Xuan Wu Cloud Technology Holdings Limited
玄 武 雲 科 技 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2392)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

The board (the "**Board**") of directors of the Company (the "**Director(s)**") is pleased to announce the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2023 (the "**Reporting Period**"), together with the comparative figures of the six months ended 30 June 2022.

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Change
	2023	2022	
	RMB'000	*RMB'000*	(%)
	(Unaudited)	(Unaudited)	
Revenue	**529,963**	448,992	18.0
Gross profit	**100,611**	109,562	(8.2)
Operating loss	**(19,612)**	(4,181)	N/A
Loss before income tax	**(20,715)**	(5,704)	N/A
Loss and total comprehensive loss for the period	**(20,155)**	(3,410)	N/A
Loss per share (expressed in RMB per share)	**(0.037)**	(0.006)	N/A

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2023	2022
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*5*	**529,963**	448,992
Cost of sales	*6*	**(429,352)**	(339,430)
Gross profit		**100,611**	109,562
Selling and distribution expenses	*6*	**(54,796)**	(48,651)
Administrative expenses	*6*	**(26,606)**	(33,820)
Research and development expenses	*6*	**(41,222)**	(36,746)
Net impairment losses on financial assets		**(1,581)**	(2,407)
Other income	*7*	**3,988**	7,384
Other (losses)/gains – net		**(6)**	497
Operating loss		**(19,612)**	(4,181)
Finance income	*8*	**957**	439
Finance costs	*8*	**(2,060)**	(1,962)
Finance costs – net	*8*	**(1,103)**	(1,523)
Loss before income tax		**(20,715)**	(5,704)
Income tax credit	*9*	**560**	2,294
Loss and total comprehensive loss for the period		**(20,155)**	(3,410)
Loss and total comprehensive loss for the period is attributable to:			
– Owners of the Company		**(20,564)**	(3,405)
– Non-controlling interests		**409**	(5)
		(20,155)	(3,410)
Loss per share (expressed in RMB per share)			
– Basic and diluted loss per share	*10*	**(0.037)**	(0.006)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Assets			
Non-current assets			
Property, plant and equipment		**6,454**	7,771
Right-of-use assets		**22,818**	24,707
Intangible assets		**12,213**	12,722
Deferred income tax assets		**10,327**	9,767
Prepayments	*11*	**160**	248
		51,972	55,215
Current assets			
Contract fulfilment costs		**15,092**	10,317
Contract assets		**108**	345
Trade, bill, other receivables and prepayments	*11*	**495,992**	444,213
Restricted cash		**–**	3,589
Cash and cash equivalents		**138,131**	160,972
		649,323	619,436
Total assets		**701,295**	674,651
Equity			
Equity attributable to owners of the Company			
Share capital		**360**	360
Share premium		**439,569**	439,569
Other reserves		**(17,350)**	(19,676)
(Accumulated losses)/retained earnings		**(20,489)**	75
		402,090	420,328
Non-controlling interests		**2,870**	2,461
Total equity		**404,960**	422,789

	Note	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Liabilities			
Non-current liabilities			
Lease liabilities		**15,824**	18,165
Current liabilities			
Borrowings	*12*	**157,994**	88,481
Contract liabilities	*5*	**34,183**	31,086
Trade, bill and other payables	*13*	**77,435**	104,088
Lease liabilities		**10,776**	9,918
Current income tax liabilities		**123**	124
		280,511	233,697
Total liabilities		**296,335**	251,862
Total equity and liabilities		**701,295**	674,651

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

Xuan Wu Cloud Technology Holdings Limited (the "**Company**") was incorporated in the Cayman Islands on 26 April 2021 as an exempted company with limited liability under the Companies Act, Cap 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office is 4th Floor, Harbour Place, 103 South Church Street, P.O. Box 10240, Grand Cayman, KY1-1002, Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (collectively, the "**Group**") are principally engaged in the provision of intelligent customer relationship management ("**CRM**") services in the People's Republic of China (the "**PRC**"). The ultimate controlling shareholders of the Company are Mr. Chen Yonghui ("**Mr. Chen**"), Mr. Huang Fangjie ("**Mr. Huang**") and Mr. Li Hairong ("**Mr. Li**") (the "**Controlling Shareholders**"), who entered into an agreement to acting in concert with each other. The ultimate holding companies of the Company are Zhenghao Global Holding Limited, Honghan Worldwide Limited and Double Winner Worldwide Limited. The three companies are respectively controlled by Mr. Chen, Mr. Huang and Mr. Li and are all incorporated in the British Virgin Islands.

The interim condensed consolidated financial information for the six months ended 30 June 2023 are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) unless otherwise stated. This interim condensed consolidated financial information has been approved for issue by the board of directors on 29 August 2023.

This interim condensed consolidated financial information has not been audited.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting".

The interim condensed consolidated financial information does not include all the notes of the type normally included in an annual financial statements. Accordingly, this information is to be read in conjunction with the financial statements for the year ended 31 December 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

3 ACCOUNTING POLICIES

The accounting policies applied are consistent with those applied in preparation of the Group's financial statements for the year ended 31 December 2022, as described in those annual financial statements, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

HKFRS 17	Insurance contract (new standard and amendments)
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKFRS 4	Extension of the Temporary Exemption from Applying HKFRS 9
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The adoption of these new and amended standards disclosed did not have any significant impact on the Group's interim condensed consolidated financial information.

