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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

The board (the “**Board**”) of directors of the Company (the “**Director(s)**”) hereby announces the consolidated annual results of the Group for the year ended 31 December 2023 (the “**Reporting Period**”) together with the comparative figures for the year ended 31 December 2022. The consolidated annual results of the Group for the Reporting Period have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

FINANCIAL HIGHLIGHTS

	Year ended 31 December		Year-to-year change (%)
	2023 RMB'000	2022 RMB'000	
Revenue	1,281,276	1,043,378	22.8
Gross profit	204,649	225,647	(9.3)
Operating loss	(68,901)	(33,352)	N/A
Loss before income tax	(71,709)	(36,302)	N/A
Loss and total comprehensive loss for the year	(71,770)	(34,968)	N/A
Losses per share (expressed in RMB per share)	(0.129)	(0.066)	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	Year ended 31 December	
		2023	2022
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue	4	1,281,276	1,043,378
Cost of sales	5	<u>(1,076,627)</u>	<u>(817,731)</u>
Gross profit		204,649	225,647
Selling and distribution expenses	5	(125,113)	(111,317)
Administrative expenses	5	(58,089)	(76,361)
Research and development expenses	5	(92,616)	(82,724)
Net impairment losses on financial assets		(7,871)	(7,346)
Other income	6	10,749	13,918
Other (losses)/gains – net	7	<u>(610)</u>	<u>4,831</u>
Operating loss		(68,901)	(33,352)
Finance income	8	1,945	1,150
Finance costs	8	<u>(4,753)</u>	<u>(4,100)</u>
Finance costs – net	8	<u>(2,808)</u>	<u>(2,950)</u>
Loss before income tax		(71,709)	(36,302)
Income tax (expense)/credit	9	<u>(61)</u>	<u>1,334</u>
Loss and total comprehensive loss for the year		<u>(71,770)</u>	<u>(34,968)</u>
Loss and total comprehensive loss for the year is attributable to:			
– Owners of the Company		(72,364)	(35,676)
– Non-controlling interests		<u>594</u>	<u>708</u>
		<u>(71,770)</u>	<u>(34,968)</u>
Losses per share (expressed in RMB per share)			
– Basic and diluted losses per share	10	<u>(0.129)</u>	<u>(0.066)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
		2023	2022
	Note	RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment		5,923	7,771
Right-of-use assets		18,643	24,707
Intangible assets		11,936	12,722
Deferred income tax assets		9,740	9,767
Prepayments	11	257	248
		<u>46,499</u>	<u>55,215</u>
Current assets			
Contract fulfilment costs		14,706	10,317
Contract assets		164	345
Financial assets at fair value through profit or loss		501	–
Trade, bill and other receivables and prepayments	11	436,868	444,213
Restricted cash		–	3,589
Cash and cash equivalents		192,278	160,972
		<u>644,517</u>	<u>619,436</u>
Total assets		<u>691,016</u>	<u>674,651</u>
Equity			
Equity attributable to owners of the Company			
Share capital		360	360
Share premium		439,569	439,569
Other reserves		(31,474)	(19,676)
(Accumulated losses)/retained earnings		(72,490)	75
		<u>335,965</u>	<u>420,328</u>
Non-controlling interests		<u>3,055</u>	<u>2,461</u>
Total equity		<u>339,020</u>	<u>422,789</u>

		As at 31 December	
		2023	2022
	<i>Note</i>	RMB'000	RMB'000
Liabilities			
Non-current liabilities			
Lease liabilities		<u>11,888</u>	<u>18,165</u>
Current liabilities			
Borrowings		157,244	88,481
Contract liabilities		51,275	31,086
Trade, bill and other payables	12	120,837	104,088
Lease liabilities		10,595	9,918
Current income tax liabilities		<u>157</u>	<u>124</u>
		<u>340,108</u>	<u>233,697</u>
Total liabilities		<u>351,996</u>	<u>251,862</u>
Total equity and liabilities		<u>691,016</u>	<u>674,651</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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”), 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 Company’s shares were listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 8 July 2022.

The consolidated financial statements for the year ended 31 December 2023 are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) unless otherwise stated. This consolidated financial statements has been approved for issue by the board of directors of the Company on 27 March 2024.

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES

The principal accounting policies applied in preparation of the consolidated financial statements are set out as below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements has been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRS”) issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”) and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements has been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss (“FVPL”), which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

(a) *New and amended standards adopted by the Group*

The Group has applied the following amendments or annual improvements for the first time for their annual reporting year commencing 1 January 2023, except for Amendments to HKAS 12 described below, there is no material impact on the Group's consolidated financial statements:

HKFRS 17	Insurance contract (new standard and amendments)
Initial Application of HKFRS 17 and HKFRS 9	Comparative Information
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

The Group has adopted Amendments to HKAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction” retrospectively from 1 January 2022. The amendment requires the Group to recognise a deferred tax asset and a deferred tax liability for the deductible and taxable temporary differences associated with lease liabilities and right-of-use assets respectively, rather on a net basis as in prior years. Hence, a reclassification on the balances between deferred tax assets and deferred tax liabilities was made accordingly.

There is no impact on the opening balance of retained earnings and profit or loss for applying the Amendments of HKAS 12.

