES AND SHAREHOLDERS’ EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 8,850,864	$ 8,874,369
Advance from customers	374,715	493,539
Other payables and accrued liabilities	1,969,638	1,964,501
Due to related parties	-	50,745
Operating lease liabilities - current	226,213	231,483
Loan payable	-	59,444
Taxes payable	82,547	87,319
Total current liabilities	11,503,977	11,761,400
NON-CURRENT LIABILITIES		
Operating lease liabilities - noncurrent	323,708	373,298
Deferred tax liabilities	132,777	160,430
Warrant liabilities	61,709	61,709
Total other liabilities	518,194	595,437
Total liabilities	12,022,171	12,356,837
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS’ EQUITY		
Ordinary shares, $0.0001 par value	5,081	5,081
Additional paid-in capital	36,701,010	36,701,010
Retained earnings	(12,619,652)	(9,119,628)
Statutory reserves	1,722,262	1,722,262
Accumulated other comprehensive loss	(664,865)	(805,112)
Total MICROCLOUD HOLOGRAM INC. shareholders’ equity	25,143,836	28,503,613
Non-controlling interest	(71,232)	43,382
Total Equity	25,072,604	28,546,995
Total liabilities and shareholders’ equity	$ 37,094,775	$ 40,903,832

MICROCLOUD HOLOGRAM INC. AND ITS SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the Three months ended,	
	2023	**2022**
OPERATING REVENUES		
Products	$ 1,055,701	$ 11,678,900
Services	5,524,030	12,536,311
Total Operating Revenues	6,579,731	24,215,211
COST OF REVENUES		
Products	(721,648)	(11,090,989)
Services	(1,973,061)	(2,338,023)
Total Cost of Revenues	(2,694,709)	(13,429,012)
GROSS PROFIT	3,885,022	10,786,199
OPERATING EXPENSES		
Provision for doubtful accounts	(2,119,725)	(20,534)
Selling expenses	(354,583)	(252,503)
General and administrative expenses	(1,108,925)	(684,577)
Research and development expenses	(4,106,916)	(6,553,058)
Total operating expenses	(7,690,149)	(7,510,672)
(LOSS)/INCOME FROM OPERATIONS	(3,805,127)	3,275,527
OTHER INCOME/(EXPENSE)		
Finance income, net	104,183	35,098
Other income, net	57,855	38,172
Total other income, net	162,038	73,270
(LOSS)/PROFIT BEFORE INCOME TAXES	(3,643,089)	3,348,797
BENEFIT FOR INCOME TAX	28,450	56,710
NET (LOSS)/INCOME	$ (3,614,639)	$ 3,405,507
LESS: NET INCOME/(LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTEREST	(114,614)	9,523
NET (LOSS)/INCOME ATTRIBUTABLE TO MICROCLOUD HOLOGRAM INC. ORDINARY SHAREHOLDERS	$ (3,500,025)	$ 3,395,984
OTHER COMPREHENSIVE INCOME/(LOSS)		
Foreign currency translation adjustment	(1,226)	(8,136)
	-	
COMPREHENSIVE (LOSS)/INCOME	$ (3,615,865)	$ 3,397,371
LESS: COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTEREST	(114,614)	9,523
COMPREHENSIVE (LOSS)/INCOME ATTRIBUTABLE TO MICROCLOUD HOLOGRAM INC. ORDINARY SHAREHOLDERS	$ (3,501,251)	$ 3,387,848
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES		
Weighted average number of ordinary shares outstanding-Basic and diluted	20,071,595	132,000,000
EARNINGS PER SHARE ATTRIBUTABLE TO MICROCLOUD HOLOGRAM INC. ORDINARY SHAREHOLDERS		
(Loss)/Earnings per ordinary share - Basic and diluted	$ (0.17)	$ 0.03

MICROCLOUD HOLOGRAM INC. AND ITS SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Ordinary shares		Additional paid-in capital	Retained earnings		Accumulated other comprehensive (loss)	Non-controlling Interest	Total
	Shares	Par value		Statutory reserves	Unrestricted			
Balance as of December 31, 2022	50,812,035	$ 5,081	$ 36,701,010	$ 1,722,262	$ (9,119,628)	$ (805,112)	$ 43,382	$ 28,546,995
Net (loss)/income	-	-	-	-	(3,500,024)	-	(114,614)	(3,614,638)
Foreign currency translation	-	-	-	-	-	140,247	-	140,247
Balance as of March 31, 2023	50,812,035	$ 5,081	$ 36,701,010	$ 1,722,262	$ (12,619,652)	$ (664,865)	$ (71,232)	$ 25,072,604

MICROCLOUD HOLOGRAM INC. AND ITS SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31, 2023	For the Three Months Ended March 31, 2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)/income	$ (3,614,638)	$ 3,405,507
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	258,286	260,069
Amortization of operating lease right-of-use assets	60,298	61,210
Provision for doubtful accounts	2,119,725	20,534
Deferred tax benefits	(28,449)	(73,309)
Provision for inventory reserve	-	22,753
Interest income		(39,603)
Loss on disposal of fixed assets		518
Change in operating assets and liabilities:		
Accounts receivable	7,290	(5,042,206)
Prepayment and other current assets	18,250	(779,959)
Inventories	(18,920)	2,187
Prepayments and deposits	(16,851)	(12,748)
Accounts payable	(61,982)	2,631,067
Operating lease liabilities	(57,679)	(56,115)
Advance from customers	(121,398)	162,220
Other payables and accrued liabilities	(3,342)	38,174
Taxes payable	(5,167)	(328,324)
Net cash (used in)/provided by operating activities	(1,464,577)	271,975
CASH FLOWS FROM INVESTING ACTIVITIES:		
Short-term investment in time deposit	-	(1,575,746)
Loan to third parties		(1,575,746)
Loan repayment from third parties		2,100,381
Investments in unconsolidated entities	(87,690)	-
Purchases of property and equipment	(31,170)	(706)
Net cash provided by/(used in) investing activities	(118,860)	(1,051,817)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Amounts advanced from related parties	-	63,562
Amounts advanced to related parties	-	(3,196)
Repayments from related parties	8,810	
Repayments to related parties	(51,152)	(58)
Repayments of third-party loan	(59,921)	-
Proceeds of third-party loan		78,787
Net cash provided by/(used in) financing activities	(102,263)	139,095
EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	104,268	(8,906)
CHANGE IN CASH AND CASH EQUIVALENTS	(1,581,432)	(649,653)
CASH AND CASH EQUIVALENTS, beginning of period	21,910,338	7,564,681
CASH AND CASH EQUIVALENTS, end of period	$ 20,328,906	$ 6,915,028
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for income tax	$	$ 287
Cash paid for interest expense	$ 790	$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Initial recognition of right-of-use assets and lease liabilities	$ 826,272	$ 890,864

Note 1 — Nature of business and organization

MicroCloud Hologram Inc. (formerly known as Golden Path Acquisition Corporation (“Golden Path” or “the Company”)), a Cayman Islands exempted company, is a leading holographic digitalization technology service provider in China, which is committed to providing first-class holographic technology services to the customers worldwide.

On September 16, 2022, the Company consummated the previously announced business combination pursuant to the Merger Agreement, by and among Golden Path, Golden Path Merger Sub, and MC. Pursuant to the Merger Agreement, MC merged with Golden Path Merger Sub, survived the merger and continued as the surviving company and a wholly owned subsidiary of Golden Path (the “Merger”, and, collectively with the other transactions described in the Merger Agreement, the “Business Combination”). Upon the closing of the Business Combination, Golden Path changed its name to MicroCloud Hologram Inc., pursuant to which Golden Path issued 44,554,455 ordinary shares to MC shareholders. Prior to the Transaction Close, the holders of Golden Path ordinary shares had the right to redeem all or a portion of their Golden Path ordinary shares calculated in accordance with Golden Path’s governing documents. At the Closing, each of Golden Path’s public units separated into its components consisting of one ordinary share, one warrant and one right, as a result, the units no longer trade as a separate security. As a result of the closing of the Business Combination, after reflecting the actual redemption of 2,182,470 shares by Golden Path shareholders, MC owns approximately 87.68% of the outstanding Golden Path ordinary shares, the former shareholders of Golden Path owns approximately 11.57% of the outstanding Golden Path ordinary shares, and Peace Asset Management, a private held entity who facilitated the business combination, owns approximately 0.75 % as of March 31, 2023 (not giving effect to any shares issuable to them upon the exercise of any Golden Path warrants). Immediately after giving effect to the Business Combination, MicroCloud has 50,812,035 ordinary shares issued and outstanding, and 6,020,500 warrants outstanding. The proceeds received from the Reverse Recapitalization is $33.2 million, net of certain transaction costs.

As a result of the consummation of the Business Combination, MC is now a wholly owned subsidiary of the Company, which has changed its name to MicroCloud Hologram Inc.

Following the Closing, on September 19, 2022, the ordinary shares and public warrants outstanding upon the Closing began trading on the NASDAQ Stock Exchange (the “NASDAQ”) under the symbols “HOLO” and “HOLOW,” respectively.

The transaction was accounted for as a “reverse recapitalization” in accordance with accounting principles generally accepted in the United States (“GAAP”) because the primary assets of Golden Path would be nominal following the close of the Merger. Under this method of accounting, Golden Path was treated as the “acquired” company for financial reporting purposes and MC was determined to be the accounting acquirer based on the terms of the Merger and other factors including: (i) MC’s stockholders have a majority of the voting power of the combined company, (ii) MC comprises a majority of the governing body of the combined company, and MC’s senior management comprises all of the senior management of the combined company, and (iii) MC comprises all of the ongoing operations of the combined entity. Accordingly, for accounting purposes, this transaction was treated as the equivalent of the Company issuing shares for the net assets of Golden Path, accompanied by a recapitalization. The shares and net loss per common share, prior to the Reverse Recapitalization, have been retroactively restated as shares reflecting the Exchange Ratio established in the Reverse Recapitalization (one Golden Path share for one Company share). The net assets of Golden Path were recorded at historical costs, with no goodwill or other intangible assets recorded. Operations prior to the Reverse Recapitalization are those of MC.

The accompanying consolidated financial statements reflect the activities of the Company and each of the following entities as of March 31, 2023:

Name	Background	Ownership
MC Hologram Inc ("MC")	- A Cayman Islands company - Formed on November 10, 2020 - Registered capital of USD 50,000	100% owned by MicroCloud
Quantum Edge HK Limited ("Mengyun HK")	- A Hong Kong company - Formed on November 25, 2020 - Registered capital of HK 10,000 (USD 1,290) - A holding company	100% owned by MC
Beijing Xihuiyun Technology Co., Ltd ("Beijing Xihuiyun")	- PRC limited liability company - Formed on May 11, 2021 - Registered capital of RMB 207,048,000 (USD 30,000,000) - A holding company	100% owned by Mengyun HK
Shanghai Mengyun Holographic Technology Co., Ltd. ("Shanghai Mengyun")	- A PRC limited liability company - Formed on March 24, 2016 - Registered capital of RMB 27,000,000 (USD 4,316,665) - Primarily engages in holographic integrated solutions.	81.63% owned by Beijing Xihuiyun and 18.37% owned by Mengyun HK
Shenzhen Mengyun Holographic Technology Co., Ltd. ("Shenzhen Mengyun")	- A PRC limited liability company - Formed on March 15, 2016 - Registered capital of RMB 10,000,000 (USD 1,538,461) - Primarily engages in holographic integrated solutions.	100% owned by Shanghai Mengyun
Shenzhen Qianhai Youshi Technology Co., Ltd. ("Qianhai Youshi")	- A PRC limited liability company - Formed on August 14, 2014 - Registered capital of RMB 10,000,000 (USD 1,538,461) - Primarily engages in holographic content sales and SDK software services.	100% owned by Shanghai Mengyun
Shenzhen Yijia Network Technology Co., Ltd. ("Yijia Network")	- A PRC limited liability company - Formed on September 25, 2008 - Registered capital of RMB 10,000,000 (USD 1,538,461) - Primarily engages in holographic content sales and SDK software services.	100% owned by Qianhai Youshi

Name	Background	Ownership
Horgos Youshi Network Technology Co., Ltd. ("Horgos Youshi")	- A PRC limited liability company - Formed on November 2, 2020 - Registered capital of RMB 1,000,000 (USD 153,846) - Primarily engages in holographic content sales and SDK software services.	100% owned by Qianhai Youshi
Horgos Weiyi Software Technology Co., Ltd. ("Horgos Weiyi")	- A PRC limited liability company - Formed on September 6, 2016 - Registered capital of RMB 10,000,000 (USD 1,538,461) - Primarily engages in holographic integrated solutions.	100% owned by Shenzhen Mengyun
Shenzhen BroadVision Technology Co., Ltd. ("Shenzhen Bowei")	- A PRC limited liability company - Formed on April 12, 2016 - Registered capital of RMB 10,000,000 (USD 1,538,461) - Primarily engages in holographic PCBA solutions.	100% owned by Shenzhen Mengyun
Mcloudvr Software Network Technology HK Co., Limited ("Mcloudvr HK")	- A Hong Kong company - Formed on February 2, 2016 - Registered capital of HKD 100,000 (USD 12,882) - Primarily engages in holographic integrated solutions.	100% owned by Shenzhen Mengyun
Shenzhen Tianyuemeng Technology Co., Ltd. ("Shenzhen Tianyuemeng")	- A PRC limited liability company - Formed on January 6, 2014 - Registered capital of RMB 20,000,000 (USD 3,076,922) - Primarily engages in holographic advertising services.	100% owned by Shenzhen Mengyun
Shenzhen Yunao Hongxiang Technology Co., Ltd. ("Shenzhen Yunao")	- A PRC limited liability company - Formed on December 3, 2021 - Registered capital of RMB 5,000,000 (USD 784,671) - Advertising service	100% owned by Shenzhen Mengyun
Broadvision Intelligence (Hong Kong), Ltd. ("Broadvision HK")	- A Hong Kong company - Formed on November 5, 2020 - Registered capital of HKD 10,000 (USD 1,288) - No operation	100% owned by Shenzhen Bowei
Horgos BroadVision Technology Co., Ltd. ("Horgos Bowei")	- A PRC limited liability company - Formed on November 4, 2020 - Registered capital of RMB 1,000,000 (USD 153,846) - Primarily engages in holographic PCBA solutions.	100% owned by Shenzhen Bowei