(b) New standards and amendments not yet effective for the financial period beginning on 1 January 2023 and not early adopted by the Group

		Effective for annual periods beginning on or after
Amendments to HKAS 1	Classification of Liabilities as current or non-current	1 January 2024
Amendments to HKAS 1	Non-current liabilities with covenants	1 January 2024
Amendments to HKFRS 16	Lease liability in sale and leaseback	1 January 2024
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements (amendments)	1 January 2024
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	Applied when an entity applies "Classification of Liabilities as Current or Non-current – Amendments to HKAS 1"

The Group has already commenced an assessment of the impact of these new standards and amendments. According to the preliminary assessment made by the Group, no significant impact on the Group's interim condensed consolidated financial information is expected when they become effective.

4 SEGMENT INFORMATION

(a) Description of segments and principal activities

The chief operating decision-maker ("**CODM**") has been identified as executive directors of the Company. The executive directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The executive directors consider the business from product perspective. The Group has identified the following operating segments:

(i) ***CRM PaaS services***

CRM PaaS services mainly provides cPaaS to encapsulate messaging communication capabilities of the three major telecommunication network operators for the customers to be integrated into the customer's business systems, thereby enabling the customers to access and utilise the communication capabilities as a service.

(ii) ***CRM SaaS services***

CRM SaaS services comprises of Marketing Cloud, Sales Cloud, Service Cloud, which enable the Group to provide the customer with a one-stop intelligent CRM services throughout their entire business cycle, from initial marketing to after-sales services.

The CODM assesses the performance of the operating segments based on the gross profit of each segment. There were no separate segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources or to evaluate the performance of the operating segments.

As at 30 June 2023 and 31 December 2022, majority of the assets were located in the PRC.

(b) Segment performance

The segment information provided to the executive directors for the reportable segments for the six months ended 30 June 2023 is as follows:

	Six months ended 30 June 2023		
	CRM PaaS services *RMB'000* **(Unaudited)**	**CRM SaaS services** *RMB'000* **(Unaudited)**	**Total** *RMB'000* **(Unaudited)**
Revenue	**268,397**	**261,566**	**529,963**
Cost of sales	**(248,119)**	**(181,233)**	**(429,352)**
Gross profit	**20,278**	**80,333**	**100,611**
Selling and distribution expenses			**(54,796)**
Administrative expenses			**(26,606)**
Research and development expenses			**(41,222)**
Net impairment losses on financial assets			**(1,581)**
Other income			**3,988**
Other losses – net			**(6)**
Operating loss			**(19,612)**
Finance income			**957**
Finance costs			**(2,060)**
Finance costs – net			**(1,103)**
Loss before income tax			**(20,715)**

The segment information provided to the executive directors for the reportable segments for the six months ended 30 June 2022 is as follows:

	Six months ended 30 June 2022		
	CRM PaaS services *RMB'000* (Unaudited)	CRM SaaS services *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
Revenue	227,088	221,904	448,992
Cost of sales	(202,491)	(136,939)	(339,430)
Gross profit	24,597	84,965	109,562
Selling and distribution expenses			(48,651)
Administrative expenses			(33,820)
Research and development expenses			(36,746)
Net impairment losses on financial assets			(2,407)
Other income			7,384
Other gains – net			497
Operating loss			(4,181)
Finance income			439
Finance costs			(1,962)
Finance costs – net			(1,523)
Loss before income tax			(5,704)

5 REVENUE

(a) Revenue mainly comprises of proceeds from providing CRM PaaS services and CRM SaaS services. The analysis of the Group's revenue by category for the six months ended 30 June 2023 and 2022 was as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
CRM PaaS services	**268,397**	227,088
CRM SaaS services	**261,566**	221,904
	529,963	448,992

The analysis of revenue from contracts with customers by the timing of revenue recognition for the six months ended 30 June 2023 and 2022 was as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
At a point in time	**503,543**	429,329
Over time	**26,420**	19,663
	529,963	448,992

(b) Contract liabilities

The Group has recognised the following revenue-related contract liabilities:

	As at 30 June 2023	As at 31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Contract liabilities	**34,183**	31,086

6 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses, research and development expenses and administrative expenses are analysed as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Costs of telecommunications resources	**411,085**	326,768
Employee benefit expenses	**100,401**	89,082
Travel and entertainment expenses	**10,753**	6,415
Outsourcing customer service expenses	**6,691**	4,409
Depreciation and amortisation expenses	**5,992**	6,609
Infrastructure and equipment costs	**3,808**	3,556
Professional service fees	**2,927**	1,511
Outsourcing implementation costs	**2,781**	454
Marketing and promotion expenses	**2,305**	2,147
Conference and office expenses	**1,200**	1,242
Taxes and other levies	**768**	857
Auditors' remuneration	**400**	500
Lease payments on short term leases	**249**	222
Listing expenses	**—**	12,566
Others	**2,616**	2,309
	551,976	458,647

7 OTHER INCOME

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Value-added tax refund	**1,779**	1,912
Additional deduction of value-added input tax	**1,680**	2,435
Government grants *(Note (a))*	**313**	2,814
Others	**216**	223
	3,988	7,384

(a) Government grants represented various subsidies received from relevant government authorities, mainly including subsidy on high and new technology enterprise, research and development subsidy on industrial key technologies and Guangzhou intellectual property subsidy.

