



China Youzan Limited

中國有贊有限公司

(formerly known as China Innovationpay Group Limited)

中國創新支付集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

2018

INTERIM REPORT



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This report, for which the directors (the “Directors”) of China Youzan Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.



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HIGHLIGHTS

The Group recorded a turnover of approximately HK\$273,757,000 for the six months ended 30 June 2018, representing an increase of 275% compared with the same period in 2017. The increase in turnover was mainly attributable to the expansion of the existing Third Party Payment Services business and the accounting for the turnover of E-commerce business as well as Third Party Payment Services business of a new business segment since the completion of the acquisition of 51% equity interest in Youzan Group on 18 April 2018.

Third Party Payment Services contributed a turnover of approximately HK\$147,680,000 for the six months ended 30 June 2018, representing 54% of the total turnover, of which 17%, say HK\$46,143,000, was contributable to the aforesaid new business segment between the acquisition completion date and 30 June 2018. E-commerce recorded a turnover of approximately HK\$104,869,000, representing 38%, which was also a new contribution to the total turnover since the acquisition completion date. General trading contributed approximately HK\$21,192,000, representing 8%, and Onecomm contributed approximately HK\$16,000.

The Group recorded a gross profit of approximately HK\$124,170,000 for the six months ended 30 June 2018, representing an increase of 840% compared with the same period in 2017. The increase in gross profit was mainly attributable to the acquisition of E-commerce business since 18 April 2018 and the growth in Third Party Payment Services business. Gross profit margin for the six months ended 30 June increased from 18% in last year to 45% in the current year. The increase in gross profit margin was mainly contributable to the higher margin of the new E-commerce business which recorded a gross profit margin of 86% in the second quarter of 2018.



The Group's operating loss for the six months period was approximately HK\$89,564,000, whereas a loss of approximately HK\$58,315,000 was recorded for the same period in last year. The increase in operating loss was mainly due to the increase in selling expenses and administrative expenses since the acquisition of Youzan Group, of which an aggregate of HK\$9,317,000 professional fees was recorded for the acquisition dated 18 April 2018.

For the three months ended 30 June 2018, the Group made sales of approximately HK\$214,647,000, representing an increase of 344% over the same period in last year. Gross profit margin for the three months ended 30 June increased from 13% in last year to 54% in the current year.

As at 30 June 2018, the Group had a total of HK\$1,768,556,000 cash on hand and the current ratio was at 1.07 times.

The Board does not recommend the payment of a dividend for the six months ended 30 June 2018.

FINANCIAL RESULTS

The board of directors (the “Board”) of China Youzan Limited (“Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and the six months ended 30 June 2018 together with the comparative unaudited figures for the corresponding periods in 2017 as follows:

Condensed Consolidated Statement of Comprehensive Income

	Notes	Three months ended 30 June 2018		Six months ended 30 June 2018	
		(Unaudited) HK\$'000	(Unaudited) 2017 HK\$'000	(Unaudited) 2018 HK\$'000	(Unaudited) 2017 HK\$'000
Turnover	2, 16	214,647	48,355	273,757	72,990
Cost of sales		(98,459)	(42,186)	(149,586)	(59,786)
Gross profit		116,188	6,169	124,171	13,204
Other income	3	26,310	8,036	26,619	8,671
Selling expenses		(74,004)	(7,107)	(79,248)	(12,975)
Administrative expenses		(128,333)	(40,400)	(161,106)	(67,215)
Loss from operations		(59,839)	(33,302)	(89,564)	(58,315)
Gain on fair value change of contingent consideration payables		-	7,639	-	7,639
Amortisation of intangible assets	7	(53,986)	-	(53,986)	-
Impairment loss of goodwill	8	(56,597)	-	(56,597)	-
Finance cost		-	(194)	-	(323)
Loss before taxation	4	(170,422)	(25,857)	(200,147)	(50,999)
Taxation	5	-	(1)	-	(437)
Loss for the period		(170,422)	(25,858)	(200,147)	(51,436)
Non-controlling interests		52,500	(3,354)	53,161	(6,359)
Loss attributable to shareholders		(117,872)	(29,212)	(146,986)	(57,795)
Loss per share					
- basic	6	(0.99) cents	HK(0.34) cents	(1.56) cents	HK(0.70) cents
- diluted		N/A	N/A	N/A	N/A
Dividend	17	N/A	N/A	N/A	N/A



	Three months ended 30 June		Six months ended 30 June	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
<i>Notes</i>				
Loss for the period	(170,422)	(25,858)	(200,147)	(51,436)
Other comprehensive income for the period, net of tax	(951)	8,198	12,561	8,198
Total comprehensive income for the period, net of tax	(171,373)	(17,660)	(187,586)	(43,238)
Attributable to:				
Owners of the Company	(118,873)	(20,665)	(134,425)	(49,597)
Non-controlling Interests	(52,500)	3,005	(53,161)	6,359
	(171,373)	(17,660)	(187,586)	(43,238)