Name	Background	Ownership
Horgos Tianyuemeng Technology Co., Ltd. ("Horgos Tianyuemeng")	- A PRC limited liability company - Formed on October 23, 2020 - Registered capital of RMB 1,000,000 (USD 153,846) - Primarily engages in SDK software services.	100% owned by Shenzhen Tianyuemeng
Horgos Tianyuemeng Technology Co., Ltd.- Shenzhen Branch ("Horgos Tianyuemeng-SZ")	- A PRC limited liability company - Formed on March 19, 2021 - Registered capital of RMB 1,000,000 (USD 153,846) - No operation - Dissolved on December 10, 2021	100% owned by Horgos Tianyuemeng
Shanghai Mengyun Quanyou Vision Technology Co., Ltd ("Shanghai Quanyou")	- A PRC limited liability company - Formed on June 24, 2021 - Registered capital of RMB 1,000,000 (USD 153,846) - No operation - Dissolved on September 1, 2021	100% owned by Shanghai Mengyun
Ocean Cloud Technology Co., Limited. ("Ocean HK")	- A Hong Kong company - Formed on November 4, 2021 - Registered capital of HKD 10,000 (USD 1,288) - No operation	56% owned by Mcloudvr HK
Shenzhen Haiyun Xinsheng Technology Co., Ltd. ("Shenzhen Haiyun")	- A PRC limited liability company - Formed on December 3, 2021 - Registered capital of RMB 50,000,000 (USD 7,846,707) - No operation	100% owned by Ocean HK
Shenzhen Tata Mutual Entertainment Information Technology Co., Ltd. ("Shenzhen Tata")	- A PRC limited liability company - Formed on January 16, 2020 - Sold on June 30, 2022 - Registered capital of RMB 5,000,000 (USD 784,671) - Game promotion service	100% owned by Shenzhen Haiyun
Shenzhen Youmi Technology Co., Ltd. ("Shenzhen Youmi")	- A PRC limited liability company - Formed on March 17, 2022 - Registered capital of RMB 5,000,000 (USD 784,671) - Game promotion and advertising service	100% owned by Shenzhen Haiyun
Shenzhen Yushian Technology Co., Ltd. ("Shenzhen Yushi")	- A PRC limited liability company - Formed on February 18, 2022 - Registered capital of RMB 5,000,000 (USD 784,671) - Advertising service	100% owned by Shenzhen Haiyun

Name	Background	Ownership
Horgos Tata Mutual Entertainment Information Technology Co., Ltd. ("Horgos Tata")	- A PRC limited liability company - Formed on March 22, 2022 - Sold on June 30, 2022 - Registered capital of RMB 5,000,000 (USD 784,671) - Game promotion service	100% owned by Shenzhen Tata
Horgos Youmi Technology Co., Ltd. ("Horgos Youmi")	- A PRC limited liability company - Formed on January 29, 2022 - Registered capital of RMB 5,000,000 (USD 784,671) - Advertising service	100% owned by Shenzhen Youmi
Horgos Yushian Technology Co., Ltd. ("Horgos Yushi")	- A PRC limited liability company - Formed on March 24, 2022 - Registered capital of RMB 5,000,000 (USD 784,671) - Advertising service	100% owned by Shenzhen Yushi
Kashgar Youshi Information Technology Co., Ltd. ("Kashgar Youshi")	- A PRC limited liability company - Formed on May 5, 2016 - Registered capital of RMB 5,000,000 (USD 769,230) - Primarily engages in holographic content sales and SDK software services.	100% owned by Qianhai Youshi

Note 2 — Summary of significant accounting policies

Liquidity

In assessing the Company's liquidity, the Company monitors and analyses its cash on-hand and its operating and capital expenditure commitments. The Company's liquidity needs are to meet its working capital requirements, operating expenses and capital expenditure obligations. Cash flow from operations, advance from shareholders, and proceeds from third party loan have been utilized to finance the working capital requirements of the Company. As of March 31, 2023, the Company had cash of $20.3 million. The Company's working capital was approximately $21.5 million as of March 31, 2023. The Company believes its revenues and operations will continue to grow and the current working capital is sufficient to support its operations and debt obligations as they become due one year through report date.

Basis of presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and applicable rules and regulations of the Securities and Exchange Commission, regarding financial reporting, and include all normal and recurring adjustments that management of the Company considers necessary for a fair presentation of its financial position and operation results. The results of operations for the three months ended March 31, 2023 are not necessarily indicative of results to be expected for any other three months period or for the full year of 2023. Accordingly, these statements should be read in conjunction with the Company's audited financial statements and note thereto as of and for the year ended December 31, 2022.

Principles of consolidation

The unaudited consolidated financial statements include the financial statements of the Company and its subsidiaries. All significant intercompany transactions and balances between the Company and its subsidiaries are eliminated upon consolidation.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; or has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast a majority of votes at the meeting of directors.

Use of estimates and assumptions

The preparation of unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the unaudited consolidated financial statements and the reported amounts of revenues and expenses during the periods presented. Significant accounting estimates reflected in the Company's unaudited consolidated financial statements include the useful lives of property and equipment and intangible assets, impairment of long-lived assets and goodwill, allowance for doubtful accounts, revenue recognition, inventory reserve, purchase price allocation for business combination, uncertain tax position, and deferred taxes. Actual results could differ from these estimates.

Foreign currency translation and transaction

The functional currency of MicroCloud, MC, Mengyun HK, Mcloudvr HK and Broadvision HK is in US dollars and the functional currency of the Company's other subsidiaries are RMB, as determined based on the criteria of Accounting Standards Codification ("ASC") 830 "Foreign Currency Matters."

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the rates of exchange in place at the balance sheet date. Transactions in currencies other than the functional currency during the year are converted into the functional currency at the applicable rates of exchange prevailing when the transactions occurred. Transaction gains and losses are recognized in the unaudited consolidated statement of operations.

In the unaudited consolidated financial statements, the financial information of the Company and other entities located outside of the PRC has been translated into USD. Assets and liabilities of the Company translated from their respective functional currencies to the reporting currency at the exchange rates at the balance sheet dates, equity accounts are translated at historical exchange rates and revenues and expenses are translated at the average exchange rates in effect during the reporting period. The resulting foreign currency translation adjustment are recorded in other comprehensive income (loss).

The balance sheet amounts, with the exception of shareholders' equity for MC, Mengyun HK, Mcloudvr HK and Broadvision HK as of March 31, 2023 and December 31, 2022 were translated at RMB 1.00 to USD 0.1456 and to USD 0.1450, respectively. The shareholders' equity accounts were stated at their historical rate. Cash flows are also translated at average translation rates for the periods, therefore, amounts reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheet.

Convenience translation

Translations of balances in the unaudited consolidated balance sheets, consolidated statements of income and consolidated statements of cash flows from RMB into USD as of and for the three months ended March 31, 2023 are solely for the convenience of the reader and were calculated at the rate of RMB 1.00 to USD 0.1456, representing the noon buying rate set forth in the H.10 statistical release of the U.S. Federal Reserve Board on March 31, 2023. No representation is made that the RMB amounts represent or could have been, or could be, converted, realized or settled into USD at that rate, or at any other rate.

Cash and cash equivalents

Cash and cash equivalents primarily consist of bank deposits with original maturities of six months or less, which are unrestricted as to withdrawal and use. Cash and cash equivalents also consist of funds earned from the Company's operating revenues which were held at third party platform fund accounts which are unrestricted as to immediate use or withdrawal. The Company maintains most of its bank accounts in the PRC.

Accounts receivable, net

Accounts receivables include trade accounts due from customers. Accounts are considered overdue after 90 days. Management reviews its receivables on a regular basis to determine if the bad debt allowance is adequate, and provides an allowance when necessary. The allowance is based on management's best estimates of specific losses on individual customer exposures, as well as the historical trends of collections. Account balances are charged off against the allowance after all means of collection have been exhausted and the likelihood of collection is not probable. As of March 31, 2023, and December 31, 2022, the Company has $2,820,015 and $705,060 of allowance for doubtful accounts for accounts receivable, respectively.

Inventories, net

Inventories are comprised of raw material and finish goods are stated at the lower of cost or net realizable value using the weighted average method. Cost of finished goods comprise direct material and outsourced assembling costs. Management reviews inventories for obsolescence and cost in excess of net realizable value periodically when appropriate and records a reserve against the inventory when the carrying value exceeds net realizable value. As of March 31, 2023 and December 31, 2022, the Company has an allowance of $25,964 and $25,584, respectively.

Prepayments, other current assets and deposits, net

Prepayments and other current assets are mainly payments made to vendors or service providers for purchasing goods or services that have not been received or provided, deposits for rent and utilities and employee advances. This amount is refundable and bears no interest. Prepayment and deposit are classified as either current or non-current based on the terms of the respective agreements. These advances are unsecured and are reviewed periodically to determine whether their carrying value has become impaired. As of March 31, 2023, and December 31, 2022, the Company made $478 and $481 allowance for noncurrent prepayments and deposits, respectively.

Property and equipment, net

Property and equipment are stated at cost less accumulated depreciation and impairment if applicable. Depreciation is computed using the straight-line method over the estimated useful lives of the assets with a 5% residual value. The estimated useful lives are as follows:

	Useful Life
Office equipment	3 years
Mechanical equipment	3 – 5 years
Electronic equipment	3 – 5 years

The cost and related accumulated depreciation of assets sold or otherwise retired are eliminated from the accounts and any gain or loss is included in the consolidated statements of income and comprehensive income. Expenditures for maintenance and repairs are charged to earnings as incurred, while additions, renewals and betterments, which are expected to extend the useful life of assets, are capitalized. The Company also re-evaluates the periods of depreciation to determine whether subsequent events and circumstances warrant revised estimates of useful lives.

Intangible assets, net

The Company's intangible assets with definite useful lives primarily consist of customer relationships, software, and non-competing agreements. Identifiable intangible assets resulting from the acquisitions of subsidiaries accounted for using the purchase method of accounting are estimated by management based on the fair value of assets received. The Company amortizes its intangible assets with definite useful lives over their estimated useful lives and reviews these assets for impairment. The Company typically amortizes its intangible assets with definite useful lives on a straight-line basis over the shorter of the contractual terms or the estimated useful lives of three to ten years.

Goodwill

Goodwill represents the excess of the consideration paid for an acquisition over the fair value of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill is not amortized and is tested for impairment at least annually, more often when circumstances indicate impairment may have occurred. Goodwill is carried at cost less accumulated impairment losses. If impairment exists, goodwill is immediately written down to its fair value and the loss is recognized in the consolidated statements of income and comprehensive income. Impairment losses on goodwill are not reversed.

The Company has the option to assess qualitative factors to determine whether it is necessary to perform further impairment testing in accordance with ASC 350-20, as amended by ASU 2017-04. If the Company believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, then the impairment test described below is required. The Company compares the fair values of each reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered to be impaired. If the carrying amount of a reporting unit exceeds its fair value, impairment is recognized for the difference, limited to the amount of goodwill recognized for the reporting unit. Estimating fair value is performed by utilizing various valuation techniques, with the primary technique being discounted cash flows.

Impairment for long-lived assets

Long-lived assets, including property and equipment and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying value of an asset may not be recoverable. The Company assesses the recoverability of the assets based on the undiscounted future cash flows the assets are expected to generate and recognize an impairment loss when estimated undiscounted future cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. If an impairment is identified, the Company would reduce the carrying amount of the asset to its estimated fair value based on a discounted cash flows approach or, when available and appropriate, to comparable market values. For the three months ended March 31, 2023 and 2022, no impairment of long-lived assets was recognized.

Investments in unconsolidated entities

The Company's investments in unconsolidated entities consist of equity investments without readily determinable fair value.

The Company follows ASC Topic 321, Investments Equity Securities ("ASC 321") to account for investments that do not have readily determinable fair value and over which the Company does not have significant influence. The Company uses the measurement alternative to measure those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any.

An impairment charge is recorded if the carrying amount of the investment exceeds its fair value and this condition is determined to be other-than temporary.

Business combination

The purchase price of an acquired company is allocated between tangible and intangible assets acquired and liabilities assumed from the acquired business based on their estimated fair values, with the residual of the purchase price recorded as goodwill. Transaction costs associated with business combinations are expensed as incurred, and are included in general and administrative expenses in the Company's consolidated statements of income and comprehensive income. The results of operations of the acquired business are included in the Company's operating results from the date of acquisition.

Fair value measurement

U.S. GAAP regarding fair value of financial instruments and related fair value measurements defines financial instruments and requires disclosure of the fair value of financial instruments held by the Company.

U.S. GAAP defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. The three levels are defined as follow:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value.

Financial instruments included in current assets and current liabilities are reported in the unaudited consolidated balance sheets at face value or cost, which approximate fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rates of interest.

Noncontrolling Interests

The Company's noncontrolling interests represent the minority shareholders' ownership interests related to the Company's subsidiaries, including 44% for Ocean HK and its subsidiaries. The noncontrolling interests are presented in the consolidated balance sheets separately from equity attributable to the shareholders of the Company. Noncontrolling interests in the results of the Company are presented on the consolidated statement of income as allocations of the total income or loss for the three months ended March 31, 2023 between noncontrolling interest holders and the shareholders of the Company.

Ordinary share Warrants

The Company accounts for ordinary share warrants as either equity instruments or liabilities in accordance with ASC 480, *Distinguishing Liabilities from Equity* ("ASC 480"), depending on the specific terms of the warrant agreement.

Revenue recognition

Effective January 1, 2019, the Company adopted ASC Topic 606 using the modified retrospective adoption method. Based on the requirements of ASC Topic 606, revenue is recognized when control of the promised goods or services is transferred to the customers in an amount that reflects the consideration the Company expects to be entitled to receive in exchange for those goods or services. The Company primarily sells its products to hospitals and medical equipment companies. Revenue is recognized when the following 5-step revenue recognition criteria are met:

1) Identify the contract with a customer

2) Identify the performance obligations in the contract

3) Determine the transaction price

4) Allocate the transaction price

5) Recognize revenue when or as the entity satisfies a performance obligation

The Company's revenue recognition policies effective upon the adoption of ASC 606 are as follows:

(i) Holographic Solutions

a. Holographic Technology LiDAR Products

The Company generates LiDAR revenue through selling integrated circuit board embedded with holographic software. The Company typically enters into written contracts with its customer where the rights of the parties, including payment terms, are identified and sales prices to the customers are fixed with no separate sales rebate, discount, or other incentive and no right of return exists on sales of inventory. The Company's performance obligation is to deliver products according to contract specifications. The Company recognizes product revenue at a point in time when the control of products is transferred to customers.

b. Holographic Technology Intelligence Vision software and Technology Development Service

The Company generates revenue by developing ADAS software and technology, which are generally on a fixed-priced basis. The Company has no alternative use for the customized software and the Company has an enforceable right to payment for performance completed to date. Revenues from ADAS software development contracts are recognized over time during the contract period based on the Company's measurement of progress towards completion using input method, which is usually measured by comparing labor hours expended to date to total estimated labor hours needed to satisfy the performance obligation. As of March 31, 2023 and December 31, 2022, the Company's aggregate amount of transaction price allocated to unsatisfied performance obligation is $0 and $384,489. Assumptions, risks and uncertainties inherent in the estimates used to measure progress could affect the amount of revenues, receivables and deferred revenues at each reporting period. The Company has a long history of developing various ADAS software resulting in its ability to reasonably estimate the progress toward completion on each fixed price customized contracts.

c. Holographic Technology Licensing and Content Products

The Company provides holographic content products and holographic software for music videos, shows, and commercials on a fixed-price basis. These contents and software are generally pre-developed and exist when made available to the customer. Content products are delivered through its website or offline using hard drive.

