



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 THIRD QUARTERLY 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\$484,407,000 for the nine months ended 30 September 2018, representing an increase of 255% 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 from 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\$222,237,000 for the nine months ended 30 September 2018, representing 46% of the total turnover, of which 20%, say HK\$96,679,000, was contributable to the aforesaid new business segment between the acquisition completion date and 30 September 2018. E-commerce recorded a turnover of approximately HK\$237,035,000, representing 49% of the total turnover, which was also a new contribution since the acquisition completion date. General trading contributed approximately HK\$25,120,000, representing 5% of the total turnover, and Onecomm contributed approximately HK\$15,000, for the nine months ended 30 September 2018. As the Group is focusing on Merchants Service and Third Party Payment Service and curtailing resources on general trading and Onecomm, turnover from general trading and Onecomm for the nine months ended 30 September 2018 decreased by approximately 19% and 100%, respectively, compared with the same period in last year.



The Group recorded a gross profit of approximately HK\$223,251,000 for the nine months ended 30 September 2018, representing an increase of 738% 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 nine months ended 30 September increased from 20% in last year to 46% 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 79% for the nine months ended 30 September 2018, as well as the strategic cut back in general trading and Onecomm whereas the gross profit margin of general trading is far more lower than other businesses.

The Group's operating loss for the nine months ended 30 September 2018 was approximately HK\$458,446,000, whereas a loss of approximately HK\$67,483,000 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, as well as the grant of Awarded Shares under the Share Award Scheme. An aggregate of HK\$9,317,000 professional fees and HK\$232,383,000 equity-settled share-base payment was recorded for the acquisition dated 18 April 2018 and the Share Award Scheme, respectively.

For the three months ended 30 September 2018, the Group recorded sales of approximately HK\$210,650,000 and a gross profit of approximately HK\$99,080,000, representing an increase of 232% and 637% over the same period in last year, respectively. Gross profit margin for the three months ended 30 September increased from 21% in last year to 47% in the current year. Turnover from E-commerce for the three months ended 30 September 2018 increased by 26% compared with that for the three months ended 30 June 2018. Turnover from Third Party Payment Services for the three months ended 30 September 2018 decreased by 24% compared with that for the three months ended 30 June 2018. Turnover from general trading and Onecomm for the three months ended 30 September 2018 decreased by 66% and 100%, respectively, compared with that for the three months ended 30 June 2018.

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

FINANCIAL RESULTS

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

Condensed Consolidated Statement of Comprehensive Income

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2018	2017	2018	2017
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Continue operations					
Revenue	2	210,650	63,521	484,407	136,511
Cost of sales		(111,570)	(50,082)	(261,156)	(109,869)
Gross profit		99,080	13,439	223,251	26,642
Selling expenses		(102,785)	(6,646)	(182,033)	(19,622)
Administrative expenses		(140,469)	(16,615)	(301,575)	(83,828)
Equity-settled share-based payment		(232,383)	(16,382)	(232,383)	(16,382)
Other income/(expenses)	3	7,675	17,036	34,294	25,707
Loss from operations		(368,882)	(9,168)	(458,446)	(67,483)
Gain on fair value change of contingent consideration payables		-	-	-	7,639
Amortisation of intangible assets		(68,037)	-	(122,023)	-
Impairment of goodwill	4	-	-	(56,597)	-
Share of associate		458	-	458	-
Finance cost		-	(129)	-	(452)
Loss before taxation		(436,461)	(9,297)	(636,608)	(60,296)
Taxation	5	-	(5)	-	(443)
Loss for the period		(436,461)	(9,302)	(636,608)	(60,739)
Non-controlling interest		91,699	3,070	144,860	9,430
Loss attributable to shareholder		(344,762)	(6,232)	(491,748)	(51,309)
Loss per share	6				
- basic		HK(3.07) cents	HK(0.10) cents	HK(4.63) cents	HK(0.80) cents
- diluted		N/A	N/A	N/A	N/A