Condensed Consolidated Statement of Changes in Equity

	As at 1 January 2017 (Audited) HK\$'000	Movements HK\$'000	As at 30 June 2017 (Unaudited) HK\$'000
Share capital	60,993	8,797	69,790
Share premium	1,180,297	419,599	1,599,896
Capital reserve	(1,117)	–	(1,117)
Statutory reserve	9,898	–	9,898
Exchange reserve	(34,009)	8,198	(25,811)
Share option reserve	103,438	10,922	114,360
Warrant reserve	1,000	–	1,000
Accumulated losses	(477,696)	(57,795)	(535,491)
Total	842,804	389,721	1,232,525
Non-controlling interests	15,525	6,359	21,884
Total equity	858,329	396,080	1,254,409
	As at 1 January 2018 (Audited) HK\$'000	Movements HK\$'000	As at 30 June 2018 (Unaudited) HK\$'000
Share capital	69,790	59,120	128,910
Share premium	1,601,579	3,114,441	4,716,020
Capital reserve	(1,117)	–	(1,117)
Statutory reserve	9,898	–	9,898
Exchange reserve	26,015	12,563	38,578
Share option reserve	118,345	–	118,345
Warrant reserve	1,000	–	1,000
Accumulated losses	(585,330)	(146,986)	(732,316)
Total	1,240,180	3,039,138	4,279,318
Non-controlling interests	(7,641)	746,006	738,365
Total equity	1,232,539	3,785,144	5,017,683



Consolidated Statement of Financial Position

		As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		19,732	12,754
Intangible assets	7	2,546,083	2,706
Long term deposits		2,788	2,823
Goodwill	8	2,786,527	698,554
Investments in associates		17,870	15,099
Available-for-sale financial assets		181,423	108,227
Earnest money paid for potential investments		–	73,246
Prepayments, deposits and other receivables		4,841	–
		5,559,264	913,409
Current assets			
Inventories		2,069	2,710
Trade receivables	9	23,263	26,762
Prepayments, deposits and other receivables		66,849	133,952
Indemnification asset	10	273,713	–
Amounts due from non-controlling shareholders of subsidiaries		290	290
Financial assets at fair value through profit or loss		9,739	9,658
Restricted bank balance		1,088	1,102
Bank and cash balances		1,768,556	304,612
		2,145,567	479,086
Current liabilities			
Trade payables	11	5,321	4,982
Accruals and other payables		1,506,544	152,445
Deferred revenue		212,348	–
Amount due to a director		3	3
Current tax liabilities		2,540	2,526
Withholding tax payable	10	273,713	–
		2,000,469	159,956



	<i>Notes</i>	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Net current assets		145,098	319,130
Total assets less current liabilities		5,704,362	1,232,539
Non-current liabilities			
Deferred revenue		37,473	–
Deferred tax liabilities	12	649,206	–
		686,679	–
NET ASSETS		5,017,683	1,232,539
Capital and reserves			
Share capital	13	128,910	69,790
Reserves		4,150,408	1,170,390
Equity attributable to owners of the Company		4,279,318	1,240,180
Non-controlling interests		738,365	(7,641)
TOTAL EQUITY		5,017,683	1,232,539



Condensed Consolidated Cash Flow Statement

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	97,691	55,292
Net cash inflow/(outflow) from investing activities	(59,273)	(17,250)
Cash generated from acquisition of Youzan Group	1,225,326	–
Net cash inflow/(outflow) before financing activities	1,263,744	(72,542)
Net cash inflow/(outflow) from financing activities	200,200	390,357
Increase/(decrease) in cash and bank balances	1,463,944	317,815
Cash and bank balances, beginning of the six-month period	304,612	185,422
Cash and bank balances, end of the six-month period	1,768,556	503,237



Notes:

1. General information and basis of presentation

The Company was incorporated in Bermuda on 17 August 1999 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Its shares have been listed on The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 14 April 2000.

The registered office of the Company is located at Canon’s Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its principal office in Hong Kong is situated at Unit 2708, 27/F, The Center, 99 Queen’s Road Central, Hong Kong.

These condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated financial statements for the six-month period ended 30 June 2018 are consistent with those adopted in preparing the audited financial statements of the Group for the year ended 31 December 2017.

The Group’s unaudited consolidated quarterly results has not been audited by the Company’s auditors but has been reviewed by the Company’s audit committee.

Significant transactions and balances among the companies comprising the Group have been eliminated on consolidation.

2. Turnover

	For the three months ended 30 June		For the six months ended 30 June	
	2018* HK\$'000	2017 HK\$'000	2018* HK\$'000	2017 HK\$'000
– E-commerce	104,869	–	104,869	–
– Third Party Payment Services	98,312	39,396	147,680	49,011
– General trading	11,451	5,930	21,192	19,123
– Onecomm	15	3,029	16	4,856
	214,647	48,355	273,757	72,990

* The combination of Youzan Group was from 18 April 2018 to 30 June 2018.