Revenues from licensing and content products are recognized at the point in time when the control of products or services is transferred to customers. No upgrades, maintenance, or any other post-contract customer support are provided.

d. Holographic Technology Hardware Sales

The Company is a distributer of holographic hardware and generates revenue through resale. In accordance with ASC 606, revenue recognition: principal agent consideration, an entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. Otherwise, the entity is an agent in the transaction. The Company evaluates three indicators of control in accordance with ASU 2016-08: 1) For hardware sales, the Company is the most visible entity to customers and assumes fulfilment risk and risks related to the acceptability of products, including addressing customer complaints directly and handling of product returns or refunds directly. 2) The Company assumes inventory risk after taking the title from vendors and is responsible for product damage during shipment period prior to acceptance of its customers and is also responsible for product return if the customer is not satisfied with the products. 3) The Company determines the resale price of hardware products. 4) The Company is the party that directs the use of the inventory and can prevent the vendor from transferring the product to a customer or to redirect the products to a different customer. After evaluating the above scenario, the Company considers itself the principal of these arrangements and records hardware sales revenue on a gross basis.

Hardware sales contracts are on a fixed price basis with no separate sales rebate, discount, or other incentive. Revenue is recognized at a point in time when the Company has delivered products and the acceptance by its customer with no future obligation. The Company generally permits returns of products due to deficits; however, returns are historically insignificant.

(ii) Holographic Technology Service

Holographic advertisements are the use of holographic technology integrated into advertisements on media platforms and offline display. The Company enters advertising contracts with advertisers to promote merchandises and services where the price, which is generally based on cost per action ("CPA"), is fixed and determinable. The Company provides its advertising service to channel providers where the amounts cost per action are also fixed and determinable. Revenue is recognized at a point of time when agreed actions are performed. The Company considers itself as provider of the services under the CPA model as it has the control of the services at any time before it is transferred to the customers which is evidenced by 1) having a right to a service to be performed by the other party, which gives the Company the ability to direct that party to provide the service to the customers on the Company's behalf. 2) having discretion in setting the price for the service 3) billing monthly advertising fee directly to customers by settling valid CPA data with customers. Therefore, the Company acts as the principal of these arrangements and reports revenue earned and costs incurred related to these transactions on a gross basis. The Company also provides advertisement services through influencers on social networks. The Company charges advertisers a fixed rate, which is generally a fixed percentage of total value of merchandise sold over a specific period ("GMV"). Revenue is recognized at a point of time when merchandise is sold through social network.

The Company's SDK service is a collection of software development tools in one installable package that enables customers (usually software developers) to add holographic functionality and run holographic advertisements in their APPs or software. SDK contracts are primarily on a fixed rate basis, or cost per SDK Connection. The Company recognizes SDK service revenue at a point in time when a user completes an SDK connection via a designated portal. Service fees are generally billed monthly based on per-connection basis.

The Company also provides game promotion services for game developers and licensed game operators. The Company acted as a marketing channel that it will promote the games through in-house or third-party platforms, from which users can download the mobile and purchase virtual currency for in game premium features to enhance their game playing experience. The Company contracts with third party payment platforms for collection services offered to game players who have purchased virtual currency. The game developers, licensed operator, payment platforms and the marketing channels are entitled to profit sharing based on a prescribed percentage of the gross amount charged to the game players. The Company's obligation in the promotion services is completed at a point in time when the game players made a payment to purchase virtual currency. The Company considered itself an agent in these arrangements since it does not control the services at any time. Accordingly, the Company records the game promotion service revenue on a net basis.

Contract balances:

The Company records receivable related to revenue when it has an unconditional right to invoice and receive payment.

Payments received from customers before all of the relevant criteria for revenue recognition met are recorded as deferred revenues.

Cost of revenues

For holographic solutions, the cost of revenue consists primarily of the costs of hardware products sold and outsourced content providers, third party software development costs, and compensation expenses for the Company's professionals.

For holographic technology service, the cost of revenue consists primarily of costs paid to channel distributors for advertising services and compensation expenses for the Company's professionals.

Advertising costs

Advertising costs amounted to $138,153.67 and $85,937 for the three months ended March 31, 2023 and 2022, respectively. Advertising costs are expensed as incurred and included in selling expenses.

Research and development

Research and development expenses include salaries and other compensation-related expenses to the Company's research and product development personnel, outsourced subcontractors, as well as office rental, depreciation and related expenses for the Company's research and product development team.

Value added taxes ("VAT")

Revenue represents the invoiced value of service, net of VAT. VAT is based on the gross sales price. The VAT rate is 6% on services and 13% on goods in China. Entities that are VAT general taxpayers are allowed to offset qualified input VAT paid to suppliers against their output VAT liabilities. Net VAT balance between input VAT and output VAT is recorded in taxes payable. All of the VAT returns filed by the Company's subsidiaries in China, have been and remain subject to examination by the tax authorities for five years from the date of filing.

Income taxes

The Company are accounted for current income taxes in accordance with the laws of the relevant tax authorities. The charge for taxation is based on the results for the fiscal year as adjusted for items, which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxes are accounted for using the asset and liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the unaudited consolidated financial statements and the corresponding tax basis used in the computation of assessable tax profit. In principle, deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized. Deferred tax is calculated using tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when it is related to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the net deferred tax asset will not be realized. Current income taxes are provided for in accordance with the laws of the relevant taxing authorities.

An uncertain tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit has a greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. No penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the period incurred.

Other income, net

Other income includes government subsidies which are amounts granted by local government authorities as an incentive for companies to promote development of the local technology industry. The Company receives government subsidies and records such government subsidies as a liability when it is received. The Company records government subsidies as other income when there is no further performance obligation. Total government subsidies amounted to $12,191 and $6,665 for the three months ended March 31, 2023 and 2022, respectively.

Other income also includes $25,235 and $8,158 for other non-operating income for the three months ended March 31, 2023 and 2022, respectively.

Operating leases

Effective January 1, 2022, the Company adopted ASU 2016-02, "Leases" (Topic 842), and elected the practical expedients that does not require the Company to reassess: (1) whether any expired or existing contracts are, or contain, leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases. For lease terms of twelve months or fewer, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. The Company also adopted the practical expedient that allows lessees to treat the lease and non-lease components of a lease as a single lease component. On January 1, 2022, the Company recognized approximately USD 0.8 million of right of use ("ROU") assets and approximately USD 0.8 million of operating lease liabilities based on the present value of the future minimum rental payments of leases, using incremental borrowing rate of 7%.

The Company determines if a contract contains a lease at inception. US GAAP requires that the Company's leases be evaluated and classified as operating or finance leases for financial reporting purposes. The classification evaluation begins at the commencement date and the lease term used in the evaluation includes the non-cancellable period for which the Company has the right to use the underlying asset, together with renewal option periods when the exercise of the renewal option is reasonably certain and failure to exercise such option which result in an economic penalty. All of the Company's real estate leases are classified as operating leases.

When determining the lease payments for an operating lease transitioning to ASC 842 using the effective date, it's based on future payments at the transition date, based on the present value of lease payments over the remaining lease term. Since the implicit rate for the Company's leases is not readily determinable, the Company use its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow, on a collateralized basis, an amount equal to the lease payments, in a similar economic environment and over a similar term.

Lease terms used to calculate the present value of lease payments generally do not include any options to extend, renew, or terminate the lease, as the Company does not have reasonable certainty at lease inception that these options will be exercised. The Company generally considers the economic life of its operating lease ROU assets to be comparable to the useful life of similar owned assets. The Company has elected the short-term lease exception, therefore operating lease ROU assets and liabilities do not include leases with a lease term of twelve months or less. Its leases generally do not provide a residual guarantee. The operating lease ROU asset also excludes lease incentives. Lease expense is recognized on a straight-line basis over the lease term.

The Company reviews the impairment of its ROU assets consistent with the approach applied for its other long-lived assets. The Company reviews the recoverability of its long-lived assets when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on its ability to recover the carrying value of the asset from the expected undiscounted future pre-tax cash flows of the related operations. The Company has elected to include the carrying amount of operating lease liabilities in any tested asset group and includes the associated operating lease payments in the undiscounted future pre-tax cash flows.

Statutory reserves

Pursuant to the laws applicable to the PRC, PRC entities must make appropriations from after-tax profit to the non-distributable "statutory surplus reserve fund". Subject to certain cumulative limits, the "statutory surplus reserve fund" requires annual appropriations of 10% of after-tax profit until the aggregated appropriations reach 50% of the registered capital (as determined under accounting principles generally accepted in the PRC ("PRC GAAP") at each year-end). For foreign invested enterprises and joint ventures in the PRC, annual appropriations should be made to the "reserve fund". For foreign invested enterprises, the annual appropriation for the "reserve fund" cannot be less than 10% of after-tax profits until the aggregated appropriations reach 50% of the registered capital (as determined under PRC GAAP at each year-end). If the Company has accumulated loss from prior periods, the Company is able to use the current period net income after tax to offset against the accumulate loss.

Earnings per share

The Company computes earnings per share ("EPS") in accordance with ASC 260, "Earnings per Share". ASC 260 requires companies to present basic and diluted EPS. Basic EPS is measured as net income divided by the weighted average common share outstanding for the period. Diluted EPS presents the dilutive effect on a per share basis of the potential common shares (e.g., convertible securities, options and warrants) as if they had been converted at the beginning of the periods presented, or issuance date, if later. Potential common shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS.

Segment reporting

ASC 280, "Segment Reporting", establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organizational structure as well as information about geographical areas, business segments and major customers in financial statements for detailing the Company's business segments.

The Company's chief operating decision maker is the Chief Executive Officer, who reviews the financial information of the separate operating segments when making decisions about allocating resources and assessing the performance of the group. The Company has determined that it has two operating segments: (1) holographic solutions, and (2) holographic technology service.

Employee benefits

The full-time employees of the Company are entitled to staff welfare benefits including medical care, housing fund, pension benefits, unemployment insurance and other welfare, which are government mandated defined contribution plans. The Company is required to accrue for these benefits based on certain percentages of the employees' respective salaries, subject to certain ceilings, in accordance with the relevant PRC regulations, and make cash contributions to the state-sponsored plans out of the amounts accrued. Total expenses for the plans were $60,844 and $176,196 the three months ended March 31, 2023 and 2022, respectively.

Recently issued accounting pronouncements

In May 2019, the FASB issued ASU 2019-05, which is an update to ASU Update No. 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which introduced the expected credit losses methodology for the measurement of credit losses on financial assets measured at amortized cost basis, replacing the previous incurred loss methodology. The amendments in Update 2016-13 added Topic 326, Financial Instruments — Credit Losses, and made several consequential amendments to the Codification. Update 2016-13 also modified the accounting for available-for-sale debt securities, which must be individually assessed for credit losses when fair value is less than the amortized cost basis, in accordance with Subtopic 326-30, Financial Instruments — Credit Losses — Available-for-Sale Debt Securities. The amendments in this Update address those stakeholders' concerns by providing an option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost basis. For those entities, the targeted transition relief will increase comparability of financial statement information by providing an option to align measurement methodologies for similar financial assets. Furthermore, the targeted transition relief also may reduce the costs for some entities to comply with the amendments in Update 2016-13 while still providing financial statement users with decision-useful information.

In November 2019, the FASB issued ASU No. 2019-10, which to update the effective date of ASU No. 2016-02 for private companies, not-for-profit organizations and certain smaller reporting companies applying for credit losses, leases, and hedging standard. The new effective date for these preparers is for fiscal years beginning after December 15, 2022. The Company is still evaluating the impact of the adoption of this ASU on the Company's unaudited consolidated financial statements.

In October 2020, the FASB issued ASU 2020-08, "Codification Improvements to Subtopic 310-20, Receivables — Nonrefundable Fees and Other Costs". The amendments in this Update represent changes to clarify the Codification. The amendments make the Codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications. ASU 2020-08 is effective for the Company for annual and interim reporting periods beginning July 1, 2021. Early application is not permitted. All entities should apply the amendments in this Update on a prospective basis as of the beginning of the period of adoption for existing or newly purchased callable debt securities. These amendments do not change the effective dates for Update 2017-08. The adoption of this new standard does not have material impact on Company's unaudited consolidated financial statements and related disclosures.

Except as mentioned above, the Company does not believe other recently issued but not yet effective accounting standards, if currently adopted, would have a material effect on the Company's consolidated balance sheets, statements of income and comprehensive income and statements of cash flows.

Note 3 — Accounts receivable, net

Accounts receivable, net consisted of the following:

	March 31, 2023	**December 31, 2022**
Accounts receivable	$ 12,401,061	$ 12,355,072
Less: allowance for doubtful accounts	(2,820,015)	(705,060)
Accounts receivable, net	$ 9,581,046	$ 11,650,012

Movement of allowance for doubtful accounts is as follows:

	March 31, 2023	**December 31, 2022**
Beginning balance	$ 705,060	$ 296,051
Provision for doubtful accounts	2,119,725	442,335
Exchange difference	(4,770)	(33,326)
Ending balance	$ 2,820,015	$ 705,060

Net provision for doubtful accounts for the three months ended March 31, 2023 and 2022 amounted to $2,119,725 and $442,335, respectively.

Note 4 — Inventories, net

	March 31, 2023	December 31, 2022
Raw materials	$ 283,532	$ 263,304
Finished goods	16,990	17,159
Total	300,522	280,463
Less: Inventory allowance	(25,694)	(25,584)
Inventories, net	$ 274,828	$ 254,879

As of March 31, 2023 and December 31, 2022, the management of the Company estimated its inventories at the lower of cost or market, determined on a weighted average method, or net realizable value. The Company recognized nil and nil inventory allowance as of March 31, 2023 and December 31, 2022, respectively.

Movement of inventory reserve is as follows:

	March 31, 2023	December 31, 2022
Beginning balance	$ 25,584	$ 27,692
Provision for inventory reserve	-	-
Exchange difference	110	(2,108)
Ending balance	$ 25,694	$ 25,584

Note 5 — Property and equipment, net

Property and equipment, net consist of the following:

	March 31, 2023	December 31, 2022
Office equipment	$ 166,063	$ 165,351
Mechanical equipment	154,228	153,566
Electronic and other equipment	388,465	355,875
Vehicles	6,404	6,377
Less: accumulated depreciation	(469,297)	(442,249)
Total	$ 245,863	$ 238,920

Depreciation expense for the three months ended March 31, 2023 and December 31, 2022 amounted to $27,048 and $69,104, respectively.