	For the three months ended 30 September		For the nine months ended 30 September	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
<i>Notes</i>				
Loss for the period	(436,461)	(9,302)	(636,608)	(60,739)
Other comprehensive income for the period, net of tax	80,917	38,248	93,478	46,445
Total comprehensive income for the period, net of tax	(355,544)	28,946	(543,130)	(14,294)
Attributable to:				
Owners of the Company	(263,845)	25,876	(398,270)	(23,724)
Non-controlling Interests	(91,699)	3,070	(144,860)	9,430
	(355,544)	28,946	(543,130)	(14,294)

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 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 unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which also includes Hong Kong Accounting Standards ("HKAS") and Interpretations approved by the HKICPA, and are prepared under the historical cost convention.

The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated financial statements for the nine-month period ended 30 September 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 September		For the nine months ended 30 September	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
E-commerce	132,165	–	237,035	–
– Third Party				
Payment Services	74,557	50,638	222,237	99,649
– General trading	3,928	11,800	25,120	30,923
– Onecomm	–	1,083	15	5,939
	210,650	63,521	484,407	136,511

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

3. Other income/(expenses)

	For the three months ended 30 September		For the nine months ended 30 September	
	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000
Other expenses	(88)	–	(919)	–
Other revenue	317	756	2,022	1,631
Amortisation of financial guarantee contract	–	15,960	–	23,756
Bank interest income	7,446	320	15,361	320
Reversal of impairment of other receivable	–	–	17,830	–
	7,675	17,036	34,294	25,707

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

4. Impairment of 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 had impaired the related part of goodwill of HK\$56,597,000 in second quarter of year 2018.

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.

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 nine-month period ended 30 September 2018 (2017: Nil).

The amount of taxation for Mainland China subsidiaries was approximately HK\$Nil and HK\$Nil during the three-month period and the nine-month period ended 30 September 2018 respectively (2017: HK\$5,000 and HK\$443,000 for three-month period and nine-month period ended 30 September 2017 respectively).

6. Loss per share

The calculation of the basic loss per share for the three-month period and the nine-month period ended 30 September 2018 respectively were based on the unaudited loss attributable to shareholders of approximately HK\$344,762,000 (2017: loss of HK\$6,232,000) for the three-month period ended 30 September 2018 and unaudited loss attributable to shareholders of approximately HK\$491,748,000 (2017: loss of HK\$51,309,000) for the nine-month period ended 30 September 2018 and on the weighted average number of 10,617,788,231 shares (2017: 6,400,410,077 shares) in issue during the three-month period ended 30 September 2018 and 12,825,329,796 shares (2017: 6,978,955,179 shares) in issue during the nine-month period ended 30 September 2018.

7. Interim dividend

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

8. Share Capital

The number of issued shares of the Company was 13,442,530,229 shares as at the date of this report.

9. Convertible bonds

As at 30 September 2018, there were no outstanding convertible bonds.

10. 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 face value of HK\$374,400,000 to be subscribed. The Warrant Shares are valid until 5 July 2020.



11. Reserves movement

At the beginning of 2018, the Group had consolidated reserves, excluding retained profits, of approximately HK\$1,825,510,000 (2017: HK\$1,320,500,000). For the nine-month period ended 30 September 2018, the Group's reserves increase by approximately HK\$3,499,424,000 (2017: increase of HK\$482,427,000), representing the increase in share capital of approximately HK\$64,635,000 (2017: Nil), the increase in share premium reserve of approximately HK\$3,456,385,000 (2017: increase in share premium reserve HK\$423,741,000), the increase in cumulative translation adjustment of approximately HK\$93,480,000 (2017: increase HK\$46,445,000), the decrease in shares held for share award scheme reserve of approximately HK\$115,076,000 (2017: HK\$Nil). As a result, the consolidated reserves, excluding retained profits, of the Group as at 30 September 2018 were approximately HK\$5,324,934,000 (2017: HK\$1,741,933,000).