8 FINANCE COSTS – NET

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Finance income		
Interest income from bank deposits	**957**	439
Finance costs		
Interest expenses of lease liabilities	**(590)**	(734)
Interest expenses of borrowings	**(1,470)**	(1,228)
	(2,060)	(1,962)
Finance costs – net	**(1,103)**	(1,523)

9 INCOME TAX CREDIT

(a) Cayman Islands and BVI Income Tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and accordingly, is exempted from Cayman Islands income tax. The Company's direct subsidiary in the BVI was incorporated under the International Business Companies Act of the BVI and, accordingly, is exempted from British Virgin Islands income tax.

(b) Hong Kong Profits Tax

Hong Kong profits tax rate is 16.5%. No provision for Hong Kong profits tax was provided as the Group did not have assessable profit in Hong Kong during six months ended 30 June 2023 and 2022.

(c) PRC Enterprise Income Tax

Income tax provision of the Group in respect of operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the period, based on the existing legislation, interpretations and practices in respect thereof.

The general corporate income tax rate in PRC is 25%.

Guangzhou Xuan Wu Wireless Technology Co., Ltd. ("**Xuan Wu**"), a subsidiary of the Company, had applied to the relevant tax bureau and was granted the qualification as High and New Technology Enterprise ("**HNTE**") in 2012 and it has renewed the qualification of HNTE in 2021, which will expire in December 2024. It is subject to a preferential income tax rate of 15%. Based on management's assessment, it is highly probable that Xuan Wu will continue to meet the requirements of High-tech Enterprise.

Certain operations of the Group in the PRC were qualified as Small Low-Profit Enterprise and taxed at reduced tax rate of 20% from 1 January 2008. During the period ended 30 June 2023 the Small Low-Profit Enterprise whose taxable income less than RMB3 million can enjoy the preferential income tax treatment with the income tax rate of 20% and is eligible to have their tax calculated based on 25% of their taxable income.

Pursuant to the Detailed Implementation Regulations for Implementation of the Corporate Income Tax Law issued on 6 December 2007, dividends distributed from the profits generated by the PRC companies after 1 January 2008 to their foreign investors shall be subject to this withholding income tax of 10%, a lower 5% withholding income tax rate may be applied when the immediate holding companies of the subsidiaries in Mainland China are incorporated in Hong Kong and fulfill the requirements to the tax treaty arrangements between Mainland China and Hong Kong.

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Deferred income tax	**560**	2,294

10 LOSSES PER SHARE

(a) Basic losses per share

The basic losses per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares outstanding during six months ended 30 June 2023 and 2022.

	Six months ended 30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Loss attributable to owners of the Company (RMB'000)	**(20,564)**	(3,405)
Weighted average number of ordinary shares deemed to be in issue (in thousands)	**560,321**	525,930
Basic losses per share attributable to the owners of the Company during the period (expressed in RMB per share)	**(0.037)**	(0.006)

(b) Diluted losses per share

Diluted losses per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Diluted losses per share is equal to basic losses per share as there were no potential diluted ordinary shares outstanding during six months ended 30 June 2023 and 2022.

11 TRADE, BILL, OTHER RECEIVABLES AND PREPAYMENTS

	As at 30 June 2023 *RMB'000* **(Unaudited)**	As at 31 December 2022 *RMB'000* (Audited)
Trade receivables		
– Third parties *(Note (d))*	**325,278**	306,349
Less: allowance for impairment of trade receivables	**(22,965)**	(21,367)
	302,313	284,982
Bill receivables		
– Third parties	**519**	228
Other receivables		
– Third parties *(Note (b))*	**16,356**	15,797
Less: allowance for impairment of other receivables	**(185)**	(181)
	16,171	15,616
Prepayments to suppliers		
– Third parties *(Note (c))*	**175,174**	140,859
Prepaid taxes	**1,975**	2,776
Total	**496,152**	444,461
Less: non-current portion of prepayments	**(160)**	(248)
Current portion of trade, bill, other receivables and prepayments	**495,992**	444,213

(a) As at 30 June 2023 and 31 December 2022, the trade, bill, other receivables and prepayment were denominated in RMB.

(b) Other receivables due from third parties mainly represent deposits and tender deposits.

(c) Prepayments to suppliers mainly represents prepaid telecommunication expenses and other prepaid expenses.

(d) The Group normally allows credit terms to its customers ranging from 30 to 90 days. Ageing analysis of the trade receivables as at 30 June 2023 and 31 December 2022, based on recognition date were as follows:

	As at 30 June 2023	As at 31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Ageing		
Up to 3 months	**197,458**	201,722
3 to 6 months	**52,469**	39,801
6 months to 1 year	**48,035**	42,370
1 to 2 years	**17,313**	14,313
Over 2 years	**10,003**	8,143
	325,278	306,349

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. As at 30 June 2023, a provision of RMB22,965,000 (31 December 2022: RMB21,367,000) was made against the gross amounts of trade receivables.