Note 6 — Intangible assets, net

The Company's intangible assets with definite useful lives primarily consist of accounting software. The following table summarizes acquired intangible asset balances as of:

	March 31 2023	December 31 2022
Customer relationship	$ 1,936,630	$ 1,928,318
Software	2,147,130	2,137,916
Non-compete agreements	334,906	333,469
Less: accumulated amortization	(2,411,863)	(2,170,317)
Total	$ 2,006,803	$ 2,229,386

The estimated annual amortization expense for each of the five succeeding fiscal years is as follow:

Year ending December 31,	
2023	$ 686,338
2024	669,919
2025	650,457
2026	89
Total	$ 2,006,803

Note 7 — Prepayment, other assets, and deposits

	March 31 2023	December 31 2022
Current:		
Inventory Purchase	$ 298,342	$ 457,875
Rent and rent deposits	780	18,776
VAT	166,598	129,480
Professional service	345,586	231,066
Other services	68,846	57,282
Prepayment and other current assets	$ 880,151	$ 894,479
Non-current:		
Rent deposits	$ 74,702	$ 59,144
Other	3,288	1,794
Allowance for doubtful accounts	(481)	(478)
Prepayment and deposit	$ 77,509	$ 60,460

Movement of allowance for doubtful accounts is as follows:

	March 31, 2023	December 31, 2022
Beginning balance	$ 478	$ 518
Recovery of doubtful accounts	-	-
Exchange difference	3	(40)
Ending balance	$ 481	$ 478

Note 8 — Goodwill

Goodwill represents the excess of the consideration paid of an acquisition over the fair value of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill is not amortized and is tested for impairment at least annually, more often when circumstances indicate impairment may have occurred. The following table summarizes the components of acquired goodwill balances as of:

	March 31, 2023	December 31, 2022
Goodwill from Shenzhen Bowei acquisition*	$ 1,416,665	$ 1,410,585
Goodwill from Shenzhen Tianyuemeng acquisition**	1,663,872	1,656,732
Goodwill	$ 3,080,537	$ 3,067,317

* On July 1, 2020, Shenzhen Mengyun entered into acquisition agreement to acquire 100% equity interests of Shenzhen Bowei, a provider of holographic PCBA solutions. The transaction consummated on July 1, 2020. According to the agreement, acquisition consideration is RMB 20,000,000 (approximately USD 3.1 million) to acquire the 100% equity interests of Shenzhen Bowei. Acquired amortizable intangible assets includes customer relationship, software, and non-compete agreements. Approximately RMB 9.7 million (USD 1.5 million) of goodwill arising from the acquisition is mainly attributable to the excess of the consideration paid over the fair value of the net assets acquired that cannot be recognized separately as identifiable assets under U.S. GAAP, and comprise (a) the assembled work force and (b) the expected but unidentifiable business growth as a result of the synergy resulting from the acquisition.

** On October 1, 2020, Shenzhen Mengyun entered into acquisition agreement to acquire 100% equity interests of Shenzhen Tianyuemeng, an entity focused on holographic advertising services. The transaction consummated on October 1, 2020. According to the agreement, acquisition consideration is RMB 30,000,000 (approximately USD 4.6 million) to acquire the 100% equity interests of Shenzhen Tianyuemeng. Acquired amortizable intangible assets includes customer relationship, software, and non-compete agreements. Approximately RMB 11.4 million (USD 1.8 million) of goodwill arising from the acquisition is mainly attributable to the excess of the consideration paid over the fair value of the net assets acquired that cannot be recognized separately as identifiable assets under U.S. GAAP, and comprise (a) the assembled work force and (b) the expected but unidentifiable business growth as a result of the synergy resulting from the acquisition.

The changes in the carrying amount of goodwill allocated to reportable segments as of December 31, 2022 and March 31, 2023 are as follows:

	Holographic solutions	Holographic technology service	Total
As of December 31, 2022	$ 1,410,585	$ 1,656,732	$ 3,067,317
As of March 31, 2023	$ 1,416,665	$ 1,663,872	$ 3,080,537

Note 9 — Investments in unconsolidated entities

	March 31, 2023	December 31, 2022
Equity investments without readily determinable fair value:		
19.9% Investment(1)	$ 291,223	$ 289,973
4.4% Investment(2)	72,806	72,493
5% Investment(3)	87,367	86,992
3% Investment(4)	145,611	144,986
2% Investment(5)	87,367	
Impairment	(597,006)	(594,444)
Total	$ 87,367	$ -

(1) In August 2016, Shenzhen Mengyun invested RMB 2,000,000 in a company in the technology development and animation design areas for 19.9% equity interest. Due to the continual losses, the Company believes that the probability of recovering the investment is low. Therefore, the Company accrued RMB 2,000,000 (USD 306,645) impairment loss for the investment in 2018.

(2) In November 2015, Shanghai Mengyun invested RMB 500,000 in a company in the database service for 4.44% equity interest. Due to the continual losses, the Company believes that the probability of recovering the investment is low. Therefore, the Company accrued RMB 500,000 (USD 76,661) impairment loss for the investment in 2018

(3) In September 2021, Shenzhen Mengyun invested RMB 600,000 in a company specializing in research and development of smart wearable devices for 5% equity interest. Due to the continual losses, the Company believes that the probability of recovering the investment is low. Therefore, the Company accrued RMB 600,000 (USD 89,166) impairment loss for the investment in 2022.

(4) In October 2021, Shenzhen Mengyun invested RMB 1,000,000 in a company specializing in VR/AR education technology for 3% equity interest. Due to the continual losses, the Company believes that the probability of recovering the investment is low. Therefore, the Company accrued RMB 1,000,000 (USD 148,611) impairment loss for the investment in 2022.

(5) In March 2023, Shenzhen Mengyun invested RMB 600,000 in a company in the technology development and animation design areas for 2% equity interest.

Note 10 — Other payables and accrued liabilities

Other payables and accrued liabilities consist of the following:

	March 31, 2023	December 31, 2022
Employee compensation payable	$ 1,004,959	$ 996,823
Payable from prior acquisition	565,953	563,524
Other	398,726	404,154
	$ 1,969,638	$ 1,964,501

Note 11 — Related party balances and transactions

The amounts due from related parties consist of the following:

RP Name	Relationship	Nature	March 31, 2023	December 31, 2022
Shenzhen Ultimate Holographic Culture Communication Co., Ltd.	Shenzhen Mengyun's 19.9% equity investment	Advances for operational purposes, no interest, due on demand	$ -	$ 8,740
			$ -	$ 8,740

The amounts due to related parties consists of the following:

RP Name	Relationship	Nature	March 31, 2023	December 31, 2022
Yuxiu Han	Former shareholder and current legal representative of Shenzhen Bowei	Advances for operational purpose, no interest, due on demand	-	50,745
			$ -	$ 50,745

Note 12 — Income taxes

Cayman Islands

MC was incorporated in the Cayman Islands and is not subject to tax on income or capital gains under the laws of Cayman Islands. Additionally, the Cayman Islands does not impose a withholding tax on payments of dividends to shareholders.

Hong Kong

Mengyun HK, Broadvision HK, Ocean HK and Mcloudvr HK are incorporated in Hong Kong and is subject to Hong Kong Profits Tax on the taxable income as reported in its statutory financial statements adjusted in accordance with relevant Hong Kong tax laws. The applicable tax rate is 16.5% in Hong Kong. Under Hong Kong tax law, Mengyun HK is exempted from income tax on its foreign-derived income and there are no withholding taxes in Hong Kong on remittance of dividends.

PRC

The subsidiaries incorporated in the PRC are governed by the income tax laws of the PRC and the income tax provision for operations in the PRC is calculated at the applicable tax rates on the taxable income for the periods based on existing legislation, interpretations and practices in respect thereof. Under the Enterprise Income Tax Laws of the PRC (the "EIT Laws"), domestic enterprises and Foreign Investment Enterprises (the "FIE") are subject to a unified 25% enterprise income tax rate while preferential tax rates, tax holidays and even tax exemptions may be granted on a case-by-case basis. EIT grants preferential tax treatment to certain High and New Technology Enterprises ("HNTEs"). Under this preferential tax treatment, HNTEs are entitled to an income tax rate of 15%, subject to a requirement that they re-apply for HNTE status every three years. Shanghai Mengyun obtained the "high-tech enterprise" tax status in October 2017 and further renewed in December 2020, which reduced its statutory income tax rate to 15% from January 2017 to December 2023. Shenzhen Mengyun obtained the "high-tech enterprise" tax status in November 2018 and further renewed in December 2021, which reduced its statutory income tax rate to 15% from January 2018 to December 2024. Shenzhen Bowei obtained the "high-tech enterprise" tax status in December 2021, which reduced its statutory income tax rate to 15% from December 2021 to December 2024.

Horgos Weiyi, Horgos Youshi, Horgos Bowei and Horgos Tianyuemeng were formed and registered in Horgos in Xinjiang Province, China from 2016 to 2020, and Kashgar Youshi was formed and registered in Kashgar in Xinjiang Provence, China in 2016. These companies are not subject to income tax for 5 years and can obtain another two years of tax exempt status and three years at reduced income tax rate of 12.5% after the 5 years due to the local tax policies to attract companies in various industries.

The Ministry of Finance ("MOF") and State Administration of Taxation ("SAT") on January 17, 2019 jointly issued Cai Shui 2019 No. 13. This clarified that from January 1, 2019 to December 31, 2021, eligible small enterprises whose RMB 1,000,000 of annual taxable income is eligible for a 75% reduction on a rate of 20% (i.e., effective rate is 5%) and the income between RMB 1,000,000 and RMB 3,000,000 is eligible for 50% reduction on a rate of 20% (i.e., effective rate is 10%). On April 2, 2021, MOF and SAT further jointly issued Cai Shui 2021 No. 12, which clarified that from January 1, 2022 to December 31, 2022, eligible small enterprises whose RMB 1,000,000 of annual taxable income is eligible for an extra 50% reduction base on Cai Shui 2019 No. 13 (i.e., effective rate is 2.5%). On March 14, 2022, MOF and SAT further jointly issued Cai Shui 2022 No. 13, which clarified that from January 1, 2022 to December 31, 2024, eligible small enterprises whose income between RMB 1,000,000 and RMB 3,000,000 is eligible for an extra 50% reduction base on Cai Shui 2019 No. 13 (i.e., effective rate is 5%). March 26, 2023, MOF and SAT further jointly issued Cai Shui 2023 No. 6 which clarified that from January 1, 2023 to December 31, 2024, eligible small enterprises whose RMB 1,000,000 of annual taxable income is eligible for a 75% reduction on a rate of 20% (i.e., effective rate is 5%).For the three months ended March 31, 2022 and 2023, Shenzhen Tianyuemeng, Yijia Network, and Qianhai Youshi and Shenzhen Yunao were eligible to employ this policy.

Significant components of the income tax expense (benefit) consisted of the following:

	Three months ended March 31,	
	2023	2022
Current income tax expense	$ -	$ 16,599
Deferred income tax benefit	(28,450)	(73,309)
Total	$ (28,450)	$ (56,710)

Deferred tax assets and liabilities — China

Significant components of deferred tax assets and liabilities were as follows:

	March 31 2023	December 31 2022
Deferred tax assets:		
Allowance for doubtful accounts	$ 37,403	$ 37,242
Depreciation and amortization	-	-
Impairment loss for investment	34,947	34,797
Net operating loss carry forward	496,494	494,364
Inventory reserve	3,854	3,838
Right of use	70,711	2,045
Less: valuation allowance	(513,397)	(442,832)
Deferred tax assets, net	130,012	129,454
Deferred tax liabilities:		
Recognition of intangible assets arising from business acquisition	(262,789)	(289,884)
Deferred tax liabilities, net	(262,789)	(289,884)
Total deferred tax liabilities, net	$ (132,777)	$ (160,430)

The Company evaluated the recoverable amounts of deferred tax assets, and provided a valuation allowance to the extent that future taxable profits will be available against which the net operating loss and temporary differences can be utilized. Valuation allowance is provided against deferred tax assets when the Company determines that it is more likely than not that the deferred tax assets will not be utilized in the future. In making such determination, the Company considered factors including future taxable income exclusive of reversing temporary differences and tax loss carry forwards. Valuation allowance was provided for net operating loss carry forward because it was more likely than not that such deferred tax assets would not be realized based on the Company's estimate of its future taxable income. If events occur in the future that allow the Company to realize more of its deferred income tax than the presently recorded amounts, an adjustment to the valuation allowances will result in a decrease in tax expense when those events occur. The valuation allowance was increased by $70,565 and $38,311 for the three months ended March 31, 2023 and 2022, respectively.

The Company recognized deferred tax liabilities related to the excess of the intangible assets reporting basis over its income tax basis as a result of fair value adjustment from acquisitions in 2020. The deferred tax liabilities will reverse as the intangible assets are amortized for financial statement reporting purposes.

As of March 31, 2023, the Company had net operating loss carry forwards of approximately $5,538,621, which arose from Shenzhen Mengyun, Qianhai Youshi, Yijia Nework and Shenzhen Bowei, the subsidiaries established in the PRC, and will expire during the period from 2022 to 2026.

Uncertain tax positions

The Company evaluates each uncertain tax position (including the potential application of interest and penalties) based on the technical merits, and measure the unrecognized benefits associated with the tax positions. As of December 31, 2022 and March 31, 2023, the Company did not have any significant unrecognized uncertain tax positions. The Company did not incur any interest and penalties related to potential underpaid income tax expenses For the three months ended March 31, 2022 and 2023, and also does not anticipate any significant increases or decreases in unrecognized tax benefits in the next 12 months from March 31, 2023.

Value added taxes ("VAT")

Revenue represents the invoiced value of service, net of VAT. The VAT are based on gross sales price. VAT rate is 6% on services and 13% on goods in China.

Taxes payable consisted of the following:

	March 31, 2023	December 31, 2022
VAT taxes payable	$ 15,618	$ 7,199
Income taxes payable	66,112	68,660
Other taxes payable	817	11,459
Totals	$ 82,547	$ 87,319

Note 13 — Concentration of risk

Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and short-term investments consisting of time deposit. In China, the insurance coverage for cash deposits at each bank is RMB 500,000. As of March 31, 2023 and December 31, 2022, cash and time deposit balance of $20,328,906 and $21,910,338 was deposited with financial institutions located in China. While management believes that these financial institutions are of high credit quality, it also continually monitors their credit worthiness.

A majority of the Company's expense transactions are denominated in RMB and a significant portion of the Company and its subsidiaries' assets and liabilities are denominated in RMB. RMB is not freely convertible into foreign currencies. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the PBOC. Remittances in currencies other than RMB by the Company in China must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to affect the remittance.

