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Xuan Wu Cloud Technology Holdings Limited

玄武云科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2392)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

2022 INTERIM RESULTS HIGHLIGHTS

Set forth below are the Group's key performance highlights for the six months ended 30 June 2022:

1. The Group's revenue amounted to RMB449.0 million for the six months ended 30 June 2022 representing a moderate growth of 6.7% as compared to the same period last year. Its CRM SaaS services achieved rapid growth with its revenue increased by 26.9% as compared to the same period last year.
2. The Group's adjusted net profit, a non-HKFRS measure defined as profit or loss for the period and adding back listing expenses, for the six months ended 30 June 2022 increased by 35.3% to RMB9.2 million, as compared to RMB6.8 million for the same period last year while it recorded a loss of RMB3.4 million for the six months ended 30 June 2022, as compared to profit of RMB2.6 million for the same period last year.

The board of directors of the Company (the “**Board**”) is pleased to announce the unaudited interim condensed consolidated financial results of the Group for the six months ended 30 June 2022 together with the comparative figures of the six months ended 30 June 2021 and certain comparative audited figures as at 31 December 2021 as set out below.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 June	
		2022	2021
	<i>Note</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	5	448,992	420,916
Cost of sales	6	<u>(339,430)</u>	<u>(327,986)</u>
Gross profit		109,562	92,930
Selling and distribution expenses	6	(48,651)	(39,706)
Administrative expenses	6	(33,820)	(24,615)
Research and development expenses	6	(36,746)	(31,321)
Net impairment losses on financial assets		(2,407)	(1,639)
Other income	7	7,384	4,679
Other gains – net		<u>497</u>	<u>770</u>
Operating (loss)/profit		(4,181)	1,098
Finance income	8	439	359
Finance costs	8	<u>(1,962)</u>	<u>(1,070)</u>
Finance costs – net	8	<u>(1,523)</u>	<u>(711)</u>
(Loss)/profit before income tax		(5,704)	387
Income tax credit	9	<u>2,294</u>	<u>2,176</u>
(Loss)/profit and total comprehensive (loss)/income for the period		<u>(3,410)</u>	<u>2,563</u>
(Loss)/profit and total comprehensive (loss)/income for the period is attributable to:			
– Owners of the Company		(3,405)	2,518
– Non-controlling interests		<u>(5)</u>	<u>45</u>
		<u>(3,410)</u>	<u>2,563</u>
(Loss)/earnings per share (expressed in RMB per share)			
– Basic and diluted (loss)/earning per share	10	<u>(0.006)</u>	<u>0.005</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2022	As at 31 December 2021
	<i>Note</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Assets			
Non-current assets			
Property, plant and equipment		7,900	8,374
Right-of-use assets		28,177	31,953
Intangible assets		13,381	14,113
Deferred income tax assets		10,835	8,464
Prepayments	11	530	336
		60,823	63,240
Current assets			
Contract fulfilment costs		9,182	5,587
Contract assets		274	95
Financial assets at fair value through profit or loss		–	21,476
Trade and other receivables and prepayments	11	400,477	369,312
Restricted cash		–	1
Cash and cash equivalents		109,964	88,256
		519,897	484,727
Total assets		580,720	547,967
Equity			
Equity attributable to owners of the Company			
Share capital		34	34
Share premium		269,292	269,292
Other reserves		(19,894)	(19,894)
Retained earnings		32,564	35,969
		281,996	285,401
Non-controlling interests		1,748	1,753
Total equity		283,744	287,154

		As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
Liabilities			
Non-current liabilities			
Lease liabilities		21,099	24,236
Deferred income tax liabilities		<u>109</u>	<u>32</u>
		<u>21,208</u>	<u>24,268</u>
Current liabilities			
Borrowings	<i>12</i>	137,807	58,480
Contract liabilities	<i>5</i>	31,579	31,924
Trade and other payables	<i>13</i>	95,760	138,375
Lease liabilities		10,522	7,644
Current income tax liabilities		<u>100</u>	<u>122</u>
		<u>275,768</u>	<u>236,545</u>
Total liabilities		<u>296,976</u>	<u>260,813</u>
Total equity and liabilities		<u>580,720</u>	<u><u>547,967</u></u>

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

Since the outbreak of Coronavirus Disease 2019, a series of precautionary and control measures have been and continued to be implemented across the PRC, the Company has actively responded to and strictly implemented various regulations and requirements of the PRC government at all levels for virus epidemic prevention and controls. To ensure both epidemic prevention and production, the Company and its subsidiaries have deployed strict internal management measures to implement epidemic prevention work. As of the date of this announcement, no significant adverse impact has been found.