12 BORROWINGS

	As at 30 June 2023	As at 31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current		
Bank borrowings	**157,994**	88,481

(a) As at 30 June 2023, the bank borrowing amounting to RMB30,000,000 was secured by certain patents of the Group and the other bank borrowings were guaranteed by the Company. As at 31 December 2022, all bank borrowings were guaranteed by the Company.

13 TRADE, BILL AND OTHER PAYABLES

	As at 30 June 2023 *RMB'000* (Unaudited)	As at 31 December 2022 *RMB'000* (Audited)
Trade payables		
– Third parties *(Note (a))*	**50,175**	48,327
Other payables		
– Third parties	**7,171**	18,417
Bill payable		
– Third parties	**–**	1,758
Accrued payroll	**16,138**	30,808
Other tax payables	**3,951**	4,778
	20,089	35,586
Total	**77,435**	104,088

(a) Trade payable due to third parties mainly represents telecommunication expenses payables and server rental fees payables.

As at 30 June 2023 and 31 December 2022, the ageing analysis of the trade payables based on recognition date are as follows:

	As at 30 June 2023 *RMB'000* (Unaudited)	As at 31 December 2022 *RMB'000* (Audited)
Ageing		
Up to 3 months	**32,793**	19,911
3 to 6 months	**20**	1,281
Over 6 months	**17,362**	27,135
	50,175	48,327

14 DIVIDEND

No interim dividend for the six months ended 30 June 2023 has been proposed by the board of directors (six months ended 30 June 2022: nil).

BUSINESS REVIEW

In the first half of 2023, China's economy has survived the post-pandemic period steadily and ushered in a moderate recovery under the implementation of easing policies. The Fast Moving Consumer Goods ("**FMCG**") market in China is also stabilising on the back of an upturn in both policy and the macro economy. Amid this trend of warming market, digital intelligentisation has reversibly re-structured business scenarios, and became a new growth engine for the transformation and upgrading of consumer retailing enterprises. As a leading intelligent CRM services provider, we always maintain the innovation vitality as a technology enterprise, and continue to dive deep into the track of facilitating enterprises to realise high-quality digital intelligent transformation. During the Reporting Period, we focused on our technology research and development ("**R&D**") investments on Artificial Intelligence ("**AI**") and Data Intelligence ("**DI**") ability, 5G message application and AI Internet of Things ("**AIoT**"), and empowered our "Three Clouds" (Marketing Cloud, Sales Cloud and Service Cloud) products to help our customers in their consumer business scenarios, and explored diversified application scenarios of AI Generated Content ("**AIGC**") in the FMCG industry. During the Reporting Period, we achieved a total revenue of RMB530.0 million, representing an increase of 18.0% compared to the same period last year.

During the Reporting Period, we have served a cumulative total of 2,359 customers in four major industries: finance, FMCG, public utility entities and government organisations ("**Government-related**"), and Technology, Media, Telecom ("**TMT**"). We have always adhered to our mission of helping enterprises to achieve digital intelligent transformation. As a result, the number of our CRM SaaS customers has been growing year-on-year. During the Reporting Period, the number of our CRM SaaS customers reached 1,551, representing an increase of 335 compared to the same period last year. Benefited from the Group's strategy, our Average Revenue Per User ("**APRU**")[1] contributed by core clients[2] exceeded RMB1.8 million, with total revenue of core clients accounting for 95.0% of the total revenue. In the meantime, guided by our customer-first values, we have always strived to maintain excellent customer service and a deep understanding of customer demands, which further increased the core clients' net dollar retention rate to 121.4% during the Reporting Period.

In the first half of 2023, with the trend of AIGC technology application, we keep focusing on "AI + FMCG" Sales Cloud as the Company's development strategy for achieving second growth curve, and applied AIGC technology in various business scenarios in the FMCG sector. As the first enterprise among domestic CRM vendors with full-stack self-developed AI technology accumulation, we have upgraded the R&D of multi-model infused video stitching technology, on-device AI model, and high-precision price tag recognition technology in the first half of 2023, and the coverage rate of on-device model and the overall recognition rate of price tags can reach over 92.0%, which maintains leading position in FMCG vertical field. We are steadily putting forward our "AI + FMCG" strategy, driving the overall amount of contract order of Sales Cloud to grow by 50.0%, and achieved 13.8% revenue growth in the first half of the year.

Notes:

(1) The average price per user (ARPU) contributed by core clients refers to the average revenue generated per core client during the Reporting Period.

(2) Core clients are defined as clients contributing RMB150,000 or above of revenue during the Reporting Period.