(b) *New and amended standards and interpretations not yet adopted*

Up to the date of issuance of this report, the HKICPA has issued the following new standards and amendments to existing standards which are not yet effective and have not been 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 HKAS 7 and HKFRS 7	Supplier finance arrangements	1 January 2024
Amendments to HKFRS 16	Lease liability in a sale and leaseback	1 January 2024
Hong Kong Interpretation 5 (Revised)	Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause	1 January 2024
Amendments to HKAS 21	Lack of exchangeability	1 January 2025
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

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 consolidated financial statements is expected when they become effective.

3 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 and 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 31 December 2023 and 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 year ended 31 December 2023 was as follows:

	Year ended 31 December 2023		
	CRM PaaS services RMB'000	CRM SaaS services RMB'000	Total RMB'000
Revenue	690,291	590,985	1,281,276
Cost of sales	(655,995)	(420,632)	(1,076,627)
Gross profit	34,296	170,353	204,649
Selling and distribution expenses			(125,113)
Administrative expenses			(58,089)
Research and development expenses			(92,616)
Net impairment losses on financial assets			(7,871)
Other income			10,749
Other losses – net			(610)
Operating loss			(68,901)
Finance income			1,945
Finance costs			(4,753)
Finance costs – net			(2,808)
Loss before income tax			(71,709)

The segment information provided to the executive directors for the reportable segments for the year ended 31 December 2022 was as follows:

	Year ended 31 December 2022		
	CRM PaaS	CRM SaaS	Total
	services	services	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	569,177	474,201	1,043,378
Cost of sales	<u>(524,339)</u>	<u>(293,392)</u>	<u>(817,731)</u>
Gross profit	44,838	180,809	225,647
Selling and distribution expenses			(111,317)
Administrative expenses			(76,361)
Research and development expenses			(82,724)
Net impairment losses on financial assets			(7,346)
Other income			13,918
Other gains – net			<u>4,831</u>
Operating loss			(33,352)
Finance income			1,150
Finance costs			<u>(4,100)</u>
Finance costs – net			(2,950)
Loss before income tax			<u><u>(36,302)</u></u>

4 REVENUE

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 year ended 31 December 2023 and 2022 was as follows:

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
CRM PaaS services	690,291	569,177
CRM SaaS services	<u>590,985</u>	<u>474,201</u>
	<u><u>1,281,276</u></u>	<u><u>1,043,378</u></u>

The analysis of revenue from contracts with customers by the timing of revenue recognition for the year ended 31 December 2023 and 2022 was as follows:

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
At a point in time	1,244,422	1,006,767
Over time	<u>36,854</u>	<u>36,611</u>
	<u>1,281,276</u>	<u>1,043,378</u>

5 EXPENSES BY NATURE

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

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Costs of telecommunications resources	1,032,266	780,836
Employee benefit expenses	230,881	206,147
Travel and entertainment expenses	24,913	17,564
Outsourcing customer service expenses	15,141	12,450
Depreciation and amortisation expenses	11,355	13,243
Infrastructure and equipment expenses	8,577	8,792
Professional service fees	5,803	4,518
Outsourcing implementation costs	4,874	2,857
Marketing and promotion expenses	4,718	6,049
Conference and office expenses	3,677	2,342
Auditor's remuneration	2,100	2,300
Taxes and other levies	2,035	1,727
Lease payments on short term leases	594	486
Listing expenses	–	22,971
Others	<u>5,511</u>	<u>5,851</u>
	<u>1,352,445</u>	<u>1,088,133</u>

6 OTHER INCOME

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Additional deduction of value-added input tax (<i>Note (a)</i>)	5,672	6,523
Value-added tax refund (<i>Note (b)</i>)	4,084	4,050
Government grants (<i>Note (c)</i>)	771	2,947
Others	222	398
	<u>10,749</u>	<u>13,918</u>

- (a) From 1 January 2023 to 31 December 2023, according to the circular “Announcement of Ministry of Finance and the General Administration of Taxation on clarifying the policies for the reduction and exemption of VAT for small-scale taxpayers of VAT” (Announcement of Ministry of Finance and the General Administration of Taxation [2023] No. 1 財政部稅務總局公告[2023年]第1號), the group companies engaged in the provision of CRM SaaS and CRM PaaS services in the PRC are entitled to an extra 5% VAT deduction (2022: 10%).
- (b) From 1 April 2019, according to the circular “Announcement of Ministry of Finance, the General Administration of Taxation and the General Administration of Customs on deepening policies related to VAT reformation” (Announcement of Ministry of Finance, the General Administration of Taxation and the General Administration of Customs [2019] No. 39 財政部稅務總局海關總署公告[2019年]第39號), the application VAT rate for sales of computer software has been adjusted from 16% to 13%.

According to the circular Cai Shui [2011] No. 100 (財稅[2011]100號), software enterprises which engage in the sales of self-developed software in the PRC are entitled to VAT refund to the extent that the effective VAT rate of the sales of the software in the PRC exceeds 3% of the sales amounts.

- (c) Government grants represented various subsidies received from relevant government authorities, mainly including high-tech enterprises cultivation subsidy, Guangzhou intellectual property subsidy and Guangzhou promoting the High-Quality Development of Commerce of services trade subsidy.