3. Other income

	For the three months ended 30 June		For the six months ended 30 June	
	2018* (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2018* (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Other income	7,891	240	8,470	875
Amortisation of financial guarantee contract	–	7,796	–	7,796
Reversal of impairment of other receivables	18,419	–	18,149	–
	26,310	8,036	26,619	8,671

* The combination of Youzan Group was from 18 April 2018 to 30 June 2018.

4. Loss before taxation

Loss before taxation was determined after charging (crediting):

	For the three months ended 30 June		For the six months ended 30 June	
	2018* (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2018* (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Interest income	7,915	1	7,915	1
Interest expense	-	(2)	-	(2)
Depreciation	-	-	-	-
Amortisation of intangible assets	(53,986)	-	(53,986)	-

* The combination of Youzan Group was from 18 April 2018 to 30 June 2018.

5. Taxation

No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong during the three-month period and the six-month period ended 30 June 2018 (2017: Nil).

The amount of taxation for Mainland China subsidiaries was Nil during the three-month period and the six-month period ended 30 June 2018 respectively (2017: HK\$1,000 and HK\$437,000).

The amount of deferred tax liabilities for the three-month period and the six-month period ended 30 June 2018 were HK\$649,206,000 and HK\$649,206,000 respectively (2017: HK\$898,000).

6. Loss per share

The calculation of the basic loss per share for the three-month period and the six-month period ended 30 June 2018 respectively were based on the unaudited loss attributable to shareholders of approximately HK\$117,872,000 (2017: HK\$29,212,000) for the three-month period ended 30 June 2018 and the unaudited loss attributable to shareholders of approximately HK\$146,986,000 (2017: HK\$57,795,000) for the six-month period ended 30 June 2018 and on the weighted average number of 11,899,776,835 shares in issue during the three-month period ended 30 June 2018 and 9,425,772,586 shares in issue during the six-month period ended 30 June 2018.

The basic loss per share for the three months and six months ended 30 June 2018 was HK\$0.99 cents (2017: HK\$0.34 cents) and HK\$1.56 cents (2017: HK\$0.70 cents), respectively. Without considering the impairment loss of goodwill and the amortization of intangible assets, the basic loss per share for the three months and six months ended 30 June 2018 would be HK\$0.28 cents (2017: HK\$0.34 cents) and HK\$0.67 cents (2017: HK\$0.70 cents), respectively.



7. Intangible Assets

Intangible assets, namely, trademarks, E-commerce Applications and distribution network are identified and recognised in accordance with Hong Kong Financial Reporting Standard 3 (revised) "Business Combinations" ("HKFRS 3"). The estimated fair values are based on a purchase price allocation report of an independent professional valuer with appraisal date of 18 April 2018.

An amortisation of the identified intangible assets of HK\$53,986,000 was recorded for the six months ended 30 June 2018 (2017: Nil).

8. Goodwill

Goodwill represents the sum of existing cash-generated unit of Third Party Payment Services ("CGU 2") and a new business combination from the acquisition of Youzan Group.

The management noted that the performance of CGU 2 was a bit lagged behind budget. Therefore, the management decided to impair the related part of goodwill of HK\$56,597,000 for the period.

Goodwill generated from the combination of Youzan Group presents the excess of the Consideration transferred by the Group over the Group's share of net fair value of identifiable assets and liabilities of Youzan Group. The fair value of Consideration is estimated by the closing price of the Company's Share of HK\$0.54 as at 18 April 2018 and 5,516,052,632 Consideration Shares allotted and issued upon Completion.

9. Trade receivables

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Trade receivables	23,263	26,762

The Group normally grants to its customers credit periods ranging from one to three months.

Aging analysis of trade receivables is as follows:

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
0 to 90 days	23,224	25,073
91 to 180 days	32	1,666
181 to 365 days	7	23
	23,263	26,762

10. Withholding tax payable, indemnification asset

An estimated withholding tax amount based on 10% of estimated capital gain ("Estimated Capital Gain") on indirect equity transfer of Hangzhou Youzan Technology Co., Ltd. ("Hangzhou Youzan"). Estimated Capital Gain is the difference of market value of Consideration Shares at 18 April 2018 and 51% registered capital of Hangzhou Youzan. An indemnification asset equals to the carrying amount of the estimated withholding tax payable.

11. Trade payables

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Trade creditors	5,321	4,982



Aging analysis of trade payables is as follows:

	As at 30 June 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Current to 90 days	3,083	2,546
181 to 365 days	498	18
Over 365 days	1,740	2,418
	5,321	4,982

12. Deferred tax liabilities

Deferred tax liabilities related to intangible assets is estimated by applying PRC enterprise income tax rate of 25% to the amount of fair value adjustment on intangible assets.

13. Share capital

The number of issued shares of the Company was 12,891,007,829 shares as at the date of this report.

14. Convertible bonds

As at the date of this report, there were no outstanding convertible bonds.