Meanwhile, in terms of the digital intelligentisation in FMCG business scenario, our AIoT intelligent fridge ("**fridge**") and solutions, as a brand-new product to help FMCG customers to achieve digital marketing in smart retail stores, can provide customers with key values such as remote examining and verification of fridge display, accurate replenishment and reduction of return loss, full-flow management of sales force, and improvement of fridge sales, thereby helping our customers to create a closed loop between business and data. In the first half of 2023, we have achieved business co-operation with a number of leading FMCG enterprises, such as Uni-president Enterprises (China) Investment Co., Ltd. (統一企業(中國)投資有限公司), Sichuan New Hope Dairy Co., Ltd. (四川新希望乳業有限公司) and Nanjing Pepsi-Cola Beverage Co., Ltd. (南京百事可樂飲料有限公司), which in turn constituted a new engine for our business development in the FMCG field.

In addition, during the Reporting Period, as the cornerstone product for the Company to complete our deployment in intelligent finance and intelligent Government-related enterprises, the revenue of Marketing Cloud achieved a year-on-year growth of 18.0%, among which ICC (integrated communication centre), as the star product of Marketing Cloud, is our newly built enterprise-grade all-channel message centre in 5G era. During the Reporting Period, the Rich Media message business module launched by ICC significantly enriched the forms of messaging, which pushed our overall contract winning rate to 74.0%. In the meantime, we responded proactively to customers' demands by adopting a product portfolio strategy of stacking multiple standardised messaging plug-ins, value-added business plug-ins and all-chain domestic substitution on a single base platform. The above initiatives have been effective in increasing ICC's multi-phase project tie-ups with existing customers, resulting in a rapid revenue growth of 61.9% during the Reporting Period.

During the Reporting Period, we have upgraded Service Cloud to a new generation in regards of contact centre, intelligent quality control, intelligent voice robot and other intelligent product matrix, while also actively explored the integration and innovation of the Company's Service Cloud products and AIGC. With the support of this innovative power, we reached a million level's co-operation with a world's top 500 cosmetics group in the first half of 2023, and further achieved a breakthrough with banking and consumer finance customers in the financial sub-sector. We are committed to further increasing our product competitiveness, empowering finance and electricity customers in their digital intelligent transformation, and thereby continuously increasing our market share.

With the advent of the new consumer era, the transformation towards "Omni-channel + Digital Intelligent" is a development trend and common challenge for the leading enterprises in China's FMCG industry. In view of this, our industry research institute established at the end of last year can provide high-quality solutions focusing on FMCG intelligence scenarios, led by the methodology of the digital intelligent transformation strategy of enterprises, and utilising business structure as its driving force. During the Reporting Period, we published "Xuan Wu Cloud's White Paper on Omni-Channel Marketing and Digital Solutions in the Beverage Industry (玄武雲飲料行業全渠道營銷數字化解決方案白皮書)" for the market, which aims at empowering our customers to achieve digital intelligent transformation. In addition, through insights into the development trend of the FMCG industry and the demands of enterprise for marketing digitalisation, coupled with the power of the industry research institute's think-tank, we continued to strengthen the competitiveness of our products and services in the industry, empowering the standardisation of our business and success rate, and creating a new impetus for the intelligence of the FMCG industry.

PROSPECT

AI technology, as an important infrastructure as well as an empowering engine in the era of digital economy, will act as a core driving force for the transformation and upgrading of various industries and the development of digital economy in the PRC in the long term. According to data from the China Academy of Information and Communications Technology (CAICT), the scale of core AI industry in the PRC reached RMB508 billion in 2022, an increase of 18.0% year-on-year, and the number of AI patent applications accounted for 53.4% of the global amount. Meanwhile, consumer goods market in the PRC presents both opportunities and challenges. Although the industry has a vast market scale of RMB44 trillion, we also note that enterprises in the consumer goods industry are facing various pain points such as low digitisation of the industry and long and complex marketing chains.

Based on the market development trend described above, we are driven by both business and technology as the two engines for sustainable development in the future. In the aspect of technology, we continue to invest in AI technology and bring in talented people to implement the vertical AIGC multi-modal FMCG model. In the aspect of business, we are committed to expanding the FMCG scenario coverage of AIGC technology, combining it with DI terminal store expansion technology to reconstruct people, goods and venues, and empowering the digital intelligent transformation of consumer goods enterprises. In the aspect of market, we are actively cooperating with cloud vendors such as Huawei Cloud to continuously increase our market share.

With the domestic AIGC application welcoming a new stage of orderly development, we have recently launched "Intelligent FMCG Assistant", the first AIGC product of Xuan Wu Cloud, aiming to use the five AIGC generative functions to provide FMCG sales personnel with intelligent assistance and suggestions for the whole workflow, and at the same time, assisting FMCG enterprises in enhancing the manpower efficiency of FMCG sales personnel, reducing the waste of costs, improving the quality of terminal shop display, and ultimately achieving the effect of enhancing brand exposure and sales volume.

We are empowered by AI in all key aspects of business application scenarios. By generating dialogues through conversation practice robot function, FMCG sales personnel can improve their sales tactics and product knowledge, thereby reducing training costs and waste of costs; when the sales personnel visits the stores, route planning assistant will generate store visiting route and frequency rate, so as to increase the efficiency for the brand to expand customer base and increase visiting efficiency; while in the phase of store display business, the display visit commander function generates the display layout and guides the sales personnel to sort goods showed in store and optimise the way of exhibition, so as to improve quality of the distribution and display and ultimately improve products' sales volume. The Intelligent FMCG Assistant, which infused with AIGC technological innovation, will help FMCG enterprises to manage the all-chain business in a closed loop and create a brand new example of intelligent FMCG industry.