The interim condensed consolidated financial information for the six months ended 30 June 2022 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 2022.

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 2022 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 years ended 31 December 2018, 2019, 2020 and 2021 as set out in the prospectus (the “Prospectus”) of the Company dated 24 June 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 years ended 31 December 2018, 2019, 2020 and 2021 as described in the Prospectus, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

HKFRS 16 (Amendments)	COVID-19 related rent concessions beyond 30 June 2021
Annual improvements Project	Annual Improvements to HKFRS Standards 2018-2020
HKFRS 3, HKAS 16, and HKAS 37	Narrow-scope amendments (amendments)
Accounting guideline 5 (revised)	Revised Accounting Guideline 5 Merger Accounting for Common Control Combinations

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 2022 and not early adopted by the Group

		Effective for annual periods beginning on or after
HKAS 1 (Amendments)	Classification of liabilities as current or non-current	1 January 2023
HKFRS 17	Insurance contract (new standard and amendments)	1 January 2023
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKFRS 4	Extension of the Temporary Exemption from Applying HKFRS 9	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction Tax	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	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 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 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 30 June 2022 and 31 December 2021, 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 six months ended 30 June 2022 is as follows:

	Six months ended 30 June 2022		
	CRM PaaS	CRM SaaS	Total
	services	services	
	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(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)

The segment information provided to the executive directors for the reportable segments for the six months ended 30 June 2021 is as follows:

	Six months ended 30 June 2021		
	CRM PaaS services <i>RMB'000</i> (Unaudited)	CRM SaaS services <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Revenue	246,155	174,761	420,916
Cost of sales	<u>(215,498)</u>	<u>(112,488)</u>	<u>(327,986)</u>
Gross profit	30,657	62,273	92,930
Selling and distribution expenses			(39,706)
Administrative expenses			(24,615)
Research and development expenses			(31,321)
Net impairment losses on financial assets			(1,639)
Other income			4,679
Other gains – net			<u>770</u>
Operating profit			1,098
Finance income			359
Finance costs			<u>(1,070)</u>
Finance costs – net			(711)
Profit before income tax			<u><u>387</u></u>

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 six months ended 30 June 2022 and 2021 was as follows:

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
CRM PaaS services	227,088	246,155
CRM SaaS services	<u>221,904</u>	<u>174,761</u>
	<u>448,992</u>	<u>420,916</u>

The analysis of revenue from contracts with customers by the timing of revenue recognition for six months ended 30 June 2022 and 2021 was as follows:

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
At a point in time	429,329	405,130
Over time	<u>19,663</u>	<u>15,786</u>
	<u>448,992</u>	<u>420,916</u>

(b) Contract liabilities

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

	As at	As at
	30 June	31 December
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Contract liabilities	<u>31,579</u>	<u>31,924</u>

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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Costs of telecommunications resources	326,768	315,824
Employee benefit expenses	89,082	73,323
Depreciation and amortization expenses	6,609	6,235
Travel and entertainment expenses	6,415	5,940
Outsourcing customer service expenses	4,409	6,635
Infrastructure and equipment costs	3,556	3,810
Marketing and promotion expenses	2,147	1,527
Professional service fees	1,511	1,978
Conference and office expenses	1,242	776
Taxes and other levies	857	922
Auditors' remuneration	500	–
Outsourcing implementation costs	454	708
Lease payments on short term leases	222	8
Listing expenses	12,566	4,201
Others	2,309	1,741
	<u>458,647</u>	<u>423,628</u>

7 OTHER INCOME

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Government grants (<i>Note (a)</i>)	2,814	480
Value-added tax refund	1,912	1,552
Additional deduction of value-added input tax	2,435	2,499
Others	223	148
	<u>7,384</u>	<u>4,679</u>

- (a) Government grants represented various subsidies received from relevant government authorities, mainly including R&D subsidy on industrial key technologies, Guangzhou intellectual property subsidy and patent program development subsidy.