At the beginning of 2018, the Group had accumulated loss of approximately HK\$585,330,000 (2017: accumulated loss of HK\$477,696,000). During the three-month period ended 30 September 2018, the Group's accumulated loss increase by approximately HK\$344,762,000 (2017: HK\$6,232,000). For the nine-month period ended 30 September 2018, the Group's accumulated loss increase by approximately HK\$491,748,000 (2017: HK\$51,309,000), representing the total comprehensive income attributable to shareholders for the period. As a result, the accumulated loss of the Group as at 30 September 2018 was approximately HK\$1,077,078,000 (2017: HK\$529,005,000).



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 September 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 expansion of the Group and the economic slowdown of the PRC the Group has been focusing its business on two sectors since the beginning of 2018, the payment and financing service sector and the merchant service sector. The Group has established four main business systems over the years, namely, the merchant service system, for the merchant service sector, internet payment system, prepaid card operation system and integrated payment system, collectively for the payment and financing service sector. Onecomm and general trading are strategically being cut back and expected to dismiss in the first half year of 2019.

Merchant Service Sector

The merchant service is to help each and every businessperson who values products and services to privatize customer assets, expand the internet customer base, and boost operating efficiency, help businesspeople achieve success all around. At the same time, it also satisfies merchants’ needs on customer operating and precision marketing and provides all around coverage on merchants’ business scenarios to reduce customer loss. It is also known as E-commerce business. The merchant service mainly consists of four parts, the online SaaS, the offline SaaS, the platform service and the promotion service.



Online SaaS

The online SaaS provides merchants with a one-stop solution in building up online stores for both traditional merchants and internet merchants. Registered merchants are accessible to more than 1200 functions to manage their online stores. Such basic functions include online shop, unified marketing platform, CRM and data management and analytics.

For WeChat applets merchants we launched Youzan Mini Program, a one-key authorization SaaS program without development that helps merchants rapidly link with WeChat applets. It provides comprehensive supports to all products, and provide suitable applet solutions to merchants in different industries. Gross Merchandise Volume ("GMV") generated from Youzan Mini Program for the three months ended 30 September 2018 increased by approximately 82% compared with that for the three months ended 30 June 2018.

Offline SaaS

The offline SaaS offers merchants one-stop solutions in improving the operation efficiency of their physical stores. At present the offline SaaS is on its initial stage of commercialization with a developing strategy. As of the end of 30 September 2018 the offline SaaS mainly consists of Youzan Retail, Youzan Chain and Youzan Beauty.

Youzan Retail is a full-channel operating software facing offline retail stores, and providing new retail solutions of commodity access, membership access and scene access to store owners. Youzan Chain is a full-channel integrated operating tool applicable to retail stores under modes of direct sales, franchise and joint venture, and online store chain. It makes chain operation more efficient. Youzan Beauty provides complete internet operation solution for body care, hairdressing, manicure, fitness and health care to greatly improve store efficiency.

Platform Service

The platform service sets up a commercial system that links merchants on different points of the distribution chain. Merchant who has flow resources can make connection with those having goods on the platform and distributes the goods through their subscribed online SaaS and offline SaaS. The platform service is highly mutualistic with our SaaS service. During the nine months ended 30 September 2018, GMV generated on the platform service increased by approximately 137%, compared with that for the nine months ended 30 September 2017.

Promotion Service

The promotion service helps merchants enlarge their brand influence and improve their operation efficiency by offering various online marketing and advertising channels, such as Wechat, QQ Messenger, QQZone and Tencent News Mobile. 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' repeat purchase.

Payment and Financing Service Sector

Our payment and financing service is also known as the third party payment service. It helps merchants manage their assets and complete their online and offline deal by providing various payment paths. The payment and financing service mainly consists of four parts, the internet payment service, the integrated payment service, the cross-border Renminbi payment service and the prepaid card service.