As another major application scenario innovation of the Xuan Wu Cloud's AIGC business convergence, AIoT will be optimised for hardware and software products and AI algorithms in the second half of 2023. By continued incentive from R&D, we will attain scalable growth in securing customers in the beverage, beer, and dairy industries, thus increasing overall sales performance.

Furthermore, in order to further empower brands to expand coverage rate of their end stores, we have recently launched a standardised product, DI terminal store expansion system, in order to facilitate FMCG brand vendors to expand high potential terminal stores, and the current accuracy rate of product recommendations has reached a high rate of over 92.0%. We are committed to reducing costs and increasing efficiency, and stimulating further revenue generation for our customers by improving end store coverage.

With the national trend of information technology application innovation, we are also committed to the field of finance. In the second half of the year, we will strive to make breakthrough in ICC product matrix, and create a multi-phase project cycle through business optimisation and overlaying of standard products, to help our clients in banking automise the management process of their marketing campaigns, and promote the modernisation, digitalisation and social-mediatisation of the communications between their end-users.

In terms of Service Cloud, we will also carry out strategic cooperation with TI Cloud. Both parties will conduct multi-dimensional cooperation based on the advantages of their respective products and technologies, service solutions and branding market resources, etc., to achieve mutual benefits and win-win situations. Particularly, in the application of AIGC technology, both parties will organise full exchanges and co-operation with key R&D personnel, with a view to enhancing the efficiency of production and research, product experience and application in the field.

Looking forward, with the advent of AI-enabled digital intelligent transformation in various industries, we firmly believe that the sector of intelligent CRM service has great potential. We will keep focusing on the following key areas: 1) vertically committing to major industrial clients, with business +technology as driven forces, assisting the brands to achieve all-chain digital intelligent transformation; 2) keep focusing on AI+FMCG and implementing more application scenarios of AIGC, and exploring a large-scale multi-modal FMCG model; 3) building diversified product matrix of FMCG chain by promoting standardised products to mid-tier clients, and leading industry business and management model innovation; and 4) expanding overseas market and deepening the strategic cooperation with Huawei Cloud and other parties to build the industrial collaboration ecosystem together. We anticipate to realise a steady and continuous growth in the revenue scale and gross profit margin by the aforesaid initiatives.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

Revenue

The Group generated revenue from two operating segments: CRM PaaS services and CRM SaaS services. CRM PaaS services is the slightly larger segment, which accounted for 50.6% of the Group's revenue for the six months ended 30 June 2023 (the corresponding period in 2022: 50.6%) while CRM SaaS services accounted for 49.4% of the Group's revenue (the corresponding period in 2022: 49.4%).

The following table sets forth the Group's segment revenue both in absolute amount and as a percentage of its revenue for the periods presented. For the six months ended 30 June 2023, the Group's total revenue had an increase of 18.0% to RMB530.0 million (the corresponding period in 2022: RMB449.0 million). This increase was due to the continued solid growth in the Group's CRM PaaS and CRM SaaS services.

	Six months ended			
	30 June 2023		30 June 2022	
	RMB'000	%	*RMB'000*	%
	(Unaudited)		(Unaudited)	
CRM PaaS services	**268,397**	**50.6**	227,088	50.6
CRM SaaS services	**261,566**	**49.4**	221,904	49.4
	529,963	**100.0**	448,992	100.0

CRM PaaS services

The Group's revenue from CRM PaaS services increased by 18.2% to RMB268.4 million for the six months ended 30 June 2023 (the corresponding period in 2022: RMB227.1 million), primarily due to the increase in its ARPU of core client for its CRM PaaS services.

CRM SaaS services

The following table sets forth the breakdown of revenue from CRM SaaS services by solutions for the periods presented.

	Six months ended	
	30 June 2023	30 June 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Marketing Cloud	**217,196**	184,009
Sales Cloud	**31,930**	28,066
Service Cloud	**12,440**	9,829
	261,566	221,904

The Group's revenue from CRM SaaS services increased by 17.9% to RMB261.6 million for the six months ended 30 June 2023 (the corresponding period in 2022: RMB221.9 million), primarily attributable to (i) clients' increasing demand for its CRM SaaS services; (ii) features advanced in its solutions; and (iii) increase in number of its core clients and the ARPU for its CRM SaaS services.

Cost of Sales

The Group's cost of sales increased by 26.5% to RMB429.4 million for the six months ended 30 June 2023 (the corresponding period in 2022: RMB339.4 million). The increase was attributable to the increase of revenue contribution in both CRM PaaS services and CRM SaaS services which corresponded with the Group's business expansion for the six months ended 30 June 2023.

CRM PaaS services: The cost of sales from CRM PaaS services increased by 22.5% to RMB248.1 million for the six months ended 30 June 2023 (the corresponding period in 2022: RMB202.5 million), primarily attributable to the increase in costs of telecommunication resources in relation to CRM PaaS services, which generally corresponded with the increase in revenue generated from CRM PaaS services.