8 FINANCE COSTS – NET

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Finance income		
Interest income from bank deposits	<u>439</u>	<u>359</u>
Finance costs		
Interest expenses of lease liabilities	(734)	(183)
Interest expenses of borrowings	<u>(1,228)</u>	<u>(887)</u>
	(1,962)	(1,070)
Finance costs – net	<u>(1,523)</u>	<u>(711)</u>

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 2022 and 2021.

(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 subsidiaries of the Group in the PRC were qualified as “Small Low-Profit Enterprise” since 2019. “Small Low-Profit Enterprise” was entitled to a preferential income tax rate that was calculated in accordance with the two-tiered profits tax rates regime. From 1 January 2022 to 31 December 2024, the first RMB1,000,000

of the taxable income of qualified entities are taxed at 2.5%, and the taxable income above RMB1,000,000 and less than RMB3,000,000 are taxed at 5%. Thus the subsidiaries were subject to a preferential income tax rate of 2.5% or 5% for six months ended 30 June 2022 (six months ended 30 June 2021: 2.5% or 10%).

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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Deferred income tax	<u>2,294</u>	<u>2,176</u>

10 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares outstanding during six months ended 30 June 2022 and 2021. In determining the weighted average number of ordinary shares outstanding, the 1,000 shares and 52,592,000 shares issued on 26 April 2021 and 3 August 2021 respectively and the capitalisation issue of 473,337,000 shares after reporting period, were deemed to have been in issue since 1 January 2021.

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
(Loss)/profit attributable to owners of the Company (RMB'000)	(3,405)	2,518
Weighted average number of ordinary shares deemed to be in issue (in thousands)	<u>525,930</u>	<u>525,930</u>
Basic (loss)/earnings per share attributable to the owners of the Company during the period (expressed in RMB per share)	<u>(0.006)</u>	<u>0.005</u>

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Diluted earnings per share is equal to basic earnings per share as there were no potential diluted ordinary shares outstanding during six months ended 30 June 2022 and 2021.

11 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Trade receivables		
– Third parties (<i>Note (e)</i>)	314,504	278,303
Less: allowance for impairment of trade receivables	<u>(16,447)</u>	<u>(14,050)</u>
	298,057	264,253
Other receivables		
– Third parties (<i>Note (b)</i>)	<u>14,041</u>	<u>15,957</u>
Less: allowance for impairment of other receivables	<u>(165)</u>	<u>(174)</u>
	13,876	15,783
Prepayments to suppliers		
– Third parties (<i>Note (c)</i>)	85,650	86,666
Prepaid taxes	1,752	1,990
Deferred listing expenses (<i>Note (d)</i>)	<u>1,672</u>	<u>956</u>
Total	401,007	369,648
Less: non-current portion of prepayments	<u>(530)</u>	<u>(336)</u>
Current portion of trade and other receivables and prepayments	<u><u>400,477</u></u>	<u><u>369,312</u></u>

(a) As at 30 June 2022 and 31 December 2021, the trade and 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) Deferred listing expenses will be deducted from equity upon listing of the Group on 8 July 2022.

- (e) 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 2022 and 31 December 2021, based on recognition date were as follows:

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
Ageing		
Up to 3 months	199,143	218,343
3 to 6 months	57,101	34,833
6 months to 1 year	44,221	14,303
1 to 2 years	5,185	2,901
Over 2 years	<u>8,854</u>	<u>7,923</u>
	<u>314,504</u>	<u>278,303</u>

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9. As at 30 June 2022, a provision of RMB16,447,000 (31 December 2021: RMB14,050,000) was made against the gross amounts of trade receivables.

12 BORROWINGS

	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
Current		
Bank borrowings	<u>137,807</u>	<u>58,480</u>

- (a) As at 30 June 2022 and 31 December 2021, all bank borrowings were guaranteed by certain shareholders. Such guarantees provided by certain shareholders were released and replaced by the Company on 8 July 2022.