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. The transaction volume of the Third Party Payment Services existing before the acquisition of Youzan Group for the three months and nine months ended 30 September 2018 decreased by approximately 79% and 57%, respectively, compared with GMV of the same period in last year. Nevertheless, according to Youzan Group's record, GMV of Youzan Group's E-commerce platforms has exceeded HK\$9.8 billion and HK\$26.6 billion for the three months and nine months ended 30 September 2018, respectively, representing an increase of more than 72% and 89%, respectively, compared with GMV of the same period in last year. Meanwhile Youzan Group contributed 44% to the turnover from Third Party Payment Services for the nine months ended 2018 since the completion of the acquisition.



Integrated Payment Service

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 cross-border Renminbi payment service provides merchants from international trading, e-trading, tourism, and study abroad consultancy companies with 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.

Prepaid Card Service

Virtual prepaid card service is the main contributor to the prepaid card service. Through the joint confirmed cooperation with the Group's distributors, the virtual prepaid card operating platform establishes an online and offline payment service by a virtual prepaid card product to support the needs under various payment handling conditions, help the distributors to develop and operate their own customers.

Financial Review

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Third Party Payment Services contributed a turnover of approximately HK\$222,237,000 for the nine months ended 30 September 2018, representing 46% of the total turnover, of which 20%, say HK\$96,679,000, was contributable to the aforesaid new business segment between the acquisition completion date and 30 September 2018. E-commerce recorded a turnover of approximately HK\$237,035,000, representing 49% of the total turnover, which was also a new contribution since the acquisition completion date. General trading contributed approximately HK\$25,120,000, representing 5% of the total turnover, and Onecomm contributed approximately HK\$15,000, for the nine months ended 30 September 2018. As the Group is focusing on Merchants Service and Third Party Payment Service and curtailing resources on general trading and Onecomm, turnover from general trading and Onecomm for the nine months ended 30 September 2018 decreased by approximately 19% and 100%, respectively, compared with the same period in last year.

The Group recorded a gross profit of approximately HK\$223,251,000 for the nine months ended 30 September 2018, representing an increase of 738% 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 nine months ended 30 September increased from 20% in last year to 46% 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 79% for the nine months ended 30 September 2018, as well as the strategic cut back in general trading and Onecomm whereas the gross profit margin of general trading is far more lower than other businesses.

The Group's operating loss for the nine months ended 30 September 2018 was approximately HK\$458,446,000, whereas a loss of approximately HK\$67,483,000 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, as well as the grant of Awarded Shares under the Share Award Scheme. An aggregate of HK\$9,317,000 professional fees and HK\$232,383,000 equity-settled share-base payment was recorded for the acquisition dated 18 April 2018 and the Share Award Scheme, respectively.



For the three months ended 30 September 2018, the Group recorded sales of approximately HK\$210,650,000 and a gross profit of approximately HK\$99,080,000, representing an increase of 232% and 637% over the same period in last year, respectively. Gross profit margin for the three months ended 30 September increased from 21% in last year to 47% in the current year. Turnover from E-commerce for the three months ended 30 September 2018 increased by 26% compared with that for the three months ended 30 June 2018. Turnover from Third Party Payment Services for the three months ended 30 September 2018 decreased by 24% compared with that for the three months ended 30 June 2018. Turnover from general trading and Onecomm for the three months ended 30 September 2018 decreased by 66% and 100%, respectively, compared with that for the three months ended 30 June 2018.

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



Major Events

(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 non-wholly 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.



(3) *Grant of Shares Under the Share Award Scheme and Issue of New Shares Under General Mandate*

(i) Grant of Awarded Shares

On 7 September 2018, the Company granted 551,522,400 Awarded Shares, representing approximately 4.28% of the total issued Shares as at 7 September 2018, to 388 Selected Participants across ten different key business units of the Group, all of whom are not connected persons of the Company (the “Grantees”), in accordance with the Scheme Rules at nil consideration (the “Grant”).