7 OTHER (LOSSES)/GAINS – NET

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Net losses from disposal of property, plant and equipment	(35)	(32)
Net foreign exchange (loss)/gain	(709)	3,564
Net fair value gain on investments in financial assets at fair value through profit or loss	48	1,293
Others	86	6
	<u>(610)</u>	<u>4,831</u>

8 FINANCE COSTS – NET

Year ended 31 December

2023 2022

RMB'000 RMB'000

Finance income

Interest income from bank deposits

1,945 1,150

Finance costs

Interest expenses of lease liabilities

(1,072) (1,380)

Interest expenses of borrowings

(3,681) (2,720)

(4,753) (4,100)

Finance costs – net

(2,808) (2,950)

9 INCOME TAX EXPENSE/(CREDIT)

Year ended 31 December

2023 2022

RMB'000 RMB'000

Current income tax

34 1

Deferred income tax

27 (1,335)

Income tax expense/(credit)

61 (1,334)

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 the years ended 31 December 2023 and 2022.

Year ended 31 December

2023 2022

Loss attributable to owners of the Company (RMB'000)

(72,364) (35,676)

Weighted average number of ordinary shares (in thousands)

559,973 542,437

Basic losses per share attributable to the owners of the
Company during the year (expressed in RMB per share)

(0.129) (0.066)

(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 the years ended 31 December 2023 and 2022.

11 TRADE, BILL AND OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Trade receivables		
– Third parties (<i>Note (a)</i>)	279,483	306,349
Less: allowance for impairment of trade receivables	<u>(26,834)</u>	<u>(21,367)</u>
	252,649	284,982
Bill receivable		
– Third parties	80	228
Other receivables		
– Third parties	14,502	15,797
Less: allowance for impairment of other receivables	<u>(161)</u>	<u>(181)</u>
	14,341	15,616
Prepayments to suppliers		
– Third parties	167,156	140,859
Prepaid taxes	<u>2,899</u>	<u>2,776</u>
Total	437,125	444,461
Less: non-current portion of prepayments	<u>(257)</u>	<u>(248)</u>
Current portion of trade, bill and other receivables and prepayments	<u>436,868</u>	<u>444,213</u>

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Ageing		
Up to 3 months	204,897	201,722
3 to 6 months	24,744	39,801
6 months to 1 year	19,642	42,370
1 to 2 years	15,934	14,313
Over 2 years	14,266	8,143
	279,483	306,349

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. As at 31 December 2023, a provision of RMB26,834,000 (31 December 2022: RMB21,367,000) was made against the gross amounts of trade receivables.

12 TRADE, BILL AND OTHER PAYABLES

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Trade payables		
– Third parties (<i>Note (a)</i>)	64,438	48,327
Other payables		
– Third parties	13,125	18,417
Bill payable		
– Third parties	–	1,758
Accrued payroll	35,355	30,808
Other tax payables	7,919	4,778
	43,274	35,586
	120,837	104,088

- (a) As at 31 December 2023 and 2022, the ageing analysis of the trade payables based on recognition date are as follows:

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Ageing		
Up to 3 months	52,122	19,911
3 to 6 months	3,462	1,281
Over 6 months	8,854	27,135
	<u>64,438</u>	<u>48,327</u>

13 DIVIDEND

No dividend for the year ended 31 December 2023 has been proposed by the board of directors (2022: nil).

BUSINESS REVIEW

2023 is the first full year after the listing of Xuan Wu Cloud, and is also a year full of challenges and uncertainties. Generative Artificial Intelligence (“AI”), represented by ChatGPT, has swept the world, triggering a new round of technological “revolution”, which has accelerated the digital and intelligent transformation and upgrading of enterprises. At the same time, the adjustment and change of client strategy in the post-pandemic era has prompted us to rethink the driving force and focus direction of future business growth. We firmly believe that digitalisation and intelligent transformation are the important development trends, and we will keep our strategic focuses no matter now or in the future, give full play to our comprehensive advantages in product portfolio, technological innovation and industry cultivation, and work with our ecological partners to concentrate resources on AI, which is the most critical strategic direction at present, and continuously empower our “Three Clouds” (Marketing Cloud, Sales Cloud and Service Cloud) products of CRM SaaS business through the leading AI technologies, which can effectively help clients to achieve digital and intelligent growth.

Looking back on the past year, we have responded to changes in the external market environment with positive attitudes and actions. In 2023, based on our “Three Clouds” products and solutions of CRM SaaS business, and focusing on the four major industries of mass consumption, finance, government organisations (“**Government-related enterprises**”), and Technology, Media and Telecom (“**TMT**”) which the Company is deeply engaged in, we continued to improve our core technical strength represented by AI and Data Intelligence (“**DI**”), and actively explore new product application scenarios. During the Reporting Period, we launched innovative products such as multi-modal large models vertical to the mass consumption industry, AIGC applications, DI smart store expansion, Data Management Platform (“**DMP**”) product, and others, which also enabled us to maintain our leading market competitiveness in vertical industries such as mass consumption and finance.

After more than ten years of development, we have an experienced professional technical team with independent R&D and innovation, as well as aPaaS and cPaaS technical platforms to support product and service upgrades, which also make our technology R&D level and product competitiveness situated at a leading position in the industry. As of the end of the Reporting Period, we obtained 148 authorised patents and 184 computer software copyrights, of which in 2023, a total of 80 new authorised patents and software copyrights had been added. At the same time, in 2023, we had successfully passed the CMMI Level 5 certification, which is the highest level of certification in the global software field, marking that we are at the forefront of the international level in terms of software R&D management system, implementation and delivery services, project management level and other areas. This also provides a strong guarantee for the Company to build a “moat”.