13 TRADE AND OTHER PAYABLES

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Trade payables		
– Third parties (<i>Note (a)</i>)	61,405	94,133
Other payables		
– Third parties	<u>21,162</u>	<u>14,828</u>
Accrued payroll	11,843	25,621
Other tax payables	<u>1,350</u>	<u>3,793</u>
	<u>13,193</u>	<u>29,414</u>
	<u><u>95,760</u></u>	<u><u>138,375</u></u>

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

As at 30 June 2022 and 31 December 2021, the ageing analysis of the trade payables based on recognition date are as follows:

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Ageing		
Up to 3 months	28,151	86,604
3 to 6 months	3,042	899
Over 6 months	<u>30,212</u>	<u>6,630</u>
	<u><u>61,405</u></u>	<u><u>94,133</u></u>

14 DIVIDEND

No interim dividend for the six months ended 30 June 2022 has been proposed by the board of directors (six months ended 30 June 2021: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

The Group was the largest domestic intelligent CRM services provider in the PRC in terms of revenue of domestic intelligent CRM services provider in 2021. Its principal businesses include provision of CRM PaaS services and CRM SaaS services. The Group strives to, through applying technologies such as AI, DI, cloud computing, mobile internet, communication and IoT, help its clients to achieve cost reduction and efficiency enhancement from initial marketing to sales and to after-sales management, provide its clients with suggested solutions, and assist its clients to acquire new customers, perform customer management and enhance the connections among its clients and their customers. The Group has established its brand reputation especially in Fast Moving Consumer Goods (“**FMCG**”), financial, Technology, Media, Telecom (“**TMT**”) and public utility entities and government organisations (“**Government-related**”) industries.

In the first half of 2022, the Group has been strategically focusing on its CRM SaaS services segment and making continuous effort in developing its CRM SaaS services segment. The Group has deployed more resources in the research and development of CRM SaaS services in order to fulfil the growing clients’ needs while maintaining the competitiveness of its CRM PaaS services.

Benefiting from the Group’s strategy, the Group recorded increase in number of core client⁽¹⁾, average price per core client⁽²⁾ and revenue contribution by core clients⁽¹⁾ in CRM SaaS services. As a result, its CRM SaaS services achieved rapid growth in revenue by 26.9% from RMB174.8 million for the six months ended 30 June 2021 to RMB221.9 million for the six months ended 30 June 2022, accounting for 49.4% of the total revenue of the Group for the six months ended 30 June 2022 (six months ended 30 June 2021: 41.5%). Due to the Group’s strategic focus on its CRM SaaS services segment, the Group recorded decrease in average price per core client⁽²⁾ and revenue contribution by core clients⁽¹⁾ despite increase in number of core client⁽¹⁾ in CRM PaaS services. As a result, its CRM PaaS services recorded slight decrease in revenue by 7.8% from RMB246.2 million for the six months ended 30 June 2021 to RMB227.1 million for the six months ended 30 June 2022, accounting for 50.6% of the total revenue of the Group for the six months ended 30 June 2022 (six months ended 30 June 2021: 58.5%).

As a result of the foregoing, the Group recorded a moderate growth in its revenue during the six months ended 30 June 2022 as compared to the same period last year. The Group recorded a revenue of RMB449.0 million, representing a 6.7% increase.

⁽¹⁾ For the six months ended 30 June 2021 and 2022, core clients are defined as clients contributing RMB150,000 or above of revenue for the relevant period.

⁽²⁾ For the six months ended 30 June 2021 and 2022, the average price per core client refers to the average revenue generated per core client for the relevant period.

CRM PaaS Services

The Group's CRM PaaS services comprise cPaaS platform and AI and DI capabilities. The Group's cPaaS platform encompasses various composable functional modules (e.g. voice and text verification code module, notification text and call module, hidden-number module) to empower its clients with consolidated communication capabilities mainly in the form of easily-deployed APIs and SDKs, thus enabling them to utilise its communication capabilities as a service in an easy, efficient and flexible way. The Group's CRM PaaS services are also integrated with AI and DI capabilities which it has developed for the purposes of its intelligent CRM services.