To the extent that the Company needs to convert U.S. dollars into RMB for capital expenditures and working capital and other business purposes, appreciation of RMB against the U.S. dollar would have an adverse effect on the RMB amount the Company would receive from the conversion. Conversely, if the Company decides to convert RMB into U.S. dollar for the purpose of making payments for dividends, strategic acquisition or investments or other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amount available to the Company.

Customer concentration risk

For the three months ended March 31, 2023, one customer accounted for 25.7% of the Company's total revenues. For the three months ended March 31, 2022, one customer accounted for 38.8% of the Company's total revenues.

As of March 31, 2023, two customers accounted for 31.1%, and 21.1% of the Company's accounts receivable, respectively. As of December 31, 2022, two customers accounted for 26.4% and 15.8% of the Company's accounts receivable, respectively.

Vendor concentration risk

For the three months ended March 31, 2023, two vendors accounted for 59.0% and 12.7% of the Company's total purchases, respectively. For the three months ended March 31, 2022, two vendors accounted for 45.6% and 23.5% of the Company's total purchases.

As of March 31, 2023, one vendor accounted for 68.2% of the Company's accounts payable. As of December 31, 2022, two vendors accounted for 63.6% and 10.0% of the Company's accounts payable, respectively.

Note 14 — Shareholders' equity

Ordinary shares

The Company was established under the laws of Cayman Islands on November 10, 2020 with authorized share of 500,000,000 ordinary Shares with a par value of USD 0.0001 each, 132,000,000 of which have been issued and are outstanding.

At the closing of the Business Combination, the issued and outstanding shares in MC held by the former MC shareholders were cancelled and ceased to exist, in exchange for the issuance of an aggregate of 44,554,455 Golden Path ordinary shares.

The number of shares of ordinary issued immediately following the consummation of the Merger was 50,812,035 shares with a par value of USD 0.0001 each.

Restricted assets

The Company's ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiary. Relevant PRC statutory laws and regulations permit payments of dividends by Beijing Xihuiyun and Shanghai Mengyun (collectively "Mengyun PRC entities") only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the accompanying unaudited consolidated financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of Mengyun PRC entities.

Mengyun PRC entities are required to set aside at least 10% of their after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of its registered capital. In addition, Mengyun PRC entities may allocate a portion of its after-tax profits based on PRC accounting standards to an enterprise expansion fund and staff bonus and welfare fund at its discretion. Mengyun PRC entities may allocate a portion of its after-tax profits based on PRC accounting standards to a discretionary surplus fund at its discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by State Administration of Foreign Exchange.

As a result of the foregoing restrictions, Mengyun PRC entities are restricted in their ability to transfer their assets to the Company. Foreign exchange and other regulations in the PRC may further restrict Mengyun PRC entities from transferring funds to the Company in the form of dividends, loans and advances. As of March 31, 2023 and December 31, 2022, amounts restricted are the paid-in-capital and statutory reserve of Mengyun PRC entities, which amounted to $6,121,025 and $6,121,025.

Statutory reserve

During the three months ended March 31, 2023 and 2022, Mengyun PRC entities collectively attributed $0 and $126,416, of retained earnings for their statutory reserves, respectively

Note 15 — Leases

The Company has several offices lease agreements with lease terms ranging from two to six years. Upon adoption of ASU 2016-02 on January 1, 2022, the Company recognized approximately RMB 5.7 million (USD 0.9 million) of right of use (“ROU”) assets and approximately RMB 5.7 million (USD 0.9 million) of operating lease liabilities based on the present value of the future minimum rental payments of leases, using incremental borrowing rate of 7.0%.

The Company’s lease agreements do not contain any material residual value guarantees or material restrictive covenants. The leases generally do not contain options to extend at the time of expiration.

As of March 31, 2023, the Company’s operating leases had a weighted average remaining lease term of approximately 2.75 years.

For the three months ended March 31, 2023, rent expenses for the operating leases and short-term lease (less than one year) were $70,168 and $ 25,408, respectively.

For the three months ended March 31, 2022, rent expenses for the operating leases and short term lease (less than one year) were $ 72,563 and $ 21,955, respectively.

The five-year maturity of the Company’s lease obligations is presented below:

Years ending December 31,		
2023(remaining nine months)	$	198,806
2024		182,351
2025		140,147
2026		84,424
Total lease payments		605,728
Less: Interest		(55,809)
Present value of lease liabilities	$	549,921

Future amortization of Company’s ROU assets is presented below:

Twelve months ending December 31,		
2023(remaining nine months)	$	177,353
2024		159,780
2025		120,249
2026		74,383
Total	$	531,765

Note 16 — Warrant liabilities

As of March 31, 2023, the Company had 5,750,000 public warrants and 270,500 private warrants.

The Company accounts for its outstanding Warrants in accordance with the guidance contained in ASC 815-40-15-7D and 7F. Management has determined that under the Private Warrants do not meet the criteria for equity treatment and must be recorded as liabilities. Accordingly, the Company classifies the Private Warrants as liabilities at their fair value and adjusts the Private Warrants to fair value at each reporting period. Management has further determined that its Public Warrants qualify for equity treatment. Warrant liability is subject to re-measurement at each balance sheet date until exercised, and any change in fair value is recognized in our statements of operations.

Public Warrants

On June 24, 2021, the Company sold 5,750,000 units at a price of $10.00 per Public Unit in its Initial Public Offering. Each Public Unit consists of one ordinary share of the Company, $0.0001 par value per share, one right and one redeemable warrant (the "Public Warrant"). Each Public Warrant entitles the holder to purchase one-half (1/2) of an ordinary share at an exercise price of $11.50 per whole share, subject to adjustment as described in Form S-1 Amendment No. 2 filed on June 11, 2021. Pursuant to the warrant agreement, a warrant holder may exercise its warrants only for a whole number of shares. This means that only an even number of warrants may be exercised at any given time by a warrant holder.

No public warrants will be exercisable for cash unless the Company has an effective and current registration statement covering the ordinary shares issuable upon exercise of the warrants and a current prospectus relating to such ordinary shares. It is the Company's current intention to have an effective and current registration statement covering the ordinary shares issuable upon exercise of the warrants and a current prospectus relating to such ordinary shares in effect promptly following consummation of an initial business combination.

The Public Warrants became exercisable on September 16, 2022, the later of (a) the consummation of a Business Combination, which was September 16, 2022, or (b) 12 months from the effective date of the registration statement relating to the Initial Offering, which was June 21, 2021. No Public Warrants will be exercisable for cash unless the Company has an effective and current registration statement covering the ordinary shares issuable upon exercise of the Public Warrants and a current prospectus relating to such ordinary shares. The Company has agreed that as soon as practicable, but in no event later than 15 business days after the closing of a Business Combination, the Company will use its best efforts to file, and within 60 business days following a Business Combination to have declared effective, a registration statement covering the ordinary shares issuable upon exercise of the warrants. Notwithstanding the foregoing, if a registration statement covering the ordinary shares issuable upon the exercise of the Public Warrants is not effective within 60 days, the holders may, until such time as there is an effective registration statement and during any period when the Company shall have failed to maintain an effective registration statement, exercise the Public Warrants on a cashless basis pursuant to an available exemption from registration under the Securities Act. If an exemption from registration is not available, holders will not be able to exercise their Public Warrants on a cashless basis. The Public Warrants will expire five years from the consummation of a Business Combination or earlier upon redemption or liquidation.

The Company may call the warrants for redemption (excluding the Private Warrants), in whole and not in part, at a price of $0.01 per warrant:

- at any time while the Public Warrants are exercisable,

- upon not less than 30 days' prior written notice of redemption to each Public Warrant holder,

- if, and only if, the reported last sale price of the ordinary shares equals or exceeds $16.50 per share, for any 20 trading days within a 30-trading day period ending on the third trading day prior to the notice of redemption to Public Warrant holders, and

- if, and only if, there is a current registration statement in effect with respect to the issuance of the ordinary shares underlying such warrants at the time of redemption and for the entire 30-day trading period referred to above and continuing each day thereafter until the date of redemption.

If the Company calls the Public Warrants for redemption, management will have the option to require all holders that wish to exercise the Public Warrants to do so on a "cashless basis," as described in the warrant agreement. The exercise price and number of ordinary shares issuable upon exercise of the warrants may be adjusted in certain circumstances including in the event of a share dividend, extraordinary dividend or recapitalization, reorganization, merger or consolidation. However, the warrants will not be adjusted for issuances of ordinary shares at a price below its exercise price. Additionally, in no event will the Company be required to net cash settle the warrants. If the Company is unable to complete a Business Combination within the Combination Period and the Company liquidates the funds held in the Trust Account, holders of warrants will not receive any of such funds with respect to their warrants, nor will they receive any distribution from the Company's assets held outside of the Trust Account with respect to such warrants. Accordingly, the warrants may expire worthless.

Private Warrants

Simultaneously with the closing of the Initial Public Offering, the Company consummated a private placement of 270,500 Private Units at $10.0 per unit, purchased by the sponsor. The Private Units are identical to the units sold in the Initial Public Offering except that the warrants included in the Private Units (the "Private Warrants") and the ordinary shares issuable upon the exercise of the Private Warrants will not be transferable, assignable or saleable until after the completion of a Business Combination, subject to certain limited exceptions. Additionally, the Private Warrants will be exercisable on a cashless basis and will be non-redeemable so long as they are held by the initial purchasers or their permitted transferees. If the Private Warrants are held by someone other than the initial purchasers or their permitted transferees, the Private Warrants will be redeemable by the Company and exercisable by such holders on the same basis as the Public Warrants.

Note 17 — Commitments and contingencies

Contingencies

From time to time, the Company is party to certain legal proceedings, as well as certain asserted and un-asserted claims. Amounts accrued, as well as the total amount of reasonably possible losses with respect to such matters, individually and in the aggregate, are not deemed to be material to the unaudited consolidated financial statements.

Note 18 — Segments

ASC 280, "Segment Reporting", establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organizational structure as well as information about geographical areas, business segments and major customers in financial statements for detailing the Company's business segments.

The Company's chief operating decision maker is the Chief Executive Officer, who reviews the financial information of the separate operating segments when making decisions about allocating resources and assessing the performance of the group. The Company has determined that it has two operating segments: (1) holographic solutions, and (2) holographic technology service.

The summary information by segment are as follows:

	Holographic solutions	Holographic technology service	Total March 31 2022
Revenues	$ 13,514,868	10,700,343	$ 24,215,211
Cost of revenues	(12,129,157)	(1,299,855)	(13,429,012)
Gross profit	1,385,711	9,400,488	10,786,199
Depreciation and amortization	(99,202)	(160,867)	(260,069)
Total capital expenditures	$ (706)	-	$ (706)

	Holographic solutions	Holographic technology service	Total March 31 2023
Revenues	$ 1,231,097	$ 5,348,634	$ 6,579,731
Cost of revenues	(824,440)	(1,870,269)	(2,694,709)
Gross profit	406,657	3,478,365	3,885,022
Depreciation and amortization	(258,286)	-	(258,286)
Total capital expenditures	$ (31,170)	$ -	$ (31,170)

Total assets as of:

	March 31, 2023	December 31, 2022
Holographic solutions	$ 26,773,929	$ 29,063,408
Holographic technology service	10,320,846	11,840,424
Total Assets	$ 37,094,775	$ 40,903,832

Disaggregated information of holographic solutions revenues by business lines are as follows:

	Three months ended March 31,	
	2023	2022
Holographic Technology LiDAR Products	$ 818,578	$ 1,742,815
Holographic Technology Intelligence Vision software and Technology Development Service	171,530	875,580
Holographic Technology Licensing and Content Product	240,989	1,490,123
Holographic Hardware Sales	-	9,406,350
Total Holographic Solutions	$ 1,231,097	$ 13,514,868

Note 19 — Subsequent events

The Company, along with its shareholder Joyous JD Limited, has initiated litigation in the New York Supreme Court New York County against Greenland Asset Management Corporation, the sponsor of the pre-business combination company, Golden Path Acquisition Corporation ("Sponsor").

1. Joyous JD Limited is seeking damages in connection with the Sponsor's breach of certain investment agreements which was executed by and between the Sponsor and Joyous JD Limited;

2. The Company is seeking damages in connection with the Sponsor's noncompliant misuse of Form S-4 in registering shares during the course of the business combination, which resulted in a forced withdrawal of the Form S-4. The Company has commenced lawsuit seeking damages.

The Court has accepted the complaint filed by the Company and Joyous JD Limited. Due to uncertainty over the process and outcome of the lawsuit, the final ruling of the Court shall prevail.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and related notes included in Part I, Item 1 of this Quarterly Report. This discussion and other parts of this report contain forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Part II, Item 1A "Risk Factors" of this Quarterly Report and our Quarterly Report on Form 10-Q.

Overview

We are a leading holographic digitalization technology service provider in China. We are committed to providing first-class holographic technology services to our customers worldwide. Our holographic technology services include high-precision holographic light detection and ranging ("LiDAR") solutions, based on holographic technology, exclusive holographic LiDAR point cloud algorithms architecture design, breakthrough technical holographic imaging solutions, holographic LiDAR sensor chip design and holographic vehicle intelligent vision technology to service customers that provide reliable holographic advanced driver assistance systems ("ADAS"). We also provide holographic digital twin technology services for customers and has built a proprietary holographic digital twin technology resource library. Our holographic digital twin technology resource library captures shapes and objects in 3D holographic form by utilizing a combination of Our holographic digital twin software, digital content, spatial data-driven data science, holographic digital cloud algorithm, and holographic 3D capture technology. Our holographic digital twin technology and resource library has the potential to become the new norm for the digital twin augmented physical world in the near future. We are also a distributer of holographic hardware and generates revenue through resale.

Business Combination

Golden Path Acquisition Corporation ("Golden Path") was a former blank check company incorporated in Cayman Island on May 9, 2018. Golden Path was formed for the purpose of effecting a merger, share exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses.

MicroCloud Hologram Inc. (formerly known as Golden Path Acquisition Corporation), a Cayman Islands exempted company, entered into the Merger Agreement dated September 10, 2021 (as amended on August 5, 2022 and August 10, 2022), by and among Golden Path, Golden Path Merger Sub, a Cayman Islands exempted company incorporated for the purpose of effectuating the business combination, and MC, a Cayman Islands exempted company.

Pursuant to the Merger Agreement, MC would merge with the Golden Path Merger Sub and survive the merger and continue as the surviving company and a wholly owned subsidiary of Golden Path and continue its business operations (the "Merger", and, collectively with the other transactions described in the Merger Agreement, the "Business Combination").

On September 8, 2022, Golden Path held an Extraordinary General Meeting (the "Extraordinary General Meeting") to approve the Merger and the transactions contemplated by the Merger Agreement.