CRM SaaS services: The cost of sales from CRM SaaS services increased by 32.3% to RMB181.2 million for the six months ended 30 June 2023 (the corresponding period in 2022: RMB136.9 million), primarily caused by the increase in (i) costs of telecommunication resources in relation to CRM SaaS services; (ii) outsourcing customer service expenses; and (iii) employee benefit expenses, all of which being corresponded with the Group's business expansion strategy in its CRM SaaS services during the same period.

Gross Profit and Gross Profit Margin

As a result of the foregoing, the Group's overall gross profit decreased by 8.2% to RMB100.6 million for the six months ended 30 June 2023 (the corresponding period in 2022: RMB109.6 million), while its overall gross profit margin decreased from 24.4% to 19.0%, respectively.

CRM PaaS services: The gross profit margin in CRM PaaS services decreased to 7.6% for the six months ended 30 June 2023 (the corresponding period in 2022: 10.8%), due to reasons, among others, reduction in products' unit selling price resulting from the competitive market environment.

CRM SaaS services: The gross profit margin in CRM SaaS services decreased to 30.7% for the six months ended 30 June 2023 (the corresponding period in 2022: 38.3%), primarily resulting from the decrease in its services with a relatively higher gross profit margin for the same period.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by 12.6% to RMB54.8 million for the six months ended 30 June 2023 (the corresponding period in 2022: RMB48.7 million), primarily attributable to the increase in business entertainment expenses and travelling expenses for sales and marketing personnels resulting from the expansion of our business.

Administrative Expenses

The Group's administrative expenses decreased by 21.3% to RMB26.6 million for the six months ended 30 June 2023 (the corresponding period in 2022: RMB33.8 million), mainly because no listing expenses had been incurred for the six months ended 30 June 2023.

Research and Development Expenses

The Group's R&D expenses increased by 12.2% to RMB41.2 million for the six months ended 30 June 2023 (the corresponding period in 2022: RMB36.7 million). The increase was primarily resulting from (i) the Group's continuous investment in R&D so as to expand its CRM SaaS services; and (ii) the increase in employee benefit expenses which corresponded with the increase in the number of experienced AI personnels in R&D function.

Net Impairment Losses on Financial Assets

The Group's net impairment losses on financial assets decreased by 34.3% to RMB1.6 million for the six months ended 30 June 2023 (the corresponding period in 2022: RMB2.4 million), mainly due to the decrease in bad debt impairment ratio on its trade receivables.

Other Income

The Group's other income decreased by 46.0% to RMB4.0 million for the six months ended 30 June 2023 (the corresponding period in 2022: RMB7.4 million), mainly attributable to the decrease in government grants.

Finance Costs – Net

The Group's finance costs – net comprise finance income, interest expenses of lease liabilities and interest expenses of borrowings. The Group's finance costs – net amounted to RMB1.1 million and RMB1.5 million for the six months ended 30 June 2023 and 2022, respectively.

Income Tax Credit

The Group had income tax credit of RMB0.6 million and RMB2.3 million for the six months ended 30 June 2023 and 2022, respectively.

Loss for the Period

As a result of the foregoing, the Group recorded a net loss of RMB20.2 million for the six months ended 30 June 2023, compared with a net loss of RMB3.4 million for corresponding period in 2022, which was primarily attributable to (i) the decrease in gross profit and gross profit margin which mainly contributed from the increase in revenue from a major strategic client with lower gross profit margin; (ii) the continuous increase in the Group's R&D expenses in its CRM SaaS services as well as the increase in selling and distribution expenses (which mainly include travel expenses) during the same period; and (iii) the increase in our share-based remuneration expenses recorded for the same period as a result of the restricted share award scheme.

Non-HKFRS Measure: Adjusted Net (Loss)/profit

The Group defines "adjusted net (loss)/profit" (non-HKFRS measures) as profit or loss for the period and adding back listing expenses and it referred to expenses the Group incurred in connection with the Global Offering (as defined in the Company's Prospectus). This is not a HKFRSs measure. The Group believes that the presentation of this non-HKFRS measure facilitates comparisons of operating performance, provides useful information to investors in understanding and evaluates the Group's consolidated results of operations in the same manner as they do for the Group's management.

The following table sets forth the reconciliations of the Group's non-HKFRS financial measure for the six months ended 30 June 2023 and 2022 to the nearest measure prepared in accordance with HKFRS:

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Loss for the Period	**(20,155)**	(3,410)
Adjust for:		
Listing expenses	**—**	12,566
Adjusted net (loss)/profit	***(Note)***	9,156

Note: As no listing expenses had been incurred for the six months ended 30 June 2023, there would be no figure for the adjusted net (loss)/profit.

Trade, Bill and Other Receivables and Prepayments

As at 30 June 2023, the Group's trade, bill and other receivables and prepayments amounted to RMB496.2 million, representing an increase of 11.6% as compared with RMB444.5 million as at 31 December 2022. Such increase was primarily due to (i) the increase in prepayments to suppliers from RMB140.9 million as at 31 December 2022 to RMB175.2 million as at 30 June 2023; and (ii) the increase in trade receivables from RMB285.0 million as at 31 December 2022 to RMB302.3 million as at 30 June 2023, which were attributable to the increase in the Group's revenue.