During the first half of 2022, the Group has developed certain new AI applications to enhance its speed and accuracy in identifying commodities, as well as the ability to identify commodities through offline mobile end. It has also enhanced its DI platform and innovated a few functions to strengthen its internal control ability, such as to identify cheatings during shop inspections and fraud display through verifying terminal display remotely.

CRM SaaS Services

The Group's CRM SaaS services comprise Marketing Cloud, Sales Cloud and Service Cloud, which integrate the traditional CRM functions with cloud, upgraded and encapsulated communication capabilities as well as AI and DI capabilities to offer its clients a one-stop intelligent CRM services throughout their entire business cycle, from initial marketing to after-sales services. CRM PaaS services provide underlying communication, AI, and DI capabilities for CRM SaaS services, facilitating and enhancing the functions of Marketing Cloud, Sales Cloud, and Service Cloud.

During the first half of 2022, the Group's research and development team has developed various new functions to enhance the features of its CRM SaaS services. For Marketing Cloud, the Group has self-developed channels to enrich the categories of message delivery channels and enhance the efficiency of sending messages. For Sales Cloud, the Group has launched an updated version of Smart Sales 100 which provides different functions for different targeted business models such as channel cultivation and co-cultivation among manufacturers, and also developed the Retail Management System module that integrates consumers and store terminals. In terms of AIoT, the Group has developed the intelligent multideck cooler which can in real time identify display situation of the products, and deliver timely reminders on some below-standard situations such as out-of-stock so that the staff can perform timely adjustments. For Service Cloud, the Cloud Call Centre has introduced a three-line conversation function to increase communication efficiency. Other new functions have also been implemented on the dialogue robots including human-machine coupling function (人機耦合功能) to achieve smooth transition among robots and customer service staff and empty number detection function (空號檢測功能) to increase customer service staff's work performance.

Prospect

Although there was a re-escalation of COVID-19 in the PRC in the first half of 2022, the Group recorded 35.3% increase in its adjusted net profit (defined below in the paragraph headed "Financial Overview — Non-HKFRS Measure: Adjusted Net Profit"), due to the (i) increase in overall revenue

and gross profit margin from the six months ended 30 June 2021 to the six months ended 30 June 2022 and (ii) increase in overall gross profit attributable to the increase in the Group's CRM SaaS services due to the Group's strategy to continuously focus on its CRM SaaS services which has higher gross profit margin.

Looking forward, the risk of COVID-19 infection, might pose uncertainty on the Group's business performance in the second half of 2022. The Group believes that it would be able to keep up with the increasing trend as in the first half of 2022 as it generally records higher revenue in the second half of the year. With the increasing demand for CRM services, together with the implementation on plans of applying the proceeds raised from its listing on The Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the Group anticipates a better business performance in the second half of 2022.

The Group would also strengthen its effort in sales and marketing and research and development so as to further enhance its brand reputation and service quality. The Group would use its best endeavours to secure more business opportunities following the recovery of part of the PRC market, in particular the retail business sector, from COVID-19.

Financial Overview

Revenue

The Group generated revenue from two operating segments: CRM PaaS services and CRM SaaS services. CRM PaaS services is currently the slightly larger segment, which accounted for 50.6% and 58.5% of its revenue for the six months ended 30 June 2022 and 2021, respectively.

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 2022, total revenue had a moderate increase of 6.7% to RMB449.0 million from RMB420.9 million for the six months ended 30 June 2021. This increase was mainly driven by the strong growth in the Group's CRM SaaS services.

	Unaudited six months ended			
	30 June 2022		30 June 2021	
	RMB'000	%	RMB'000	%
CRM PaaS services	227,088	50.6	246,155	58.5
CRM SaaS services	<u>221,904</u>	<u>49.4</u>	<u>174,761</u>	<u>41.5</u>
	<u><u>448,992</u></u>	<u><u>100.0</u></u>	<u><u>420,916</u></u>	<u><u>100.0</u></u>

CRM PaaS services

The Group's revenue from CRM PaaS services decreased by 7.8% from RMB246.2 million for the six months ended 30 June 2021 to RMB227.1 million for the six months ended 30 June 2022, primarily due to the Group's strategic focus on developing CRM SaaS services with relatively higher gross profit margin.