15. Warrants

On 6 February 2015 (after trading hours), the Company and Greater China Select Fund (the "Subscriber") entered into the Subscription Agreement. Following obtaining the Shareholders' approval of the Warrant Subscription and issue of the Warrant Shares at the SGM dated 29 June 2015, all conditions set out in the Subscription Agreement have been fulfilled and completion of the Warrant Subscription took place on 6 July 2015. Warrants of an aggregate amount of HK\$381.6 million have been issued to the Subscriber at the Issue Price of HK\$0.002 per Warrant. The Warrants entitle the Subscriber to subscribe a maximum of 530,000,000 Warrant Shares at the initial Subscription Price of HK\$0.72 per Warrant Share for a period of five (5) years commencing from the date of issue of the Warrants.

As at this report date, there were still outstanding 520,000,000 Warrant Shares with an aggregate fair value of HK\$374,400,000 to be subscribed. The Warrant Shares are valid until 5 July 2020.

16. Turnover and segment information

The Group's turnover and contribution to profit before taxation for the six-month period from 1 January to 30 June 2018, analyzed by principal activity and geographical location, are as follows:

a.

	Turnover		Contribution to profit/(loss) after taxation	
	2018 From 1 January to 30 June* (unaudited) HK\$'000	2017 From 1 January to 30 June (unaudited) HK\$'000	2018 From 1 January to 30 June* (unaudited) HK\$'000	2017 From 1 January to 30 June (unaudited) HK\$'000
By principal activity:				
– E-commerce	104,869	–	90,525	–
– Third Party Payment Services	147,680	49,011	31,879	10,816
– General trading	21,192	19,123	1,752	764
– Onecomm	16	4,856	15	1,624
	273,757	72,990	124,171	13,204
Other income			26,619	8,671
Gain on fair value change of contingent consideration payables			–	7,639
Selling and marketing expenses			(79,248)	(12,975)
General and administrative expenses			(161,106)	(67,215)
Finance cost			–	(323)
Impairment of goodwill			(56,597)	–
Amortisation of intangible assets			(53,986)	–
Taxation			–	(437)
Non controlling interests			(53,161)	(6,359)
			(146,986)	(57,795)

* The combination of Youzan Group was from 18 April 2018 to 30 June 2018.



b.

	Turnover		Contribution to profit/(loss) after taxation	
	2018 From 1 January to 30 June* (unaudited) HK\$'000	2017 From 1 January to 30 June (unaudited) HK\$'000	2018 From 1 January to 30 June* (unaudited) HK\$'000	2017 From 1 January to 30 June (unaudited) HK\$'000
By geographical location:				
– Hong Kong	–	–	–	–
– Mainland China	273,757	72,990	124,171	13,204
	273,757	72,990	124,171	13,204
Other income			26,619	8,671
Gain on fair value change of contingent consideration payables			–	7,639
Selling and marketing expenses			(79,248)	(12,975)
General and administrative expenses			(161,106)	(67,215)
Finance cost			–	(323)
Impairment of goodwill			(56,597)	–
Amortisation of intangible assets			(53,986)	–
Taxation			–	(437)
Non controlling interests			53,161	(6,359)
			(146,986)	(57,795)

* The combination of Youzan Group was from 18 April 2018 to 30 June 2018.

17. Interim dividend

The Board does not recommend the payment of an interim dividend for the three-month period and the six-month period ended 30 June 2018 (2017: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS

China Youzan Limited (formerly known as China Innovationpay Group Limited (the “Company”; the “Group”) is a renowned investment holding company committed to provide innovation and technological advancement in technology services, payment service for merchants as well as online and offline e-commerce solutions which also known as SaaS (Software as a Service). Our Group consists of the Company, Shenzhen Innovationpay Co., Limited and its subsidiaries, Country Praise Enterprises Limited (“CPE”) and its subsidiaries (collectively the “CPE Group”) and Qima Holdings Ltd. and its subsidiaries (collectively the “Youzan Group”). We mainly operate in retail technology services and payment service business across the People’s Republic of China (the “PRC”). Up to June 2018, our operation consists of four operating segments, which are (i) e-commerce – provision of a variety of online and offline solutions and services in relation to virtual wholesaling and retailing in the PRC through Youzan, an e-commerce brand which owns Youzan WeiMall and related SaaS products; (ii) third party payment services; (iii) Onecomm – provision of third party payment system solution and sales of integrated smart point of sales devices; and (iv) general trading.

Business Review

With the Group exploring its business in the payment service and merchant service sectors over the years, the Group has established four main business systems, namely, the merchant service system, internet payment system, prepaid card operation system and integrated payment system. Accordingly, the Group has also developed four core businesses, namely the merchant service, internet payment service, merchant integrated payment service and cross-border Renminbi payment service.

Merchant Service

The merchant service is to assist merchants to quickly build up their e-commerce platforms, provides online and offline one-stop service to lower operating costs. At the same time, it also satisfies the needs of merchants to achieve customer operation and precision marketing and provides all around coverage of merchants’ business scenarios to reduce customer loss.