Meanwhile, in 2023, we were also actively looking for new business breakthroughs. 2023 is the first year for us to start our overseas business, in which we have not only built an international cloud communication platform, but also successfully opened up markets in the Middle East, Southeast Asia, Latin America and other regions. In terms of ecosystem, we continued to deepen cooperation with Huawei Cloud and other players, and achieved mutual benefit and win-win results in terms of products, technologies, market channels, and other areas. In addition, in 2023, we have also focused on strengthening and optimising the organisation and talent structure, and have built a more

technologically innovative team of industry experts led by the Industry Research Institute. Benefiting from the smooth implementation of the aforementioned initiatives, we achieved steady revenue growth in the volatile year of 2023, with continued improvement in operating cash flow and solid cash reserves. During the Reporting Period, we achieved a revenue of RMB1,281.3 million, representing an increase of 22.8% compared to the previous year.

During the Reporting Period, we had served a cumulative total of 2,970 clients in four major industries: mass consumption, finance, Government-related enterprises and TMT. Our total Average Revenue Per User (“APRU”)⁽¹⁾ contributed by core clients⁽²⁾ reached RMB3.7 million, representing an increase of 25.9% as compared to the previous year. In the meantime, we have always strived to maintain excellent customer service and a deep understanding of clients’ demands, which makes the clients who have cooperated with us developed a higher degree of trust in us. During the Reporting Period, our total revenue from core clients accounted for 94.9% of the total revenue of all clients, at the same time, the core clients’ net dollar retention rate further increased to 112.7%.

Meanwhile, based on our strategy of focusing on the SaaS segment, we have achieved favourable progress in our SaaS-related business. During the Reporting Period, the number of our CRM SaaS clients reached 2,120, representing a year-on-year increase of 28.9%; and APRU of core clients of SaaS service reached RMB2.4 million, representing a year-on-year increase of 12.3%.

CRM PaaS Services

Our cPaaS platform service can provide full-featured cloud communication capabilities based on clients’ needs in marketing, management and other aspects. At the same time, with rich distribution network and risk resilience, the platform enables clients to obtain stable and secure cloud communication services, so as to ensure the speed and effect in respect of product marketing, user contact, activity notification, acquisition of new users and sales promotion and other aspects for clients.

In 2023, our cPaaS platform cloud-native observable system has realised 360-degree monitoring interface and visually autonomous troubleshooting through cloud native technology, so that the troubleshooting efficiency has been improved by more than 5 times compared with the past. Thereby it greatly prevents and reduces business failures; simultaneously, during the Reporting Period, the cPaaS

Notes:

- (1) The average revenue 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 RMB300,000 or above of revenue during the Reporting Period.

platform's cloud-native docker dual active (dual centres) was officially put into production, which can not only stably support billions of business volumes, but also enhance data centre-level anti-risk capabilities. In addition, the traffic load capacity has also been doubled. The upgrade of platform technology also further guarantees the security and stability of clients' communication capabilities.

In addition, we are also continuously improving the technical capabilities of the aPaaS platform. During the Reporting Period, the aPaaS platform optimised and launched a new underlying structure. Under this structure, our CRM SaaS standard products can achieve modular design, development, construction, release and upgrade. Compared with the past, it can facilitate to speed-up the product iteration and release by more than 3 times, and shorten the promotion cycle of new products, new modules and new functions by more than 60%.

At the same time, according to the demand trend of the industry market, the aPaaS platform also connected the internal services of "Smart Sales 100 (智慧100)" with other internal information systems of the enterprise clients, and introduced the service orchestration suite — iPaaS, which has been used in several large-scale projects for new and existing clients. It has achieved remarkable results in eliminating the information isolated island of the enterprise clients' information system, improving the business fluency of enterprise clients, and laying a foundation for the data applications of enterprises in the future.

CRM SaaS Services

In terms of product and business development, Marketing Cloud is a business segment for us to serve clients in finance, Government-related enterprises and other industries, and realise the digital and intelligent upgrading of marketing. We can provide related enterprises with a user-centered all-channel integrated communication platform to help enterprises achieve data governance, and accurately promote their products or services to targeted users, optimise marketing effects, maintain user relationships, and break through the bottleneck of client acquisition.

In 2023, Marketing Cloud continued to maintain a good growth trend. During the Reporting Period, our revenue from Marketing Cloud amounted to RMB495.6 million, representing an increase of 26.8% as compared with the previous year, among which the integrated communication centre ("ICC"), as the star product of Marketing Cloud, is our newly built enterprise-grade all-channel message centre in the 5G era. During the Reporting Period, ICC focused on the common needs of the clients in the industry, output differentiated industry-specific functions, and introduced standardised components such as "signing business" and "data desensitisation", so as to quickly respond to needs of the clients and accelerate the process of clients' marketing digitalisation and intelligence. In addition, the Marketing Cloud has further focused on the solutions for the finance, Government-related enterprises in the field of precision marketing, and launched a data management platform DMP which is dedicated to achieving the goals of precision delivery and improved marketing transformation. Through the big data of operators, we can complete the label of enterprise clients, improve the user portrait, and enable our clients of finance and Government-related enterprises to carry out user layered operation.

Under the wave of information technology application innovation substituted by financial localisation, we are also actively responding to market demand. During the Reporting Period, we have successively completed the localisation adaptation with Beijing Baolande Software Corporation (BES) and Oceanbaes, and have realised the localisation adaptation of the entire chain, with a total of 13 items, which also enables ICC to fully meet the needs from the clients of finance and Government-related enterprises for digital intelligence and information technology application innovation.

As a business segment focused on the second growth curve of the Group, Sales Cloud is committed to empowering enterprises through AI and DI to achieve digital intelligence transformation of the entire marketing chain, help enterprises to reduce cost and enhance efficiency, and promote performance improvement.