Trade, Bill and Other Payables

As at 30 June 2023, the Group's trade, bill and other payables amounted to RMB77.4 million, representing a decrease of 25.6% as compared with RMB104.1 million as at 31 December 2022. Such decrease was mainly attributable to the (i) decrease in accrued payroll from RMB30.8 million as at 31

December 2022 to RMB16.1 million as at 30 June 2023; (ii) decrease in other payables from RMB18.4 million as at 31 December 2022 to RMB7.2 million as at 30 June 2023; and (iii) no bill payable had been incurred as at 30 June 2023 as compared to RMB1.8 million as at 31 December 2022, which was attributable to the further acceleration of settlements with suppliers.

LIQUIDITY AND FINANCIAL RESOURCES

Treasury Policies

The Group adopts a prudent treasury management policy to actively monitor its liquidity position and maintain sufficient financial resources for future development. On this basis, the Group regularly reviews and adjusts its financial structure in response to dynamic changes in economic conditions to ensure financial resources are deployed in the best interests of the Group.

Cash and Cash Equivalents

As at 30 June 2023, the Group's cash and cash equivalents were RMB138.1 million, representing a decrease of 14.2% from RMB161.0 million as at 31 December 2022.

Indebtedness

	As at 30 June 2023 *RMB'000* **(Unaudited)**	As at 31 December 2022 *RMB'000* (Unaudited)
Borrowings	**157,994**	88,481
Lease liabilities	**26,600**	28,083
	184,594	116,564

CONTINGENT LIABILITIES

As at 30 June 2023, the Group did not have any significant contingent liabilities (31 December 2022: nil).

CAPITAL COMMITMENT

As at 30 June 2023, the Group did not have any capital commitment (31 December 2022: nil).

OTHER INFORMATION

EMPLOYEE REMUNERATION AND RELATIONS

As at 30 June 2023, the Group had a total of 881 employees. The Group's total employee costs (including directors' emoluments) for the six months ended 30 June 2023 was RMB100.4 million (six months ended 30 June 2022: RMB89.1 million). Remuneration packages for employees and directors are structured according to market terms as well as individual performance and experience. The Group has also established comprehensive training programs that cover topics such as its corporate culture, employees' rights and responsibilities, teambuilding, professional behaviour and job performance to ensure that its employees' skill sets remain up-to-date which enable them to discover and meet its clients' needs.

COMPLIANCE WITH THE MODEL CODE ON SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as its code of conduct for securities transactions by the Directors. The Company has made specific enquiries to all Directors regarding any non-compliance with the Model Code. All Directors have confirmed that they had complied with the required standard set out in the Model Code for the six months ended 30 June 2023.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2023, the Company had applied the principles and complied with all applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "**CG Code**"), save and except the deviation below:

Pursuant to code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer ("**CEO**") should be separated and should not be performed by the same individual. Currently, Mr. Chen is the chairman and CEO of the Company, which deviated from the code provision C.2.1 of the CG Code. The Board believes that it is to the benefit of the business prospect and operational efficiency of the Group to vest the roles of chairman and CEO in the same person due to its unique role, Mr. Chen's experience in the industry, personal profile and roles in the Group. This dual role provides strong and consistent market leadership and is crucial to efficient business planning and decision-making of the Company. As all major decisions of the Group are made in consultation with members of the Board and the relevant Board committees, and there are three independent non-executive Directors on the Board offering independent perspectives, the Board is of the view that adequate safeguards are in place to ensure sufficient balance of powers within the Board.

In order to maintain good corporate governance and to fully comply with code provision C.2.1 of the CG Code, the Board will regularly review the need to appoint different individuals to perform the roles of chairman of the Board and CEO separately.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2023.

INTERIM DIVIDENDS

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: nil).

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") has reviewed the unaudited condensed consolidated interim results of the Group for the Reporting Period. The Audit Committee is of the opinion that the unaudited condensed consolidated interim results of the Group have been prepared in compliance with the applicable accounting standards and the Listing Rules and that adequate disclosures have been made.

The unaudited condensed consolidated interim results of the Group for the Reporting Period have also been reviewed by PricewaterhouseCoopers, the auditor of the Company, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

No major subsequent events affecting the Group have occurred since the end of the Reporting Period and up to the date of this announcement.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (https://ir.wxchina.com) and the interim report for the six months ended 30 June 2023 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the aforementioned websites in due course.

By order of the Board
Xuan Wu Cloud Technology Holdings Limited
Mr. Chen Yonghui
Chairman, Chief Executive Officer and Executive Director

Hong Kong, Tuesday, 29 August 2023

As at the date of this announcement, the Board comprises Mr. Chen Yonghui, Mr. Huang Fangjie, Mr. Li Hairong and Mr. Guo Haiqiu as executive Directors; and Mr. Du Jianqing, Ms. Wu Ruifeng and Prof. Wu Jintao as independent non-executive Directors.