On September 16, 2022, in accordance with the Merger Agreement, the closing of the Business Combination (the "Closing") occurred, pursuant to which Golden Path issued 44,554,455 ordinary shares to MC shareholders. As a result of the consummation of the Business Combination, MC became a wholly owned subsidiary of Golden Path which changed its name to MicroCloud Hologram Inc.

Following the Closing, on September 19, 2022, the ordinary shares and public warrants outstanding upon the Closing began trading on the NASDAQ under the symbols "HOLO" and "HOLOW," respectively.

Immediately after giving effect to the Business Combination, MicroCloud had 50,812,035 ordinary shares issued and outstanding, and 6,020,500 warrants outstanding.

Key Components

Operating Revenues

Effective January 1, 2019, we adopted ASC 606, Revenue from Contracts with Customers ("Topic 606"), applying the modified retrospective method to all contracts that were not completed as of January 1, 2019. Results for the three months ended March 31, 2022 and 2023 are presented under Topic 606. Based on the requirements of ASC Topic 606, revenue is recognized when control of the promised goods or services is transferred to the customers in an amount that reflects the consideration we expect to be entitled to receive in exchange for those goods or services.

We generate revenues primarily through (i) sales of product related to holographic solutions services, which include LiDAR and other holographic technology hardware products, licensing and content products, and technology development service, and (ii) services related to holographic technology services, which include holographic technology advertising, software development kit ("SDK") service, and game promotion services. The following table presents our revenues disaggregated by revenue sources, both in absolute amount and as a percentage of our revenues, for the periods presented.

	For the three months ended March 31,			
	2023		2022	
	US$	%	US$	%
	(Unaudited)			
Operating revenues				
Products	1,055,701	16.0	11,678,900	48.2
Services	5,524,030	84.0	12,536,311	51.8
Total operating revenues	6,579,731	100.0	24,215,211	100.0

Cost of Revenues

Our cost of revenues primarily includes (i) the costs of hardware products sold and cost paid to outsourced content providers, cost of third-party software development, and compensation expenses paid to our professionals related to the product sales and (ii) the costs paid to channel distributors of advertising services and compensation expenses paid to our professionals related to our service revenues. The table below sets forth a breakdown of our cost of revenues for the periods indicated, both in absolute amount and as a percentage of our revenues:

	For the Three Months Ended March 31,			
	2023		2022	
	US$	%	US$	%
	(Unaudited)			
Cost of revenues				
Products	721,648	11.0	11,090,989	45.8
Services	1,973,061	30.0	2,338,023	9.7
Total cost of revenues	2,694,709	41.0	13,429,012	55.5

Selling Expenses

As of March 31, 2023, our selling expenses consist primarily of (i) compensation for selling personnel, (ii) travel expenses of our sales representatives, and (iii) advertising and promotion cost, etc. Our selling expenses as a percentage of revenues were 5.4% and 1.0% for the three months ended March 31, 2023 and 2022, respectively.

General and Administrative Expenses

As of March 31, 2023, our general and administrative expenses consist primarily of (i) compensation for our management and administrative personnel, (ii) expenses in connection with our operation supporting functions such as legal, accounting, consulting and other professional service fees, and (iii) office rental, depreciation, and other administrative related expenses. Our general and administrative expenses as a percentage of revenues were 16.9% and 2.8% for the three months ended March 31, 2023 and 2022, respectively.

*Research and Development Expenses (“*R&D expenses*”)*

As of March 31, 2023, our R&D expenses include salaries and other compensation-related expenses to the Company’s research and product development personnel, outsourced subcontractors, as well as office rental, depreciation, and related expenses for the Company’s research and product development team. Our R&D expenses as a percentage of revenues were 62.4% and 27.1% for the three months ended March 31, 2023 and 2022, respectively.

Change in Fair Value of Warrant Liabilities

We account for our outstanding warrants in accordance with the guidance contained in ASC 815-40-15-7D and 7F. We have determined that the Private Warrants do not meet the criteria for equity treatment and is recorded as liabilities. We classified the Private Warrants as liabilities at their fair value and adjusts the Private Warrants to fair value at each presented period. We determined that our Public Warrants qualify for equity treatment. Warrant liability is subject to re-measurement at each unaudited consolidated Balance Sheet until exercised, and any change in fair value is recognized in our unaudited consolidated Statements of Income.

Taxation

Cayman Islands

We are incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, we are not subject to tax on income or capital gain in the Cayman Islands. Additionally, no withholding tax will be required on payments of dividends by us to our shareholders.

Hong Kong

Quantum Edge HK Limited, our subsidiary incorporated in Hong Kong, is subject to a two-tiered income tax rate for taxable income earned in Hong Kong. The first HK$2 million of profits earned by a company is subject to be taxed at an income tax rate of 8.25%, while the remaining profits will continue to be taxed at the existing tax rate of 16.5%. No provision for Hong Kong profits tax has been made in the unaudited consolidated financial statements as it has no assessable profit for the three months ended March 31, 2023 and 2022.

PRC

The subsidiaries incorporated in the PRC are governed by the income tax laws of the PRC and the income tax provision for operations in the PRC is calculated at the applicable tax rates on the taxable income for the periods based on existing legislation, interpretations and practices in respect thereof. Under the Enterprise Income Tax Laws of the PRC (the "EIT Laws"), domestic enterprises and Foreign Investment Enterprises (the "FIE") are subject to a unified 25% enterprise income tax rate while preferential tax rates, tax holidays and even tax exemptions may be granted on a case-by-case basis. EIT grants preferential tax treatment to certain High and New Technology Enterprises ("HNTEs"). Under this preferential tax treatment, HNTEs are entitled to an income tax rate of 15%, subject to a requirement that they re-apply for HNTE status every three years. Shanghai Mengyun obtained the "high-tech enterprise" tax status in October 2017 and further renewed in December 2020, which reduced its statutory income tax rate to 15% from January 2017 to December 2023. Shenzhen Mengyun obtained the "high-tech enterprise" tax status in November 2018 and further renewed in December 2021, which reduced its statutory income tax rate to 15% from January 2018 to December 2024. Shenzhen Bowei obtained the "high-tech enterprise" tax status in December 2021, which reduced its statutory income tax rate to 15% from December 2021 to December 2024.

Horgos Weiyi, Horgos Youshi, Horgos Bowei and Horgos Tianyuemeng were formed and registered in Horgos in Xinjiang Province, China from 2016 to 2020, and Kashgar Youshi was formed and registered in Kashgar in Xinjiang Provence, China in 2016. These companies are not subject to income tax for 5 years and can obtain another two years of tax-exempt status and three years at reduced income tax rate of 12.5% after the 5 years due to the local tax policies to attract companies in various industries.

The Ministry of Finance ("MOF") and State Administration of Taxation ("SAT") on January 17, 2019 jointly issued Cai Shui 2019 No. 13. This clarified that from January 1, 2019 to December 31, 2022, eligible small enterprises whose RMB 1,000,000 of annual taxable income is eligible for a 75% reduction on a rate of 20% (i.e., effective rate is 5%) and the income between RMB 1,000,000 and RMB 3,000,000 is eligible for 50% reduction on a rate of 20% (i.e. effective rate is 10%). On March 14, 2022, MOF and SAT further jointly issued Cai Shui 2022 No. 13, which clarified that from January 1, 2022 to December 31, 2024, eligible small enterprises whose income between RMB 1,000,000 and RMB 3,000,000 is eligible for 75% reduction on a rate of 20% (i.e. effective rate is 5%). On March 26, 2023, MOF and SAT further jointly issued Cai Shui 2023 No. 6 which clarified that from January 1, 2023 to December 31, 2024, eligible small enterprises whose RMB 1,000,000 of annual taxable income is eligible for a 75% reduction on a rate of 20% (i.e., effective rate is 5%). For the three months ended March 31, 2023 and 2022, Shenzhen Tianyuemeng, Yijia Network, and Qianhai Youshi and Shenzhen Yunao were eligible to employ this policy.

Tax savings for those entities in Xinjiang province includes Horgos Weiyi, Horgos Youshi, Horgos Bowei, Kashgar Youshi and Horgos Tianyuemeng and for those entities eligible for small enterprises includes Shenzhen Tianyuemeng, Yijia Network, Qianhai Youshi, and HNTEs includes Shanghai Mengyun and Shenzhen Mengyun.

Our PRC subsidiaries are subject to value added tax, or VAT, at a rate of 6% on services and 13% on goods in China. We are also subject to surcharges on VAT payments in accordance with PRC laws.

Critical Accounting Policies and Estimates

Our unaudited consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, the reported amounts of revenues and expenses during the reporting periods and the related disclosures in the unaudited consolidated financial statements and accompanying footnotes. Out of our significant accounting policies, which are described in "Note 2—Summary of principal accounting policies" of our unaudited consolidated financial statements included under Item 1 of Part I in this Quarterly Report, certain accounting policies are deemed "critical," as they require our management's highest degree of judgment, estimates and assumptions. While our management believes our judgments, estimates and assumptions are reasonable, they are based on information presently available and actual results may differ significantly from those estimates under different assumptions and conditions.

Principles of consolidation

The unaudited consolidated financial statements include the financial statements of MicroCloud and its subsidiaries. All significant intercompany transactions and balances between MicroCloud and its subsidiaries are eliminated upon consolidation.

Subsidiaries are those entities in which MicroCloud, directly or indirectly, controls more than one half of the voting power; or has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast a majority of votes at the meeting of directors.

Use of estimates and assumptions

The preparation of unaudited consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the unaudited consolidated financial statements and the reported amounts of revenues and expenses during the periods presented. Significant accounting estimates reflected in our unaudited consolidated financial statements include the useful lives of property and equipment and intangible assets, impairment of long-lived assets and goodwill, allowance for doubtful accounts, revenue recognition, inventory reserve, purchase price allocation for business combination, uncertain tax position, and deferred taxes. Actual results could differ from these estimates.

Foreign currency translation and transaction

The functional currency of MicroCloud, MC, Mengyun HK, Mcloudvr HK and Broadvision HK is in US dollars and the functional currency of the Company's other subsidiaries are Renminbi ("RMB"), as determined based on the criteria of Accounting Standards Codification ("ASC") 830 "Foreign Currency Matters".

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the rates of exchange in place at the balance sheet date. Transactions in currencies other than the functional currency during the year are converted into the functional currency at the applicable rates of exchange prevailing when the transactions occurred. Transaction gains and losses are recognized in the unaudited consolidated statement of operations.

In the unaudited consolidated financial statements, the financial information of MicroCloud and other entities located outside of the PRC has been translated into RMB. Our assets and liabilities translated from their respective functional currencies to the reporting currency at the exchange rates at the balance sheet dates, equity accounts are translated at historical exchange rates and revenues and expenses are translated at the average exchange rates in effect during the reporting period. The resulting foreign currency translation adjustment are recorded in other comprehensive income (loss).

Convenience translation

Translations of balances in the unaudited consolidated balance sheets, consolidated statements of income and consolidated statements of cash flows from RMB into USD as of and for the three months ended March 31, 2023 are solely for the convenience of the reader and were calculated at the rate of RMB 1.00 to USD 0.1456, representing the mid-point reference rate set by Peoples' Bank of China on March 31, 2023. No representation is made that the RMB amounts represent or could have been, or could be, converted, realized or settled into USD at that rate, or at any other rate.

Goodwill

Goodwill represents the excess of the consideration paid for an acquisition over the fair value of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill is not amortized and is tested for impairment at least annually, more often when circumstances indicate impairment may have occurred. Goodwill is carried at cost less accumulated impairment losses. If impairment exists, goodwill is immediately written down to its fair value and the loss is recognized in the consolidated statements of income and comprehensive income. Impairment losses on goodwill are not reversed.

We have the option to assess qualitative factors to determine whether it is necessary to perform further impairment testing in accordance with ASC 350-20, as amended by ASU 2017-04. If we believe, as a result of the qualitative assessment, that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, then the impairment test described below is required. We compare the fair values of each reporting unit to its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered to be impaired. If the carrying amount of a reporting unit exceeds its fair value, impairment is recognized for the difference, limited to the amount of goodwill recognized for the reporting unit. Estimating fair value is performed by utilizing various valuation techniques, with the primary technique being discounted cash flows.

Impairment for long-lived assets

Long-lived assets, including property and equipment and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances (such as a significant adverse change to market conditions that will impact the future use of the assets) indicate that the carrying value of an asset may not be recoverable. We assess the recoverability of the assets based on the undiscounted future cash flows the assets are expected to generate and recognize an impairment loss when estimated undiscounted future cash flows expected to result from the use of the asset plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. If an impairment is identified, we would reduce the carrying amount of the asset to its estimated fair value based on a discounted cash flows approach or, when available and appropriate, to comparable market values. For the three months ended March 31, 2022 and 2023, no impairment of long-lived assets was recognized.

Investments in unconsolidated entities

Our investments in unconsolidated entities consist of equity investments without readily determinable fair value.

We follow ASC Topic 321, Investments Equity Securities ("ASC 321") to account for investments that do not have readily determinable fair value and over which we do not have significant influence. We use the measurement alternative to measure those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any.

An impairment charge is recorded if the carrying amount of the investment exceeds its fair value and this condition is determined to be other-than temporary.

Business combination

The purchase price of an acquired company is allocated between tangible and intangible assets acquired and liabilities assumed from the acquired business based on their estimated fair values, with the residual of the purchase price recorded as goodwill. Transaction costs associated with business combinations are expensed as incurred, and are included in general and administrative expenses in our consolidated statements of income and comprehensive income. The results of operations of the acquired business are included in our operating results from the date of acquisition.

Fair value measurement

U.S. GAAP regarding fair value of financial instruments and related fair value measurements defines financial instruments and requires disclosure of the fair value of financial instruments held by us.

U.S. GAAP defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. The three levels are defined as follow:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value.

Financial instruments included in current assets and current liabilities are reported in the unaudited consolidated balance sheets at face value or cost, which approximate fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rates of interest.

Noncontrolling Interests

Our noncontrolling interests represent the minority shareholders' ownership interests related to our subsidiaries, including 44% for Ocean HK and its subsidiaries. The noncontrolling interests are presented in the consolidated balance sheets separately from equity attributable to our shareholders. Noncontrolling interests in the results of us are presented on the consolidated statement of income as allocations of the total income or loss for the three months ended March 31, 2023 between noncontrolling interest holders and our shareholders.

Ordinary share Warrants

We account for ordinary share warrants as either equity instruments or liabilities in accordance with ASC 480, *Distinguishing Liabilities from Equity* ("ASC 480"), depending on the specific terms of the warrant agreement. See Item 1 of Part I "Financial statements—Note 20—Warrant liabilities".