During the Reporting Period, Sales Cloud continued to deepen its engagement in the field of mass consumption, especially in the segment of the Fast Moving Consumer Goods (“FMCG”). We adhered to a two-wheeled driven strategy of “technology+business”. In terms of technology, we launched the first multi-modal large model in China vertical to the mass consumption industry — Xuantao (玄韜), which enabled us to improve the accuracy and generalisation of AI recognition. As at the end of the Reporting Period, we have achieved a coverage rate of over 92% and an overall recognition rate of over 95% in the terminal model and price tag, respectively, which have been continuously maintained the leadership in the FMCG vertical sector. At the same time, in terms of mass consumption data, we have established an exclusive data advantage in the consumer goods industry and have over 300,000 stock keeping unit (SKU) categories and a commodity library with over 10 million features.

In terms of product innovation, during the Reporting Period, while continuously iterating and updating the “Smart Sales 100 (智慧100)” series, we have also launched AIGC applications in the field of mass consumption — “display commander (陳列指揮官)”, “visit summary assistant (拜訪總結助手)”, which have been implemented and applied in actual clients’ business. The above AIGC applications not only assist the end business personnel of consumer goods enterprises in improving work efficiency, but also help brand merchants build “perfect stores (完美門店)” and achieve sustained growth in sales performance. In addition, we have also launched a “smart store expansion (智慧拓店)” based on DI technology, using digital and intelligent solutions to help consumer goods enterprises increase their terminal scale and sales.

At the same time, as a brand-new implementation to assist FMCG clients in achieving digital marketing in smart retail stores in the consumer goods terminal business scenario, our digital and intelligent solution — AIoT intelligent fridge (“fridge”) can provide clients with key values such as remote examination and verification of fridge display, accurate replenishment and reduction of loss from return, control of fridge operation and loss, improvement of fridge sales, and other values. In 2023, we not only achieved business co-operation with a number of leading FMCG enterprises, such as New Hope Dairy Co., Ltd. (新希望乳業股份有限公司), Nanjing Pepsi-Cola Beverage Co., Ltd. (南京百事可樂飲料有限公司) and other enterprises, but also deployed our AIoT intelligent fridge in new scenarios of “air curtain cabinets (風幕櫃)” in large supermarkets with consumer goods enterprises we cooperated with, thereby expanding the terminal sales channels of which our products can be applied to.

Through the above measures, our Sales Cloud achieved a revenue of RMB69.7 million in 2023, representing a year-on-year increase of 15.0%. From the perspective of operational data, given that we closely followed the business needs of our clients in the four quarters of 2023 and achieved rapid client expansion, the contract order amount of Sales Cloud achieved a year-on-year increase of 30.0%, which will lay the foundation for the continuous growth of revenue of Sales Cloud in the future.

Based on multi-channel customer communication and full process business management, Service Cloud provides intelligent customer services with human-machine coupling throughout the entire industry chain, assisting enterprises to understand in real-time with regard to clients' intentions and improving client service experience. During the Reporting Period, Service Cloud continuously updated product solutions such as contact centres, AI intelligent voice robots, etc. In 2023, we not only reached cooperation of a million-dollar scale with a world's top 500 cosmetics group, but also achieved a growth rate of 66.1% in the paid seats of our contact centre. In terms of client base, Service Cloud has also further achieved a breakthrough with banking and consumer finance clients in the financial sub-sector.

With the acceleration of market and client demand changes, we have updated the organisational structure of the Company in 2023. In terms of external clients service, we carried out integrated and localised operations in departments regarding sales, implementation, pre-sales, after-sales service and others. Through the above-mentioned strategy of allocating resource to regions, we strengthened the team cooperation ability and improved the efficiency of responding to client needs, so as to realise the enhancement of value of our client management system and help the Company to maintain healthy cash flow; in terms of product R&D, we will focus on the "volume-profit growth model (量利增長模型)" proposed by the Industry Research Institute, and strive to create digitalised, intelligent and standardised products that can help clients to achieve sales growth. At the same time, we will also upgrade AI and DI from the original business unit to the product division in order to achieve rapid client expansion. Through these measures, we are expected to maximise the vitality of the organisation and enhance the competitiveness of the Company.

In addition, we are building an industry ecosystem with a more open and positive attitude. On the technology side, we have signed a cooperation agreement with Huawei Cloud to jointly create a large model of consumer goods; on the channel side, our AIoT intelligent fridge, DI smart store expansion, ICC, LTC (Lead to Cash) and other products have all been launched for market sales through the Huawei Cloud Ecological Channel, and have successfully achieved sales; on the market side, we have conducted various forms of ecological cooperation with manufacturers such as Huawei Cloud, TI Cloud, AutoNavi, etc.

The Industry Research Institute established by us at the end of 2022 is positioned to promote the digital and intelligent transformation and model innovation of the industry, and to guide the Company's business model and product application to maintain leadership. During the Reporting Period, the Industry Research Institute had built up think tank assets and formed a planning system for the research of think tanks in six major industries, including Chinese liquor, beverage, food, daily chemicals, dairy products and electronic manufacturing; at the same time, in terms of talent asset construction, the Industry Research Institute had established an industry research talent management system and selected a team of more than 30 expert-level talented candidates, committed to creating think tank teams in different segmented industries, and building a training-oriented micro-consultation service system.