CRM SaaS services

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

	Unaudited six months ended	
	30 June 2022	30 June 2021
	<i>RMB'000</i>	<i>RMB'000</i>
Marketing Cloud	184,009	137,798
Sales Cloud	28,066	26,769
Service Cloud	9,829	10,194
	<u>221,904</u>	<u>174,761</u>

The Group's revenue from CRM SaaS services increased by 26.9% from RMB174.8 million for the six months ended 30 June 2021 to RMB221.9 million for the six months ended 30 June 2022, primarily due to (i) clients' rising demand for its CRM SaaS services, (ii) enhanced features in its solutions, (iii) increase in number of its core clients⁽³⁾ from CRM SaaS services, (iv) increase in average price per core client⁽⁴⁾ from CRM SaaS services and (v) increase in revenue from Marketing Cloud which was primarily due to the increase in sales volume of its ICC module.

Cost of Sales

The Group's cost of sales increased by 3.5% from RMB328.0 million for the six months ended 30 June 2021 to RMB339.4 million for the six months ended 30 June 2022. The increase was in line with its business expansion in CRM SaaS services for the six months ended 30 June 2022.

CRM PaaS services: The cost of sales from CRM PaaS services decreased by 6.0% from RMB215.5 million for the six months ended 30 June 2021 to RMB202.5 million for the six months ended 30 June 2022, primarily due to the decrease in costs of telecommunication resources in relation to CRM PaaS services which was generally in line with the decrease in revenue generated from CRM PaaS services.

(3) For the six months ended 30 June 2021 and 2022, core clients are defined as clients contributing RMB150,000 or above of revenue for the relevant period.

(4) For the six months ended 30 June 2021 and 2022, the average price per core client refers to the average revenue generated per core client for the relevant period.

CRM SaaS services: The cost of sales from CRM SaaS services increased by 21.7% from RMB112.5 million for the six months ended 30 June 2021 to RMB136.9 million for the six months ended 30 June 2022, primarily due to (i) the increase in costs of telecommunication resources in relation to CRM SaaS services, which was generally in line with the Group's business expansion in CRM SaaS services during the same period and (ii) increase in employee benefit expenses in line with the Group's revenue growth and number of employees during the same period.

Gross Profit and Gross Profit Margin

As a result of the foregoing, the Group's overall gross profit increased by 18.0% from RMB92.9 million for the six months ended 30 June 2021 to RMB109.6 million for the six months ended 30 June 2022, while its overall gross profit margin increased from 22.1% to 24.4%, respectively.

CRM PaaS services: The gross profit margin in CRM PaaS services decreased from 12.5% for the six months ended 30 June 2021 to 10.8% for the six months ended 30 June 2022, primarily due to changes in the structure of procurement from different telecommunication network operators.

CRM SaaS services: The gross profit margin in CRM SaaS services increased from 35.6% for the six months ended 30 June 2021 to 38.3% for the six months ended 30 June 2022, primarily due to the significant increase in revenue from Marketing Cloud attributable to the increase in software subscription fees and software implementation fees which generally incur lower level of cost as compared to other CRM SaaS services revenue.

Selling and Distribution Expenses

The Group's selling and distribution expenses increased by 22.7% from RMB39.7 million for the six months ended 30 June 2021 to RMB48.7 million for the six months ended 30 June 2022, primarily due to increase in employee benefit expenses and marketing and promotion expenses mainly resulting from the expansion of its business where the Group recorded 6.7% increase in revenue and increase in number of employees in sales and marketing function.

Administrative Expenses

The Group's administrative expenses increased by 37.4% from RMB24.6 million for the six months ended 30 June 2021 to RMB33.8 million for the six months ended 30 June 2022, primarily due to incurrence of listing expenses in the amount of RMB12.6 million and increase in employee benefit expenses.