As of 30 June 2018 the Group had variety of products available for merchants to subscribe, such as Youzan WeiMall, Youzan Retailer, Youzan Beauty. Merchants who subscribed our products can manage their online and offline stores, build and retain consumer relationships, process sales orders, analyse sales data and etc. Most of all, merchants can make strong connection with their consumers through direct and indirect marketing and promoting activities integrated in our products and therefore privatize the consumers' membership as long-term profit generating assets by way of consumers' repeated purchase. As of 30 June 2018, the Group had more than 100,000 active registered merchants, and a prepaid license fee of HK\$249,821,000 accounted for as deferred revenue in aggregate.

Internet Payment Service

The internet payment service provides a speedy B2C and B2B mobile and internet payment gateway service to our merchants. All Chinese popular payment paths, such as WeChat Pay, ApplePay, AliPay and China Unionpay, have been built into the Group's payment gateway in providing our internet payment service. The profit generating ability of internet payment service is highly dependent on the transaction volume. According to Youzan Group's record, Gross Merchandise Volume ("GMV") of Youzan Group's E-commerce platforms has exceeded HK\$9.5 billion and HK\$17.0 billion for the three months and six months ended 30 June 2018, respectively, representing an increase of more than 98% and 100%, respectively, compared with GMV of the same period in last year. Meanwhile Youzan Group contributed 47% to the total turnover from Third Party Payment Services in the second quarter of 2018 since the completion of the acquisition.

Integrated Payment Service

The business sector of integrated payment service can provide merchants all-rounded support such as membership management and omni-channel, self-marketing services. The Company has applied a conservative strategies in developing this business sector due to the relative cost. In a foreseeable future, seeking sizable merchants in this business sector is still challenging for us. The integration of the Company with Youzan will bring more expansion.

Cross-border Renminbi Payment Service

The business sector of cross-border Renminbi Payment provides merchants from international trading, e-trading, tourism, and study abroad consultancy companies payment services in doing their businesses of cross-border trading in goods/ services. Compared to the traditional bank, the Group is able to provide safe accounts with simpler procedure and shorter settlement cycle.



Financial Review

The Group recorded a turnover of approximately HK\$273,757,000 for the six months ended 30 June 2018, representing an increase of 275% compared with the same period in 2017. The increase in turnover was mainly attributable to the expansion of the existing Third Party Payment Services business and the accounting for the turnover of E-commerce business as well as Third Party Payment Services business of a new business segment since the completion of the acquisition of 51% equity interest in Youzan Group on 18 April 2018.

Third Party Payment Services contributed a turnover of approximately HK\$147,680,000 for the six months ended 30 June 2018, representing 54% of the total turnover, of which 17%, say HK\$46,143,000, was contributable to the aforesaid new business segment between the acquisition completion date and 30 June 2018. E-commerce recorded a turnover of approximately HK\$104,869,000, representing 38%, which was also a new contribution to the total turnover since the acquisition completion date. General trading contributed approximately HK\$21,192,000, representing 8%, and Onecomm contributed approximately HK\$16,000.

The Group recorded a gross profit of approximately HK\$124,170,000 for the six months ended 30 June 2018, representing an increase of 840% compared with the same period in 2017. The increase in gross profit was mainly attributable to the acquisition of E-commerce business since 18 April 2018 and the growth in Third Party Payment Services business. Gross profit margin for the six months ended 30 June 2018 increased from 18% in last year to 45% in the current year. The increase in gross profit margin was mainly contributable to the higher margin of the new E-commerce business which recorded a gross profit margin of 86% in the second quarter of 2018.

The Group's operating loss for the six months period was approximately HK\$89,564,000, whereas a loss of approximately HK\$58,315,000 was recorded for the same period in last year. The increase in operating loss was mainly due to the increase in selling expenses and administrative expenses since the acquisition of Youzan Group, of which an aggregate of HK\$9,317,000 professional fees was recorded for the acquisition dated 18 April 2018.

For the three months ended 30 June 2018, the Group made sales of approximately HK\$214,647,000, representing an increase of 344% over the same period in last year. Gross profit margin for the three months ended 30 June 2018 increased from 13% in last year to 54% in current year.

As at 30 June 2018, the Group had a total of HK\$1,768,556,000 cash on hand and the current ratio was at 1.07 times.

The Board does not recommend the payment of a dividend for the six months ended 30 June 2018.



Major Event

Despatch of circular in relation to Major Transaction – Acquisition of 51% Equity Interest in Youzan

On 2 January 2018, the Company despatched the circular in relation to the Major Transaction – Acquisition of 51% equity interest in Youzan.

On 26 January 2018, all of the proposed ordinary resolutions (“Resolutions”) as set out in the notice of the SGM contained in the circular were duly passed at the SGM.

For details of the transaction and the poll results in respect of each of the Resolutions, please refer to the Company announcement dated 2 January 2018 and 26 January 2018 respectively.

Completion of the Specific Mandate (“SM”) Placing

It is related to the Major Acquisition announcement of the Company dated 28 March 2017.