Revenue recognition

Effective January 1, 2019, we adopted ASC Topic 606 using the modified retrospective adoption method. Based on the requirements of ASC Topic 606, revenue is recognized when control of the promised goods or services is transferred to the customers in an amount that reflects the consideration we expect to be entitled to receive in exchange for those goods or services. We primarily sell our products to hospitals and medical equipment companies. Revenue is recognized when the following 5-step revenue recognition criteria are met:

1) Identify the contract with a customer

2) Identify the performance obligations in the contract

3) Determine the transaction price

4) Allocate the transaction price

5) Recognize revenue when or as the entity satisfies a performance obligation

Our revenue recognition policies effective upon the adoption of ASC 606 are as follows:

(i) Holographic Solutions

a. Holographic Technology LiDAR Products

We generate LiDAR revenue through selling integrated circuit board embedded with holographic software. We typically enter into written contracts with its customer where the rights of the parties, including payment terms, are identified and sales prices to the customers are fixed with no separate sales rebate, discount, or other incentive and no right of return exists on sales of inventory. Our performance obligation is to deliver products according to contract specifications. We recognize product revenues at a point in time when the control of products is transferred to customers.

b. Holographic Technology Intelligence Vision software and Technology Development Service

We generate revenue by developing ADAS software and technology, which are generally on a fixed-priced basis. We have no alternative use for the customized software and we have an enforceable right to payment for performance completed to date. Revenues from ADAS software development contracts are recognized over time during the contract period based on our measurement of progress towards completion using input method, which is usually measured by comparing labor hours expended to date to total estimated labor hours needed to satisfy the performance obligation. As of March 31, 2023 and December 31, 2022, the Company's aggregate amount of transaction price allocated to unsatisfied performance obligation is $0 and $384,489, respectively. Assumptions, risks and uncertainties inherent in the estimates used to measure progress could affect the amount of revenues, receivables and deferred revenues at each reporting period. We have a long history of developing various ADAS software resulting in its ability to reasonably estimate the progress toward completion on each fixed price customized contracts.

c. Holographic Technology Licensing and Content Products

We provide holographic content products and holographic software for music videos, shows, and commercials on a fixed-price basis. These contents and software are generally pre-developed and exist when made available to the customer. Content products are delivered through its website or offline using hard drive.

Revenues from licensing and content products are recognized at the point in time when the control of products or services is transferred to customers. No upgrades, maintenance, or any other post-contract customer support are provided.

d. Holographic Technology Hardware Sales

We are a distributer of holographic hardware and generates revenue through resale. In accordance with ASC 606, revenue recognition: principal agent consideration, an entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. Otherwise, the entity is an agent in the transaction. We evaluate four indicators of control in accordance with ASU 2016-08: 1) for hardware sales, we are the most visible entity to customers and assumes fulfilment risk and risks related to the acceptability of products, including addressing customer complaints directly and handling of product returns or refunds directly; 2) we assume inventory risk after taking the title from vendors and are responsible for product damage during shipment period prior to acceptance of its customers and are also responsible for product return if the customer is not satisfied with the products; 3) we determine the resale price of hardware products; and 4) we are the party that direct the use of the inventory and can prevent the vendor from transferring the product to a customer or to redirect the products to a different customer. After evaluating the above scenario, we consider ourselves the principal of these arrangements and record hardware sales revenue on a gross basis.

Hardware sales contracts are on a fixed price basis with no separate sales rebate, discount, or other incentive. Revenue is recognized at a point in time when we have delivered products and the acceptance by our customer with no future obligation. We generally permit returns of products due to deficits; however, returns are historically insignificant.

(ii) Holographic Technology Service

Holographic advertisements are the use of holographic technology integrated into advertisements on media platforms and offline display. We enter advertising contracts with advertisers to promote merchandises and services where the price, which is generally based on cost per action ("CPA"), is fixed and determinable. We provide our advertising service to channel providers where the amounts cost per action are also fixed and determinable. Revenue is recognized at a point of time when agreed actions are performed. We consider ourselves as provider of the services under the CPA model as we have the control of the services at any time before they are transferred to the customers, which is evidenced by 1) having a right to a service to be performed by the other party, which gives us the ability to direct that party to provide the service to the customers on our behalf. 2) having discretion in setting the price for the service 3) billing monthly advertising fee directly to customers by settling valid CPA data with customers. Therefore, we act as the principal of these arrangements and reports revenue earned and costs incurred related to these transactions on a gross basis. We also provide advertisement services through influencers on social networks. We charge advertisers a fixed rate, which is generally a fixed percentage of total value of merchandise sold over a specific period ("GMV"). Revenue is recognized at a point of time when merchandise is sold through social network.

Our SDK service is a collection of software development tools in one installable package that enables customers (usually software developers) to add holographic functionality and run holographic advertisements in their APPs or software. SDK contracts are primarily on a fixed rate basis, or cost per SDK Connection. We recognize SDK service revenue at a point in time when a user completes an SDK connection via a designated portal. Service fees are generally billed monthly based on per-connection basis.

We also provide game promotion services for game developers and licensed game operators. We acted as a marketing channel that it will promote the games through in-house or third-party platforms, from which users can download the mobile and purchase virtual currency for in game premium features to enhance their game playing experience. We contract with third party payment platforms for collection services offered to game players who have purchased virtual currency. The game developers, licensed operator, payment platforms and the marketing channels are entitled to profit sharing based on a prescribed percentage of the gross amount charged to the game players. Our obligation in the promotion services is completed at a point in time when the game players made a payment to purchase virtual currency. We considered itself an agent in these arrangements since we do not control the services at any time. Accordingly, we record the game promotion service revenue on a net basis.

Contract balances:

We record receivable related to revenue when we have an unconditional right to invoice and receive payment.

Payments received from customers before all of the relevant criteria for revenue recognition met are recorded as deferred revenues.

Our disaggregate revenue streams are summarized and disclosed in "Note 18—Segments" of our unaudited consolidated financial statements included under Item 1 of Part I in this Quarterly Report.

Operating leases

Effective January 1, 2022, we adopted ASU 2016-02, "Leases" (Topic 842), and elected the practical expedients that does not require us to reassess: (1) whether any expired or existing contracts are, or contain, leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases. For lease terms of twelve months or fewer, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. We also adopted the practical expedient that allows lessees to treat the lease and non-lease components of a lease as a single lease component. On January 1, 2022, we recognized approximately RMB 5.7 million (USD 0.8 million) of right of use ("ROU") assets and approximately RMB 5.7 million (USD 0.8 million) of operating lease liabilities based on the present value of the future minimum rental payments of leases, using incremental borrowing rate of 7%.

We determine if a contract contains a lease at inception. US GAAP requires that our leases be evaluated and classified as operating or finance leases for financial reporting purposes. The classification evaluation begins at the commencement date and the lease term used in the evaluation includes the non-cancellable period for which we have the right to use the underlying asset, together with renewal option periods when the exercise of the renewal option is reasonably certain and failure to exercise such option which result in an economic penalty. All of our real estate leases are classified as operating leases.

When determining the lease payments for an operating lease transitioning to ASC 842 using the effective date, it's based on future payments at the transition date, based on the present value of lease payments over the remaining lease term. Since the implicit rate for our leases is not readily determinable, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is the rate of interest that we would have to pay to borrow, on a collateralized basis, an amount equal to the lease payments, in a similar economic environment and over a similar term.

Lease terms used to calculate the present value of lease payments generally do not include any options to extend, renew, or terminate the lease, as we do not have reasonable certainty at lease inception that these options will be exercised. We generally consider the economic life of its operating lease ROU assets to be comparable to the useful life of similar owned assets. We have elected the short-term lease exception, therefore operating lease ROU assets and liabilities do not include leases with a lease term of twelve months or less. Its leases generally do not provide a residual guarantee. The operating lease ROU asset also excludes lease incentives. Lease expense is recognized on a straight-line basis over the lease term.

We review the impairment of its ROU assets consistent with the approach applied for its other long-lived assets. We review the recoverability of its long-lived assets when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on its ability to recover the carrying value of the asset from the expected undiscounted future pre-tax cash flows of the related operations. We have elected to include the carrying amount of operating lease liabilities in any tested asset group and include the associated operating lease payments in the undiscounted future pre-tax cash flows.

Results of Operations

The Three Months Ended March 31, 2023 Compared To The Three Months Ended March 31, 2022

Operating Revenues

Our total operating revenue decreased by approximately 70.7% from $24.2 million for the three months ended March 31, 2022 to $6.6 million for the three months ended March 31, 2023. Product revenue declined by approximately 91% from $11.7 million in the three months ended March 31, 2022 to $1.1 million for the three months ended March 31, 2023. The service revenue declined by approximately 56% from $12.5 million in the three months ended March 31, 2022 to $5.5 million in the three months ended March 31, 2023. This is due to the current the global economy has not fully recovered, and the industry is still in a weak recovery period. In addition, due to the impact of the Spring Festival holiday, customer demand has decreased, and it will take time for market demand to recover.

Cost of Revenue

Our cost of revenue decreased by approximately 78% from $13.4 million for the three months ended March 31, 2022 to $2.7 million for the three months ended March 31, 2023. The cost of products sales decreased by approximately 93% from $11.1 million for the three months ended March 31, 2022 to $0.7 million for the three months ended March 31, 2023. The cost of services decreased by approximately 0.1% from $2.3 million for the three months ended March 31, 2022 to $1.9 million for the three months ended March 31, 2023, primarily due to Product sales business is constantly decreasing, and expanding our service business.

Gross Profit and Gross Margin

As a result of the factors, our gross profit decreased by approximately 64.0% from $10.8 million for the three months ended March 31, 2022 to $3.9 million for the three months ended March 31, 2023. However, our gross margin increased from 44.5% ended March 31, 2022 to 59% for the three months ended March 31, 2023, as a decrease in our outsourcing costs enabled an increase in gross margin for our advertising and promotion business revenue.

Provision for doubtful accounts

Our provision for doubtful accounts increased by approximately 10223% from $0.1 million for three months ended March 31, 2022 to $2.1 million for the three months ended March 31, 2023, primarily due to the allowance accrued in 2022 based on management's best estimates of specific losses on customer exposures.

Selling Expenses

Our selling and marketing expenses increased by approximately 40.4% from $0.3 million for the three months ended March 31, 2022 to $0.4 million for the three months ended March 31, 2023. This increase was primarily due to the increase of sales and marketing activities for our business development.

General and Administrative Expenses

Our general and administrative expenses increased by approximately 62.0% from $0.7 million for the three months ended March 31, 2022 to $1.1 million for the three months ended March 31, 2023. This increase was primarily due to the administrative costs and audit service fees.

Research and Development Expenses

Our research and development expenses decreased by approximately 37.3% from $6.6 million for the three months ended March 31, 2022 to $4.1 million for the three months ended March 31, 2023. The decrease was primarily due to the volume of research and development activities decreased

Income/(loss) from Operations

As a result of the factors set out above, we had approximately $3.8 million operating loss for the three months ended March 31, 2023 and $3.3 million operating income for the three months ended March 31, 2022.

Financial (Expenses) Income, net

We had net financial expenses of approximately $0.1 million and $0.1 million which consisted primarily of bank charges and interest expenses for the three months ended March 31, 2023 and 2022, respectively

Other Income, net

We recorded other income of approximately $0.1 million and other net income of $0.1 million for the three months ended March 31, 2023 and 2022, respectively. Other income was mainly attributable to government subsidies in the form of cash and taxation award during COVID-19 pandemic period. However, government subsidies in the form of cash and taxation award are discretionary in nature and we do not believe that the increase in government subsidies during the referenced period is reflective of a known trend.

Benefit (Expenses) for Income Tax

Our income tax benefit was approximately $0.1 million for the three months ended March 31, 2023. Our income tax expense was approximately $0.1 million for the three months ended March 31, 2022 primarily due to the decrease of taxable income generated from operations in our subsidiaries in PRC.

Net Income

As a result of the foregoing, we had net loss of approximately $3.6 million and net income of $3.4 million for the three months ended March 31, 2023 and 2022, respectively.

Recently issued accounting pronouncements

In May 2019, the FASB issued ASU 2019-05, which is an update to ASU Update No. 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which introduced the expected credit losses methodology for the measurement of credit losses on financial assets measured at amortized cost basis, replacing the previous incurred loss methodology. The amendments in Update 2016-13 added Topic 326, Financial Instruments — Credit Losses, and made several consequential amendments to the Codification. Update 2016-13 also modified the accounting for available-for-sale debt securities, which must be individually assessed for credit losses when fair value is less than the amortized cost basis, in accordance with Subtopic 326-30, Financial Instruments — Credit Losses — Available-for-Sale Debt Securities. The amendments in this Update address those stakeholders' concerns by providing an option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost basis. For those entities, the targeted transition relief will increase comparability of financial statement information by providing an option to align measurement methodologies for similar financial assets. Furthermore, the targeted transition relief also may reduce the costs for some entities to comply with the amendments in Update 2016-13 while still providing financial statement users with decision-useful information.

In November 2019, the FASB issued ASU No. 2019-10, which to update the effective date of ASU No. 2016-02 for private companies, not-for-profit organizations and certain smaller reporting companies applying for credit losses, leases, and hedging standard. The new effective date for these preparers is for fiscal years beginning after December 15, 2022. We are still evaluating the impact of the adoption of this ASU on our unaudited consolidated financial statements.

In October 2020, the FASB issued ASU 2020-08, “Codification Improvements to Subtopic 310-20, Receivables — Nonrefundable Fees and Other Costs”. The amendments in this Update represent changes to clarify the Codification. The amendments make the Codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications. ASU 2020-08 is effective for us for annual and interim reporting periods beginning July 1, 2021. Early application is not permitted. All entities should apply the amendments in this Update on a prospective basis as of the beginning of the period of adoption for existing or newly purchased callable debt securities. These amendments do not change the effective dates for Update 2017-08. The adoption of this new standard does not have material impact on Company’s unaudited consolidated financial statements and related disclosures.

Except as mentioned above, we do not believe other recently issued but not yet effective accounting standards, if currently adopted, would have a material effect on our consolidated balance sheets, statements of income and comprehensive income and statements of cash flows.

Liquidity and Capital Resources

In assessing our liquidity, we monitor and analyze our cash on-hand and our operating and capital expenditure commitments. Our liquidity needs are to meet our working capital requirements, operating expenses and capital expenditure obligations. Cash flow from operations, advance from shareholders, and proceeds from third party loan have been utilized to finance our working capital requirements. As of March 31, 2023, we had cash of $20.3 million. Our working capital was approximately $21.5 million as of March 31, 2023. We believe our revenues and operations will continue to grow and the current working capital is sufficient to support our operations and debt obligations as they become due one year through report date.

Following the approval of the Business Combination, on September 16, 2022, we received net cash proceeds of $33.2 million from then closing of the Business Combination, net of certain transaction costs.