Research and Development Expenses

The Group's research and development expenses increased by 17.3% from RMB31.3 million for the six months ended 30 June 2021 to RMB36.7 million for the six months ended 30 June 2022, primarily due to increase in the employee benefit expenses which was generally in line with the increase in the number of employees in research and development function.

Net Impairment Losses on Financial Assets

The Group's net impairment losses on financial assets increased by 50.0% from RMB1.6 million for the six months ended 30 June 2021 to RMB2.4 million for the six months ended 30 June 2022, primarily due to increase in its trade receivables.

Other Income

The Group's other income increased by 57.4% from RMB4.7 million for the six months ended 30 June 2021 to RMB7.4 million for the six months ended 30 June 2022, primarily due to increase in government grants and value-added tax refund which was in line with its business expansion.

Finance Costs – net

The Group's finance costs – net comprise finance income, interest expenses of lease liabilities and interest expenses of borrowings. Its finance costs – net amounted to RMB1.5 million and RMB0.7 million for the six months ended 30 June 2022 and 2021, respectively.

Income Tax Credit

The Group had income tax credit of RMB2.3 million and RMB2.2 million for the six months ended 30 June 2022 and 2021, respectively, primarily due to the recognition of deferred income tax assets in respect of the tax losses incurred during the relevant periods.

(Loss)/Profit for the Period

As a result of the foregoing, the Group had a net loss of RMB3.4 million for the six months ended 30 June 2022, compared with a net profit of RMB2.6 million for the six months ended 30 June 2021.

Non-HKFRS Measure: Adjusted Net Profit

To supplement the Group's interim condensed consolidated financial information which are presented in accordance with HKFRS, the Group also uses adjusted net profit (defined below) as an additional financial measure, which is not required by, or presented in accordance with HKFRS. The Group believes that the presentation of this non-HKFRS measure facilitates comparisons of operating performance. The Group also believes that this measure provides useful information to investors in understanding and evaluating the Group's consolidated results of operations in the same manner as they do for the Group's management. However, the use of non-HKFRS measure has limitations as an analytical tool, and you should not consider them in isolation from, or as a substitute for analysis of, the Group's results of operations or financial conditions as reported under HKFRS. In addition, the non-HKFRS financial measure may be defined differently from similar terms used by other companies. The Group defines "adjusted net 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).

The following table sets forth the reconciliations of the Group's non-HKFRS financial measure for the six months ended 30 June 2022 and 2021 to the nearest measure prepared in accordance with HKFRS:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net (loss)/profit	(3,410)	2,563
Adjust for:		
Listing expenses	12,566	4,201
	<u>9,156</u>	<u>6,764</u>

Trade and Other Receivables and Prepayments

As at 30 June 2022, the Group's trade and other receivables and prepayments amounted to RMB401.0 million, representing an increase of 8.5% as compared with RMB369.6 million as at 31 December 2021. Such increase was primarily due to the increase in trade receivables from RMB264.3 million as at 31 December 2021 to RMB298.1 million as at 30 June 2022, which was attributable to the increase in the Group's revenue.

Trade and Other Payables

As at 30 June 2022, the Group's trade and other payables amounted to RMB95.8 million, representing a decrease of 30.8% as compared with RMB138.4 million as at 31 December 2021. Such decrease was primarily due to the decrease in trade payables from RMB94.1 million as at 31 December 2021 to RMB61.4 million as at 30 June 2022, which was attributable to the acceleration of settlements with suppliers.

Liquidity and Financial Resources

Cash and Cash Equivalents

As at 30 June 2022, the Group's cash and cash equivalents were RMB110.0 million, representing an increase of 24.6% from RMB88.3 million as at 31 December 2021.

Indebtedness

	As at 30 June 2022 RMB'000 (unaudited)	As at 31 December 2021 RMB'000 (unaudited)
Borrowings	137,807	58,480
Lease liabilities	<u>31,621</u>	<u>31,880</u>
	<u><u>169,428</u></u>	<u><u>90,360</u></u>

Contingent Liabilities

As at 30 June 2022 and 31 December 2021, the Group did not have any material contingent liabilities.

Capital Commitment

As at 30 June 2022, the Group did not have any material capital commitment.