The conditions set out in the SM Placing Agreement have been fulfilled and the SM Placing was completed on 16 April 2018 in accordance with the terms and conditions of the SM Placing Agreement. A total of 386,000,000 SM Placing Shares have been successfully placed by the Placing Agent to not fewer than six (6) SM Placees at the SM Placing Price of HK\$0.5 per SM Placing Share pursuant to the SM Placing Agreement. The net proceeds from the SM Placing received by the Company, after deducting all related costs, fees, expenses and commission, amount to approximately HK\$187,479,500.

For details of the transaction please refer to the Company announcement dated 16 April 2018.

Completion of the acquisition of Youzan Group

The conditions set out in the Sale and Purchase Agreement had been fulfilled and the Acquisition was completed on 18 April 2018 in accordance with the terms and conditions of the Sale and Purchase Agreement.

Upon Completion, 5,516,052,632 Consideration Shares were issued to the Sellers in proportion to their shareholding in Youzan at the issue price of HK\$0.38 per Consideration Share to satisfy the Consideration of HK\$2,096,100,000.

For details of the transaction please refer to the Company announcement dated 18 April 2018.

Adoption of Share Award Scheme

On 31 May 2018 (after trading hours), the Board approved the adoption of the Share Award Scheme (“Scheme”) with immediate effect, pursuant to which all Eligible Persons will be entitled to participate. The purpose of the Scheme is to recognise the contributions by certain Eligible Persons and provide them with incentives in order to retain them for the continuing operation and development of the Group, and to attract suitable personnel for further development of the Group.

Please refer to the Company’s announcement dated 31 May 2018.

Change of Company Name, Stock Short Names, Company Logo and Company Website

Change of Company Name

The resolution for the change of Company name was approved by the Shareholders at the SGM held on 8 May 2018. The change of Company name became effective on 21 May 2018.

Change of Stock Short Names

The English stock short name of the Company has been changed from “INNOVATIONPAY” to “CHINA YOUZAN” and the Chinese stock short name has been changed from “中國創新支付” to “中國有贊” from 9:00 a.m. on 15 June 2018. The stock code of the Company remains unchanged as “8083”.

Effect of the Change of Company Name

The change of Company name would not affect any rights of the Shareholders or the Group’s daily business operations and its financial position.

Change of Company Logo

The logo of the Company has been changed from “” to “” effective from 1 June 2018.

Change of Company Website

The website of the Company has been changed from <http://www.innovationpay.com.hk> to <http://www.chinayouzan.com> effective from 1 June 2018.



Financial Resources and Liquidity

As at 30 June 2018, the Group has a cash balance of approximately HK\$1,768,556,000.

As at 30 June 2018, the total current assets over the total current liabilities is 1.07 times. The ratio of all liabilities to total assets is about 34.88%.

As at 30 June 2018, the Group has no bank borrowings.

Intellectual Property

As at 30 June 2018, the Group had 44 trademarks registered in mainland China, Hong Kong and other countries. At the same time, the Group had 65 software copyrights in China and 13 patents in China.

Treasury Policy

Cash and bank deposits of the Group are either in HK dollars or Renminbi. The Group conducts its core business transaction mainly in RMB and HK dollars, such that the Group did not use any derivative instruments to hedge its foreign currency exposure as the Group considered its foreign currency exposure is insignificant.

Contingent Liabilities


The Group and the Company had no material contingent liabilities as at 30 June 2018.

Employees

As at 30 June 2018, the Group had 1,351 employees (2017: 270) working in Hong Kong and PRC. The increase in employees was mainly contributable to the acquisition of Youzan Group and expansion of the Group's business. Employees are remunerated according to their performance and work experience. In addition to basic salaries and mandatory provident fund, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance as well as individual's performance. The Group provides other staff benefits include medical coverage scheme.

Future Plans and Prospects

Set aside the macro economic factors, indeed the Company has noticed that online purchases as a growing trend changing the conventional trade model in recent years. The trend has positively impacted the e-commerce market in terms of increased transaction volume. Following the past experience and the vision of being the industry connector, the Group has proposed including Youzan to be one of its subsidiary in 2017. The Acquisition was completed on 18 April 2018. Youzan Group currently handles its daily transactions through multiple payment



gateways provided by several third-party payment service providers. At present, Youzan Group had engaged six third-party payment service providers servicing its e-commerce platforms.

The intention of the Company is that Beijing Gaohuitong will replace the existing third-party payment service providers of Youzan Group by substituting the applicable third-party payment services currently provided by those existing third-party payment service providers and gradually become the sole third-party payment service provider of Youzan Group. Such an anticipated arrangement includes providing various third-party payment services to Youzan Group, such as offline integrated payment transactions services, online payment services for “WeiMall”, cross-border RMB payment settlement services for “WeiMall” overseas merchants, physical and virtual prepaid cards services for merchants of Youzan Group and other payment related services. Accordingly, the GMV of Youzan Group (representing the total value of all confirmed transactions for products and services on Youzan Group’s e-commerce platform, regardless of whether the goods are delivered or returned or how such orders are settled) could be translated into the Group’s existing principal e-commerce business (i.e. third-party payment service), through charging service fee for the third-party payment services to be provided by the Group. The acquisition could immediately contribute positively and expand the Group’s number of contracted merchants and increase the transaction volume.