BUSINESS PROSPECT

With the macroeconomic resurgence and market recovery, we expect the digital transformation of various industries to demonstrate a gradual positive trend. In 2024, we will adhere to the commercialisation strategy of persisting with industrialisation and ecologicalisation, investing in R&D in core competitiveness, and product innovation, and we will make efforts from the following three directions:

1. Continue to focus on AI + mass consumption, vertically cultivate major industrial clients, and create omni-channel, full-link and full-scenario standardised solutions for brand owners

In 2024, we will rely on the strategic guidance of the Industry Research Institute to promote the digital and intelligent transformation of the industry and model innovation, and continue to build our product strength and channel strength on the basis of the research of the original six think tanks, so as to help brand owners build and plan a blueprint of “volume-profit growth (量利增長)” and reconstruct business growth. At the same time, we will continue to empower our in-house expert-level talents and expand our R&D talent team with methodology as the guide.

At the technical level, our AI, DI and other technology platforms will adhere to independent innovation and continue to provide support for iterative upgrading towards the direction of product standardisation in smart scenarios. In terms of AI large model, we look forward to jointly creating a consumer goods large model in China based on the underlying technologies of the Pangu large model in collaboration with Huawei Cloud, combined with Xuan Wu Cloud's own AI capabilities and profound industry experience. In terms of DI, we will focus on the common pain points and needs of consumer goods client terminal, and help brands to improve terminal yield and scale through data service capabilities; in terms of product creation, on the one hand, we need to implement more AIGC applications according to the business scenario needs of consumer goods clients, and extend the business from sales visits to more marketing scenario, and strive to increase the sales of the terminal stores of the brand owners; we will also gradually use AI standardised products and applications to penetrate more mid-tier clients, so as to achieve large-scale sales of products.

2. Upgrade precision marketing capabilities and 5G intelligent interaction, and improve the closed loop of smart marketing in the financial industry

In 2024, our Marketing Cloud will continue to focus on the financial industry and create more standardised components for clients, and at the same time, we will also use ICC and DMP as the starting points to upgrade the precision marketing capabilities of the Marketing Cloud, assist enterprises in establishing a comprehensive picture of clients' financial information, facilitate clients to operate in a hierarchical and refined manner, and reach precision marketing, so as to improve the closed loop of financial smart marketing. In terms of reachable channel integration, ICC will enhance the intelligent interaction of 5G message terminals to enable clients to improve marketing conversion rates, thereby enhancing their users' stickiness.

3. Expand overseas markets, continue to deepen strategic cooperation with other players, and create a win-win ecosystem

In 2023, our overseas business in cloud communication had started smoothly, and in 2024, we will focus more on resource cooperation and client expansion in strategic regions. In terms of products and solutions for overseas business, we plan to provide global cloud communication capabilities solutions including international SMS and precision marketing. In addition, we also plan to expand overseas markets with ecological partners such as Huawei Cloud for products applied in the realm of mass consumption. In this coming year, we will expand our ecosystem with a more proactive attitude, and cooperate with ecological cooperation channels to obtain more clients and higher product market share based on the advantages of our own products' strengths.

In summary, in 2024, we are committed to gaining more major clients and higher market share, and achieving breakthroughs in technological and regional expansion in terms of products, so as to ensure the overall operation of the Company achieves high-quality growth.

I would like to express my sincere gratitude to all shareholders of the Company (the “**Shareholders**”), clients, and ecological partners for their long-term support and trust, and at the same time, I would also like to thank all our employees for being undaunted by challenges and their hard work in the past year. In 2024, no matter how turbulent the external environment is, we will strive for the best, follow the strategic direction, overcome difficulties, seize opportunities, provide assistance for clients' digital and intelligent transformation, and create long-term value for all shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Year ended 31 December 2023 compared to year ended 31 December 2022

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Revenue	1,281,276	1,043,378
Cost of sales	<u>(1,076,627)</u>	<u>(817,731)</u>
Gross profit	204,649	225,647
Selling and distribution expenses	(125,113)	(111,317)
Administrative expenses	(58,089)	(76,361)
Research and development expenses	(92,616)	(82,724)
Net impairment losses on financial assets	(7,871)	(7,346)
Other income	10,749	13,918
Other (losses)/gains — net	<u>(610)</u>	<u>4,831</u>
Operating loss	(68,901)	(33,352)
Finance income	1,945	1,150
Finance costs	<u>(4,753)</u>	<u>(4,100)</u>
Finance costs — net	<u>(2,808)</u>	<u>(2,950)</u>
Loss before income tax	(71,709)	(36,302)
Income tax (expense)/credit	<u>(61)</u>	<u>1,334</u>
Loss and total comprehensive loss for the year	<u>(71,770)</u>	<u>(34,968)</u>
Loss and total comprehensive loss for the year is attributable to:		
— Owners of the Company	(72,364)	(35,676)
— Non-controlling interests	<u>594</u>	<u>708</u>
	<u>(71,770)</u>	<u>(34,968)</u>
Losses per share (expressed in RMB per share)		
— Basic and diluted losses per share	<u>(0.129)</u>	<u>(0.066)</u>

REVENUE

The Group generated revenue from two operating segments: CRM PaaS services and CRM SaaS services. CRM PaaS services was the slightly larger segment for the two years ended 31 December 2023 and 2022. For the Reporting Period, CRM PaaS services accounted for 53.9% of the Group's revenue (year ended 31 December 2022: 54.6%) while CRM SaaS services accounted for 46.1% of the Group's revenue (year ended 31 December 2022: 45.4%).