We are subject to risks and uncertainties frequently encountered by early-stage companies including, but not limited to, the uncertainty of successfully developing products, securing certain contracts, building a customer base, successfully executing business and marketing strategies, and hiring appropriate personnel.

To date, we have been funded primarily by cash flow generated from operations, interest-free advances by from MC shareholders prior to the closing of the Business Combination, and the net proceeds we received through the Business Combination. Failure to generate sufficient revenues, achieve planned gross margins and operating profitability, control operating costs, or secure additional funding may require us to modify, delay, or abandon some of our planned future expansion or development, or to otherwise enact operating cost reductions available to management, which could have a material adverse effect on our business, operating results, financial condition, and ability to achieve our intended business objectives.

Operating Activities

Historically, we have financed our operations primarily through cash generated from operations and borrowings from banks. We currently anticipate that we will be able to meet our needs to fund operations in the next twelve months with operating cash flow and existing cash balances.

We recorded net cash provided by operating activities of $1.5 million for the three months ended March 31, 2023. The difference between our net income of $3.6 million and the net cash provided by operating activities was primarily due to an adjustment of $2.4 million in non-cash items, which mainly consisted of depreciation and amortization of $0.3 million, provision for doubtful accounts of $2.1 million.

Net cash generated from operating activities for the three months ended March 31, 2022 was primarily attributable to net income of approximately $3.4 million, and non-cash depreciation and amortization expenses of approximately $0.3 million. Cash inflow was also attributable to the increase in accounts payable approximately $2.6 million and advance from customers approximately $0.2 million with the expansion of business operation. Cash inflow was primarily offset by increase in accounts receivable approximately $5.0 million along with along with MC’s increase in revenue, increase in prepayment approximately $0.7 million for professional services, the increase in payment of various business tax $0.4 million along with the expansion of business operation.

Investing Activities

Net cash used in investing activities was $0.1 million for the three months ended March 31, 2023, primarily due to the investments in unconsolidated entities of $0.1 million.

Net cash used in investing activities was $1.1 million for the three months ended March 31, 2022, primarily due to the loan proceeds to third parties $1.6 million and loan repayment from third parties $2.1 million and investment in time deposit $1.6 million.

Financing Activities

Net cash used in financing activities for the three months ended March 31, 2023 was $0.1 million, primarily due to the repayments of third party loan $0.1 million.

Net cash used in financing activities for the three months ended March 31, 2022 was $0.1 million, primarily due to a short term bank loan proceeds $ 0.1 million.

Off-Balance Sheet Arrangements

As of March 31, 2023, we had no off-balance sheet arrangements as defined in Instruction 8 to Item 303(b) of Regulation S-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and are not required to provide the information otherwise required under this item.

Item 4. Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of the end of the fiscal quarter ended March 31, 2023. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of March 31, 2023, our disclosure controls and procedures were not effective because of the material weaknesses identified in our internal control: (i) we did not maintain an effective control environment; and (ii) we lacked formal policies and procedures to establish a risk assessment process and internal control framework and lacked an audit committee and the internal audit function to establish formal risk assessment process and internal control framework. The material weakness could result in misstatements to our account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. See Item 1A of Part II "Risk Factors—Risks Factors Relating to Finance and Accounting" for more details.

Our management has implemented remediation steps to improve our internal control over financial reporting. Specifically, we plan to (i) hire personnel expertized in technical accounting and financial reporting and provide internal training to our accounting team on U.S. GAAP knowledge; (ii) improve our accounting and financial reporting procedures and provide access to third-party professionals; (iii) adopt various reporting systems to ensure the completeness, timeliness and accuracy our financial reporting; (iv) identify and evaluating risks we face; (v) adopting control activities to be taken to mitigate risks with written policies and procedures; (vi) ensure efficient internal and external communication environment and all parts we are adhering to standard practices; and (vii) monitor regularly to verify that internal controls are functioning properly.

Management's Quarterly Report on Internal Control over Financial Reporting

This Quarterly Report does not include a report of management's assessment regarding internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) or an attestation report of our independent registered public accounting firm due to a transition period established by rules of the SEC for newly public companies.

Changes in Internal Control over Financial Reporting

During the most recent fiscal quarter, there has not occurred any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We may be subject from time to time to various claims, lawsuits, and other legal and administrative proceedings arising in the ordinary course of business. Some of these claims, lawsuits, and other proceedings may involve highly complex issues that are subject to substantial uncertainties, and could result in damages, fines, and penalties, non-monetary sanctions, or relief. We intend to recognize provisions for claims or pending litigation when we determine that an unfavorable outcome is probable, and the amount of loss can be reasonably estimated. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of settlement may materially vary from estimates.

Item 1A. Risk Factors

Other than the following updated risk factor, there have been no material changes in the risk factors disclosed in Part I, Item 1A in our Form 10-K for the fiscal year ended December 31, 2022.

We have material customer concentration, with a limited number of customers accounting for a material portion of our revenues for the three months ended March 31, 2023 and 2022.

For the three months ended March 31, 2023, our five largest customers in aggregate accounted for approximately 75.2% of our revenues, and our largest customer accounted for approximately 25.7% of our revenues. There are inherent risks whenever a large percentage of total revenues are concentrated with a limited number of customers. It is not possible for us to predict the future level of demand for our products and services that will be generated by these customers, or to predict the future demand for the products and services of these customers in the end-user marketplace. In addition, revenues from these customers may fluctuate from time to time, which may be affected by market conditions or other factors, some of which may be outside of our control. Further, we may not be able to maintain and solidify our relationships with these major customers on commercially reasonable terms, or at all. As such, any declines in revenues from our major customers could have an adverse effect on our business, results of operations and financial condition.

Our PRC subsidiaries may face uncertainties relating to special preferential income tax rate in connection with PRC high and new technology enterprise and tax exempt status.

Three of our subsidiaries, Shanghai Mengyun, and Shenzhen Mengyun have received the High and New Technology Enterprise Certification. Shanghai Mengyun obtained the “high-tech enterprise” tax status in October 2017 and further renewed in December 2020, which reduced its statutory income tax rate to 15% from January 2017 to December 2023. Shenzhen Mengyun obtained the “high-tech enterprise” tax status in November 2018 and further renewed in December 2021, which reduced its statutory income tax rate to 15% from January 2018 to December 2024. Under PRC laws, Shanghai Mengyun, and Shenzhen Mengyun shall satisfy all the conditions stipulated under the Administrative Measures for Recognition of High and New Technology Enterprises and relevant guidance, including relevant financial, research and development thresholds, manufacturing and otherwise requirements during the three-year period. We cannot assure that Shanghai Mengyun, and Shenzhen Mengyun may maintain the High and New Technology Enterprise Certification during the next three-year period and such preferential income tax treatment could be revoked if Shanghai Mengyun, and Shenzhen Mengyun are deemed unqualified to receive such tax benefits. There is also no guarantee that Shanghai Mengyun, and Shenzhen Mengyun will receive a new High and New Technology Enterprise Certification upon expiration of the three-year preferential treatment period. Accordingly, our financial condition and operation may be adversely affected due to such changes.

Besides, certain of our subsidiaries, Horgos Weiyi, Horgos Youshi, Horgos Bowei and Horgos Tianyuemeng were formed and registered in Horgos in Xinjiang Province, China from 2016 to 2020, and Kashgar Youshi was formed and registered in Kashgar in Xinjiang Provence, China in 2016. These companies are not subject to income tax for 5 years and can obtain another two years of tax exempt status and three years at reduced income tax rate of 12.5% after the 5 years due to the local tax policies to attract companies in various industries. However, there is a possibility that the local tax bureaus may change their policy and these subsidiaries may be subject to PRC income tax going forward.

The Ministry of Finance (“MOF”) and State Administration of Taxation (“SAT”) on January 17, 2019 jointly issued Cai Shui 2019 No. 13. This clarified that from January 1, 2019 to December 31, 2021, eligible small enterprises whose RMB 1,000,000 of annual taxable income is eligible for a 75% reduction on a rate of 20% (i.e., effective rate is 5%) and the income between RMB 1,000,000 and RMB 3,000,000 is eligible for 50% reduction on a rate of 20% (i.e., effective rate is 10%). On April 2, 2021, MOF and SAT further jointly issued Cai Shui 2021 No. 12, which clarified that from January 1, 2022 to December 31, 2022, eligible small enterprises whose RMB 1,000,000 of annual taxable income is eligible for an extra 50% reduction base on Cai Shui 2019 No. 13 (i.e., effective rate is 2.5%). On March 14, 2022, MOF and SAT further jointly issued Cai Shui 2022 No. 13, which clarified that from January 1, 2022 to December 31, 2024, eligible small enterprises whose income between RMB 1,000,000 and RMB 3,000,000 is eligible for an extra 50% reduction base on Cai Shui 2019 No. 13 (i.e., effective rate is 5%). March 26, 2023, MOF and SAT further jointly issued Cai Shui 2023 No. 6 which clarified that from January 1, 2023 to December 31, 2024, eligible small enterprises whose RMB 1,000,000 of annual taxable income is eligible for a 75% reduction on a rate of 20% (i.e., effective rate is 5%).For the three months ended March 31, 2022 and 2023, Shenzhen Tianyuemeng, Yijia Network, and Qianhai Youshi and Shenzhen Yunao were eligible to employ this policy.

The approval, filing or other requirements of the CSRC, the CAC or other PRC government authorities may be required under PRC law in connection with our future offshore securities offering (including equity securities and debt securities), and, if required, we cannot predict whether or for how long we will be able to obtain such approval.

On February 17, 2023, the CSRC released the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies, or the Overseas Listing Trial Measures and five supporting guidelines, which came into effect on March 31, 2023. According to the Overseas Listing Trial Measures, (1) domestic companies that seek to offer or list securities overseas, both directly and indirectly, should fulfill the filing procedure and report relevant information to the CSRC; if a domestic company fails to complete the filing procedure or conceals any material fact or falsifies any major content in its filing documents, such domestic company may be subject to administrative penalties, such as order to rectify, warnings, fines, and its controlling shareholders, actual controllers, the person directly in charge and other directly liable persons may also be subject to administrative penalties, such as warnings and fines; (2) if the issuer meets both of the following conditions, the overseas offering and listing shall be determined as an indirect overseas offering and listing by a domestic company: (i) any of the total assets, net assets, revenues or profits of the domestic operating entities of the issuer in the most recent accounting year accounts for more than 50% of the corresponding figure in the issuer's audited consolidated financial statements for the same period; (ii) its major operational activities are carried out in China or its main places of business are located in China, or the senior managers in charge of operation and management of the issuer are mostly Chinese citizens or are domiciled in China; and (3) where a domestic company seeks to indirectly offer and list securities in an overseas market, the issuer shall designate a major domestic operating entity responsible for all filing procedures with the CSRC, and where an issuer makes an application for listing in an overseas market, the issuer shall submit filings with the CSRC within three business days after such application is submitted.

On the same day, the CSRC also held a press conference for the release of the Overseas Listing Trial Measures and issued the Notice on Administration for the Filing of Overseas Offering and Listing by Domestic Companies, which, among others, clarifies that the domestic companies that have already been listed overseas on or before the effective date of the Overseas Listing Trial Measures (i.e. March 31, 2023) shall be deemed as existing issuers, or the Existing Issuers. Existing Issuers are not required to complete the filling procedures, and they shall be required to file with the CSRC when subsequent matters such as refinancing are involved.

According to the Overseas Listing Trial Measures, an overseas listed company shall file with the CSRC within three business days after the completion of its subsequent securities offering on the same market, and an overseas listed company shall file with the CSRC within three business days after its application of its offering and listing on a different market. If an overseas listed company purchase PRC domestic assets through a single or multiple acquisitions, share swaps, shares transfers or other means, and such purchase constitutes direct or indirect listing of PRC domestic assets, a filing with the CSRC is also required. In addition, an overseas listed company is required to report to the CSRC the occurrence of any of the following material events within three business days after the occurrence and announcement thereof: (i) a change of control of the listed company; (ii) the investigation, sanction or other measures undertaken by any foreign securities regulatory agencies or relevant competent authorities in respect of the listed company; (iii) a change of listing status or transfer of listing segment; and (iv) the voluntary or mandatory delisting of the listed company. If there is any material change of the principal business of the listed company after the overseas offering and listing so that the listed company is no longer required to file with the CSRC, it shall file a specific report and a legal opinion issued by a domestic law firm to the CSRC within three business days after the occurrence hereof.

If we fail to obtain the relevant approval or complete the filings and other relevant regulatory procedures of other PRC government authorities for our future follow on offerings, we may face adverse actions or sanctions, which may include fines and penalties on our operations in China, limitations on our operating privileges in China, delays in or restrictions on the repatriation of the proceeds from any such offering into the PRC, restrictions on or prohibition of the payments or remittance of dividends by our subsidiaries in China, or other actions that could have a material and adverse effect on our business, reputation, financial condition, results of operations, prospects, as well as the trading price of the ordinary shares. The CSRC or other PRC authorities also may take actions requiring us, or making it advisable for us, to halt our offerings before settlement and delivery of the shares offered. Consequently, if investors engage in market trading or other activities in anticipation of and prior to settlement and delivery, they do so at the risk that settlement and delivery may not occur. Any uncertainties and/or negative publicity regarding such an approval or other requirements could have a material adverse effect on the trading price of the ordinary shares.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q for the three months ended March 31, 2023.

Exhibit Number	Description
31.1*	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.

** Furnished herewith. This certification will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent specifically incorporated by reference into such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MicroCloud Hologram Inc. (REGISTRANT)

Dated: April 28, 2023

By: /s/ Guohui Kang
Guohui Kang
Chief Executive Officer
(Principal Executive Officer)

Dated: April 28, 2023

By: /s/ Bei Zhen
Bei Zhen
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Guohui Kang, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MicroCloud Hologram Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) (Paragraph omitted pursuant to SEC Release Nos. 33-8238/34-47986 and 33-8392/34-49313);

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's third fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 28, 2023

By: /s/ Guohui Kang
Guohui Kang
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13A-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bei Zhen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MicroCloud Hologram Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) (Paragraph omitted pursuant to SEC Release Nos. 33-8238/34-47986 and 33-8392/34-49313);

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's third fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: April 28, 2023

By: /s/ Bei Zhen
Bei Zhen
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of MicroCloud Hologram Inc. (the “Company”) on Form 10-Q for the quarterly period ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Guohui Kang, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

Dated: April 28, 2023

By: /s/ Guohui Kang
Guohui Kang
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of MicroCloud Hologram Inc. (the “Company”) on Form 10-Q for the quarterly period ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Bei Zhen, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

Dated: April 28, 2023

By: /s/ Bei Zhen
Bei Zhen
Chief Financial Officer
(Principal Financial and Accounting Officer)