The expanded merchant and consumer base acquired through the acquisition could also be a pool of potential business for the Group’s other business segments, such as use of pre-paid cards, provision of consultancy services, payment solutions, use of cross-border payment gateway, big data analytics enabling etc., which, the Group considers complements and provides growth momentum for the Group’s existing business segments.

Also the combination of Youzan Group’s third-party ecommerce platform and the Group’s third-party payment platform can allow the Group to provide comprehensive one-stop services to the merchants, including opening and operating of their online stores, inventory management, consumer management, marketing management, online store management, coupled with the payment services support and capital management.



Events After the Reporting Period

(1) *Connected Transaction: Subscription of Shares in a Non-Wholly Owned Subsidiary:*

On 16 July 2018, the Company and Franchise Fund Limited (the “Investor”) entered into the Subscription Agreement with Qima Holdings Ltd., a nonwholly owned subsidiary of the Company, in relation to the subscription of approximately 21 million Qima Shares and approximately 7 million Qima Shares respectively, in the respective consideration of approximately US\$30 million and US\$10 million payable in cash upon Completion.

Upon Completion, the Company will hold approximately 51.48% of the total issued shares of Qima Holdings Ltd., which will remain as a non-wholly owned subsidiary of the Company.

(2) *Change in Use of Proceeds*

References are made to the Circular and Completion Announcement dated 2 January 2018 and 18 April 2018 respectively. The net proceeds from the SM Placing received by the Company, after deducting all related costs, fees, expenses and commission, amounted to approximately HK\$187.0 million, of which HK\$110 million will be used for business of Qima Group through the Loan Agreement and approximately HK\$77.5 million will be used for the third party payment service business of the Group. Having considered the reasons mentioned in the section headed “Reasons for and benefits of the Subscription” set out in the announcement dated 16 July 2018, the Directors decided to reallocate all the net proceeds from the SM Placing to subscribe Qima Shares under the Subscription.

For details please refer to the Company announcement dated 16 July 2018.

DIRECTORS' INTEREST IN SHARES

As at the date of this report, the interests or short positions of the Directors in the Shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange, were as follows:

Long position in Shares

Name of Directors	Interest in shares	Interest in underlying shares	Total interest in shares	% Shareholding
Mr. Guan Guisen <i>(Note 1)</i>	971,792,000	–	971,792,000	7.54%
Mr. Cao Chunmeng	67,420,000	36,000,000 <i>(Note 2)</i>	103,420,000	0.80%
Mr. Yan Xiaotian	21,640,000	25,000,000 <i>(Note 2)</i>	46,640,000	0.36%
Dr. Fong Chi Wah	1,000,000	3,000,000 <i>(Note 2)</i>	4,000,000	0.03%
Mr. Gu Jiawang	1,000,000	3,000,000 <i>(Note 2)</i>	4,000,000	0.03%
Mr. Zhu Ning	1,440,601,703 <i>(Note 3)</i>	–	–	–
	363,170,101 <i>(Note 4)</i>	–	1,803,771,804	14.00%
Mr. Yu Tao	363,170,101 <i>(Note 4)</i>	–	363,170,101	2.82%
Mr. Cui Yusong	241,885,127 <i>(Note 5)</i>	–	241,885,127	1.88%
Ms. Ying Hangyan	363,170,101 <i>(Note 4)</i>	–	363,170,101	2.82%



Note 1: The shares are held by Mighty Advantage Enterprises Limited (“Mighty Advantage”). Mighty Advantage is incorporated in the British Virgin Islands and is beneficially owned by Mr. Guan Guisen.

Note 2: The Company granted the share options under New Share Option Scheme on 11 June 2015. The share options are valid until 10 June 2020 and the exercise price is HK\$1.25.

Note 3: The shares are held by Whitecrow Investment Ltd. (“Whitecrow”). Whitecrow is a company incorporated in the British Virgin Islands with limited liability and 100% beneficially wholly owned by Mr. Zhu Ning.

Note 4: The shares are held by Youzan Teamwork Inc. (“Youzan Teamwork”). Youzan Teamwork is a company incorporated in the British Virgin Islands with limited liability. Mr. Zhu Ning holds 40% of its shares interest and Mr. Yu Tao holds 10% of its shares interest; Ms. Ying Hangyan holds 10% of its shares interest.

Note 5: The shares are held by V5.Cui Investment Ltd. (“V5.Cui”). V5 Cui is a company incorporated in the British Virgin Islands with limited liability and 100% beneficially owned by Mr. Cui Yusong.

Save as disclosed above, as at the date of this report, none of the Directors of the Company had any interests or short positions in any Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein; or (iii) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at the date of this report, there was no other person (other than a director or chief executive officer of the Company) who had any interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long position in Shares

Name of Directors	Interest in shares	Interest in underlying shares	Total interest in shares	% Shareholding
Mr. Guan Guisen <i>(Note 1)</i>	971,792,000	–	971,792,000	7.54%
Mr. Zhu Ning	1,440,601,703	–		
	<i>(Note 2)</i>			
	363,170,101	–	1,803,771,804	14.00%
	<i>(Note 3)</i>			

Note 1: The shares are held by Mighty Advantage Enterprises Limited (“Mighty Advantage”). Mighty Advantage is incorporated in the British Virgin Islands and is beneficially owned by Mr. Guan Guisen.