OTHER INFORMATION

Employee Remuneration and Relations

As at 30 June 2022, the Group had a total of 734 employees. The Group's total employee costs (including directors' emoluments) for the six months ended 30 June 2022 was RMB89.1 million (six months ended 30 June 2021: RMB73.3 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

As the shares of the Company (the "Shares") were not listed on the Stock Exchange as at 30 June 2022, the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set forth in Appendix 10 of the Listing Rules was not applicable to the Company for the six months ended 30 June 2022.

Since 8 July 2022, being the date on which the Shares were listed on the Stock Exchange (the “**Listing Date**”), the Group has adopted the Model Code as the code of conduct for securities transactions conducted by the directors of the Company (the “**Directors**”). Having made due and careful enquiries with the Directors, the Company confirmed that all Directors have abided by the Model Code since the Listing Date and up to the date of this announcement.

Compliance with the Corporate Governance Code

The Company is committed to achieving higher standards of corporate governance with a view to safeguarding the interests of its Shareholders. From the Listing Date and up to the date of this announcement, the Company had complied with all the applicable code provisions as set out in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the “**CG Code**”), except for the deviation of code provision C.2.1 of the CG Code.

Pursuant to code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Currently, Mr. Chen holds the position of chairman and chief executive officer of the Group, which deviated from the code provision C.2.1 of the CG Code. In view of Mr. Chen’s experience, personal profile and his roles in the Group, the Board considers it beneficial to the business prospect and operational efficiency of the Group. The Board believes that it will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) decisions to be made by the Board require approval by at least a majority of the Directors, and the Group believes that there are sufficient checks and balances in the Board; (ii) Mr. Chen and the other Directors are aware of and undertake to fulfil their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of the Company and will make decisions for the Group accordingly; and (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of the Company. Moreover, the overall strategic and other key business, financial, and operational policies of the Group are made collectively after thorough discussion at both the Board and senior management levels.

The Board will continue to review the effectiveness of its corporate governance structure in order to assess whether separation of the roles of chairman of the Board and chief Executive Officer is necessary, and to regularly monitor its corporate governance practices to ensure compliance with the CG Code, and maintain a high standard of corporate governance practices of the Company.

Purchase, Sale or Redemption of the Company’s listed Securities

From the Listing Date and up to the date of this announcement, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company’s listed securities.

Interim Dividends

The Board does not recommend an interim dividend for the six months ended 30 June 2022.

Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee comprises three members, namely Ms. WU Ruifeng (吳瑞風), Mr. DU Jianqing (杜劍青) and Prof. WU Jintao (鄔金濤), with Ms. WU Ruifeng (吳瑞風) as chairperson of the Audit Committee.

The Audit Committee has reviewed the unaudited interim financial information of the Group for the six months ended 30 June 2022 and was of the opinion that the interim results had been prepared in accordance with the relevant accounting standards and that adequate disclosures have been made in accordance with the requirements of the Listing Rules.

The interim financial information of the Group for the six months ended 30 June 2022 has not been audited but has 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.

Significant Events

On the Listing Date, the Company issued 34,390,500 Shares at HK\$6.24 per Share to be listed on the Stock Exchange by way of Global Offering. There was no exercise of over-allotment option described in the Prospectus and the gross proceeds from the Global Offering amounted to HK\$214.6 million.

Save as disclosed above, there are no significant events since 30 June 2022.

Publication of Interim Results Announcement and Interim Report

This unaudited interim results announcement of the Group for the six months ended 30 June 2022 is published on the Stock Exchange’s website at www.hkexnews.hk and the Company’s website at cloud.wxchina.com. The interim report for the six months ended 30 June 2022 containing all applicable information required under the Listing Rules will be despatched to the Shareholders and published on the above websites in September 2022.

By order of the Board
Xuan Wu Cloud Technology Holdings Limited
Mr. Chen Yonghui
Chairman of the Board

Hong Kong, Monday, 29 August 2022

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, Mr. Xu Xin as non-executive Director and Mr. Du Jianqing, Ms. Wu Ruifeng and Prof. Wu Jintao as independent non-executive Directors.