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 Reporting Period, the Group's total revenue had a significant increase of 22.8% to RMB1,281.3 million (year ended 31 December 2022: RMB1,043.4 million). Such increase was mainly driven by the continuous growth in ARPU in CRM PaaS services, as well as steady growth in the number of clients in CRM SaaS services.

	Year ended 31 December			
	2023		2022	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
CRM PaaS services	690,291	53.9	569,177	54.6
CRM SaaS services	590,985	46.1	474,201	45.4
	<u>1,281,276</u>	<u>100.0</u>	<u>1,043,378</u>	<u>100.0</u>

CRM PaaS services

The Group's revenue from CRM PaaS services increased by 21.3% to RMB690.3 million for the Reporting Period (year ended 31 December 2022: RMB569.2 million), primarily due to the continued growth in its ARPU 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 years presented.

	Year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Marketing Cloud	495,613	390,740
Sales Cloud	69,677	60,584
Service Cloud	25,695	22,877
	<u>590,985</u>	<u>474,201</u>

The Group's revenue from CRM SaaS services increased by 24.6% to RMB591.0 million for the Reporting Period (year ended 31 December 2022: RMB474.2 million), primarily due to the (i) increase in clients' demand for its CRM SaaS services; (ii) continuous optimisation and launching of products that meet its clients and market expectations; and (iii) increase in number of its core clients for its CRM SaaS services.

COST OF SALES

The Group's cost of sales increased by 31.7% to RMB1,076.6 million for the Reporting Period (year ended 31 December 2022: RMB817.7 million). Such increase was due to the increase of revenue contribution in both CRM PaaS services and CRM SaaS services which aligned with the business expansion of the Group for the Reporting Period.

CRM PaaS services: The cost of sales from CRM PaaS services increased by 25.1% to RMB656.0 million for the Reporting Period (year ended 31 December 2022: RMB524.3 million), primarily due to the increase in costs of telecommunication resources regarding CRM PaaS services, which in general aligned with the increase in revenue generated from CRM PaaS services.

CRM SaaS services: The cost of sales from CRM SaaS services increased by 43.4% to RMB420.6 million for the Reporting Period (year ended 31 December 2022: RMB293.4 million), primarily due to (i) the increase of costs of telecommunication resources with regard to CRM SaaS services, (ii) the increase of outsourcing customer service expenses; and (iii) the increase of employee benefit expenses, all of which being aligned with the business expansion strategy of the Group in its CRM SaaS services in 2023.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing, the Group's overall gross profit decreased by 9.3% to RMB204.6 million for the Reporting Period (year ended 31 December 2022: RMB225.6 million), while its overall gross profit margin decreased from 21.6% to 16.0%, respectively.

CRM PaaS services: The gross profit margin in CRM PaaS services decreased to 5.0% for the Reporting Period (year ended 31 December 2022: 7.9%), due to reasons, among others, reduction in the unit selling price of the products as a result of the intense market competition.

CRM SaaS services: The gross profit margin in CRM SaaS services decreased to 28.8% for the Reporting Period (year ended 31 December 2022: 38.1%), mainly attributable to the changes in the revenue composition within this segment during the Reporting Period.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses increased by 12.4% to RMB125.1 million for the Reporting Period (year ended 31 December 2022: RMB111.3 million), primarily due to continuous business expansion of the Group which led to the increase in travelling and entertainment expenses for sales and marketing personnels.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses decreased by 23.9% to RMB58.1 million for the Reporting Period (year ended 31 December 2022: RMB76.4 million), as no listing expenses had been incurred during the Reporting Period.

RESEARCH AND DEVELOPMENT EXPENSES

The Group's R&D expenses increased by 12.0% to RMB92.6 million for the Reporting Period (year ended 31 December 2022: RMB82.7 million). Such increase was mainly attributable to (i) the Group's continuous investment in R&D on its CRM SaaS services; and (ii) the increase in employee benefit expenses which accorded with the rise 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 increased by 7.1% to RMB7.9 million for the Reporting Period (year ended 31 December 2022: RMB7.3 million), mainly attributable to the increase in expected credit loss rate of its trade receivables.

OTHER INCOME

The Group's other income decreased by 22.8% to RMB10.7 million for the Reporting Period (year ended 31 December 2022: RMB13.9 million), mainly due to the decrease in government grants.

FINANCE COSTS — NET

The Group's finance costs — net comprise of finance income, interest expenses of lease liabilities and interest expenses of borrowings. The Group's finance costs — net amounted to RMB2.8 million and RMB3.0 million for the two years ended 31 December 2023 and 2022, respectively.

INCOME TAX (EXPENSE)/CREDIT

The Group had income tax (expense)/credit of RMB(0.1) million and RMB1.3 million for the two years ended 31 December 2023 and 2022, respectively.

LOSS FOR THE YEAR

As a result of the foregoing, the Group had a net loss of RMB71.8 million for the Reporting Period, compared with a net loss of RMB35.0 million for the year ended 31 December 2022, which was mainly attributable to (i) the decline in gross profit and gross profit margin in the CRM services of the Group due to intensified market competition in the industry; (ii) the increase in the Group's selling and distribution expenses and research and development expenses during the Reporting Period as the Company continued to expand its business with new products and AIGC-related technologies; and (iii) the increase of our share-based compensation expenses recorded for the Reporting Period due to the restricted share award scheme adopted on 1 December 2022 (the “**2022 Restricted Share Award Scheme**”).