Note 2: The shares are held by Whitecrow Investment Ltd. (“Whitecrow”). Whitecrow is a company incorporated in the British Virgin Islands with limited liability and 100% beneficially wholly owned by Mr. Zhu Ning.

Note 3: The shares are held by Youzan Teamwork Inc. (“Youzan Teamwork”). Youzan Teamwork is a company incorporated in the British Virgin Islands with limited liability. Mr. Zhu Ning holds 40% of its shares interest.



EMPLOYEE SHARE OPTIONS

The Company has one employee share option scheme namely New Share Option Scheme.

On 11 June 2015, the Company granted certain share options (the “New Share Option”) to eligible persons of the Group (the “Grantees”) which entitles the Grantees to subscribe for an aggregate of 202,714,000 new ordinary share of HK\$0.01 each in the capital of the Company, subject to the acceptance by the Grantees, under the New Share Option Scheme adopted by the shareholders of the Company on 3 May 2012. The Exercise Price of the Share Option is HK\$1.25 per share.

Details of the options under New Share Option Scheme granted on 11 June 2015 as at the report date were as follows:

Date of grant	Exercise period	Exercise price	At 1 January 2018	Granted during the year	Cancelled/lapsed during the period	Exercised during the period	At report date
New Share Option Scheme							
Directors and Chief Executives							
11 June 2015	1 February 2016 to 10 June 2020	HK\$1.25	21,000,000	-	-	-	21,000,000
	1 February 2017 to 10 June 2020	HK\$1.25	21,000,000	-	-	-	21,000,000
	1 February 2018 to 10 June 2020	HK\$1.25	28,000,000	-	-	-	28,000,000
subtotal			70,000,000	-	-	-	70,000,000
Other employees							
11 June 2015	1 February 2016 to 10 June 2020	HK\$1.25	34,657,200	-	(2,689,200)	-	31,968,000
	1 February 2017 to 10 June 2020	HK\$1.25	34,657,200	-	(2,689,200)	-	31,968,000
	1 February 2018 to 10 June 2020	HK\$1.25	46,209,600	-	(3,585,600)	-	42,624,000
subtotal			115,524,000	-	(8,964,000)	-	106,560,000
Total share options			185,524,000	-	(8,964,000)	-	176,560,000



COMPETING INTERESTS

The Directors are not aware of, as at 30 June 2018, any business or interest of each Director, management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

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

As at 30 June 2018, there were no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTOR

The Group adopted the required standard of dealings set out in rules 5.46 to 5.68 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions in securities of the Company. Upon the Company's specific enquiry, each director had confirmed that during the period ended 30 June 2018, they had fully complied with the required standard of dealings and there was no event of non-compliance.

BOARD PRACTICES AND PROCEDURES

The Company has complied throughout the six-month period ended 30 June 2018 the board practices and procedures as set out in Rule 5.34 of the GEM Listing Rules.

CORPORATE GOVERNANCE AND COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 June 2018.



AUDIT COMMITTEE

The Company has established an audit committee (the “Committee”) in compliance with the GEM Listing Rules. The Committee comprises three independent non-executive Directors, namely Dr. Fong Chi Wah, Mr. Gu Jiawang and Mr. Deng Tao. The Committee is chaired by Dr. Fong Chi Wah. The primary duties of the Committee are to review and supervise the financial reporting process and internal control systems of the Group.

The Committee has reviewed and assessed the composition of the Group’s financial reporting team and was satisfied with the performance of the team.

The Committee who was of the opinion that the preparation of the unaudited results for the six-month period ended 30 June 2018 has complied with applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosures had been made. And has reviewed the Company’s unaudited results for the six-month period ended 30 June 2018 and the draft of this report, and has provided advice and comments thereon.

By Order of the Board
China Youzan Limited
Guan Guisen
Chairman

Hong Kong, 3 August 2018

As at the date of this report, the Board comprises the following members:

Executive Directors

Mr. Guan Guisen
Mr. Cao Chunmeng
Mr. Yan Xiaotian
Mr. Zhu Ning (Appointed on 4 May 2018)
Mr. Cui Yusong (Appointed on 4 May 2018)
Mr. Yu Tao (Appointed on 4 May 2018)
Ms. Ying Hangyan (Appointed on 8 May 2018)

Independent Non-executive Directors

Dr. Fong Chi Wah
Mr. Gu Jiawang
Mr. Xu Yanqing
Mr. Deng Tao (Appointed on 8 May 2018)

This report will remain on the “Latest Company Announcements” page on the GEM website at www.hkgem.com for at least 7 days from the day of its posting and on the website of the Company at www.chinayouzan.com.