TRADE, BILL AND OTHER RECEIVABLES AND PREPAYMENTS

As at 31 December 2023, the Group's trade, bill and other receivables and prepayments amounted to RMB437.1 million, representing a decrease of 1.7% as compared with RMB444.5 million as at 31 December 2022. Such decrease was mainly attributable to the combined effect of (i) increase in prepayments to suppliers from RMB140.9 million as at 31 December 2022 to RMB167.2 million as at 31 December 2023; and (ii) decrease in trade receivables from RMB285.0 million as at 31 December 2022 to RMB252.6 million as at 31 December 2023, which was primarily due to the improved recovery rate on account receivables.

TRADE, BILL AND OTHER PAYABLES

As at 31 December 2023, the Group's trade, bill and other payables amounted to RMB120.8 million, representing an increase of 16.1% as compared with RMB104.1 million as at 31 December 2022. Such increase was primarily due to the increase in trade payables from RMB48.3 million as at 31 December 2022 to RMB64.4 million as at 31 December 2023, of which the trend of change was aligned with that of the increase in cost of sales.

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 31 December 2023, the Group's cash and cash equivalents were RMB192.3 million, representing an increase of 19.4% from RMB161.0 million as at 31 December 2022.

Indebtedness

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Borrowings	157,244	88,481
Lease liabilities	<u>22,483</u>	<u>28,083</u>
	<u>179,727</u>	<u>116,564</u>

CONTINGENT LIABILITIES

As at 31 December 2023, the Group did not have any material contingent liabilities (31 December 2022: Nil).

CAPITAL COMMITMENT

As at 31 December 2023, the Group did not have any material capital commitment (31 December 2022: Nil).

GEARING RATIO

As at 31 December 2023, the Group's gearing ratio (i.e. percentage of total liabilities divided by total equity, and total liabilities is calculated as the aggregate of total borrowings and lease liabilities) was 53.0% (31 December 2022: 27.6%).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group's businesses are principally conducted in RMB. The Group has transactional currency exposures. Such exposures arise from financing and operating activities of the Group's entities conducted in currencies other than the functional currency. As at 31 December 2023, major non-RMB assets and liabilities are cash and cash equivalents, trade receivables, trade payables and contract liabilities, which denominated in Hong Kong dollar ("HK\$") or United States dollar ("US\$"). Fluctuation of the exchange rate of RMB against HK\$ or US\$ could affect the Group's results of operations. The Group has not entered into any forward exchange contract to hedge its exposure to foreign exchange risk.

EMPLOYEES REMUNERATION AND RELATIONS

As at 31 December 2023, the Group had a total of 824 employees. The Group's total employee costs (including directors' emoluments) for the Reporting Period was RMB230.9 million (year ended 31 December 2022: RMB206.1 million). The Group believes the abilities to attract, retain and motivate qualified personnel are the key factors to its success. We offer competitive salaries, bonuses and share-based compensation to our employees, especially key employees. Remuneration packages for employees and directors are structured according to market terms as well as individual performance and experience. The remuneration policy will be reviewed by the Board from time to time.

As required under the PRC regulations, we participated in employee social security plans that are organised by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury, maternity and unemployment benefit plans.

To maintain the quality, knowledge and skill levels of the employees, the Group provides continuing education and 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.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

As at 31 December 2023, the Group did not have any significant investments, material acquisitions and disposal of subsidiaries, associates and joint ventures.

PLEDGE OF ASSETS

As at 31 December 2023, the Group did not pledge any of its assets (31 December 2022: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 31 December 2023, save as disclosed herein, the Group did not have any future plans for material investments and capital assets. However, the Group will continue to explore investment opportunities that would benefit the Shareholders as a whole.

DIVIDEND

The Board does not recommend the payment of a final dividend for the Reporting Period (year ended 31 December 2022: Nil).

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code as set out in Appendix C1 to the Listing Rules (the "CG Code") as its own code of corporate governance. During the Reporting Period, the Company had applied the principles and complied with all applicable code provisions as set out in 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.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 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 strictly complied with the required standard set out in the Model Code for the Reporting Period.

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

During the Reporting Period, save for the purchase of a total of 9,120,000 shares of the Company by the trustee on the Stock Exchange pursuant to the 2022 Restricted Share Award Scheme, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

AUDIT COMMITTEE

The Audit Committee discussed with the senior management of the Company and the external auditor of the Company, and reviewed the annual results of the Group for the Reporting Period together with the applicable accounting principles, standards and practises adopted by the Group. The Audit Committee has agreed with the senior management of the Company on the annual results of the Group for the Reporting Period.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group’s consolidated statement of comprehensive income and consolidated statement of financial position and the related notes thereto for the Reporting Period as set out in this announcement have been agreed by the Group’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s audited consolidated financial statements for the Reporting Period. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this announcement, there were no other significant events that might affect the Group after the Reporting Period.

PUBLICATION OF ANNUAL RESULTS AND 2023 ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (<https://ir.wxchina.com/>). The annual report of the Company for the Reporting Period containing all the information required by the Listing Rules will be published on the aforementioned websites and despatched to the Shareholders who elected to receive printed version of corporate communication⁽¹⁾ 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, Wednesday, 27 March 2024

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.

Note:

- (1) Corporate communications mean any documents issued or to be issued by the Company, including but not limited to (a) the directors' report, its annual accounts together with a copy of the auditors' report and, where applicable, its summary financial report; (b) the interim report and, where applicable, its summary interim report; (c) a notice of meeting; (d) a listing document; (e) a circular and (f) a proxy form.