Selection criteria

The Grantees were selected by the Board after taking into account, among other matters, recommendations from their supervisors, years of services and their seniority, details of which are as follows:

- **Recommendations from supervisors:** Positive recommendations obtained indicating quality of the potential participants of the Scheme, potentials of becoming management and possession of experience in their respective professional fields.
- **Years of services:** Typically one year or above.
- **Seniority:** Team leader level or above.

In determining the selection of the Grantees and their respective number of Awarded Shares, the Board considered various aforementioned factors as a whole, instead of a standalone factor.

Vesting conditions

The Awards are subject to the acceptance of the Grantees and a minimum of two years of continuous services to the Company or any of its subsidiaries.

To the best of the Directors’ knowledge, information and belief and having made all reasonable enquiries, all of the Grantees are not connected persons of the Company or its associates.

(ii) Issue of New Shares Under General Mandate Pursuant to the Share Award Scheme

The Board has approved the allotment and issue of 551,522,400 new Shares (the New Shares) to the Trustee at HK\$0.63 per Share, being the closing price of the Shares as at the date immediately preceding 7 September 2018, under the General Mandate in order to satisfy the Awards granted to the Grantees pursuant to the Scheme Rules as incentives for their contributions to the Group.

As approved by the Shareholders at the annual general meeting held on 4 May 2018, the Company can allot and issue up to a total of 1,395,791,039 Shares under the General Mandate. Accordingly, the New Shares will be allotted and issued by utilising part of the General Mandate. After completion of issue and allotment of the New Shares, the remaining balance of the General Mandate will stand at 844,268,639 Shares.

Upon the allotment and issue of the New Shares, Computershare Hong Kong Trustee Limited (“the Trustee”) will hold the New Shares on trust for the Grantees, which shall then be transferred to the Grantees at no cost upon satisfaction of the abovementioned vesting conditions. Accordingly, no funds will be raised from the issue of the New Shares.

The New Shares to be allotted and issued by the Company to the Trustee represent (i) approximately 4.28% of the total issued share capital of the Company as at 7 September 2018; and (ii) approximately 4.10% of the total issued share capital of the Company as enlarged by such allotment and issue. The New Shares, when issued and allotted, shall rank *pari passu* among themselves and with the fully paid Shares in issue. Pursuant to the Scheme Rules, the Trustee shall not exercise any voting rights and powers in respect of any Shares held under the Trust.

Please refer to the Company’s announcement dated 7 September 2018 for further information.

Liquidity and Financial Resources

As at 30 September 2018, the Company’s cash and cash equivalents amounted to approximately HK\$1,508,242,000 (2017: HK\$424,264,000).

As at 30 September 2018, the Company did not have any bank borrowings.



Capital Commitments, Pledge of Assets and Contingent Liabilities

As at 30 September 2018, the Group did not have any material capital commitments, substantial pledges on its assets and material contingent liabilities.

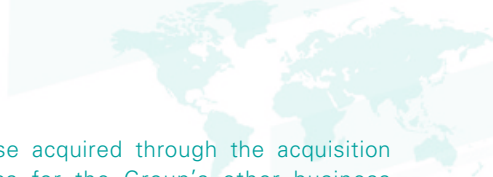
Foreign Exchange Exposure

Since the Group's operations are mainly located in the PRC and its transactions, monetary assets and liabilities are primarily denominated in Renminbi, there is minimal exposure to foreign currency risks.

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.

Event after the Reporting Period

Proposed Change of Auditor

On 25 October 2018, the Board considered RSM Hong Kong ("RSM") has been the auditor of the Company since 2010, on the recommendation of the audit committee of the Company (the "Audit Committee"), the Board resolved to change the auditor subject to the passing of a special resolution at the special general meeting to be convened by the Company (the "SGM"). The Board and the Audit Committee take the view that rotation of auditor complies with good corporate governance practice and will also enhance the independence of the auditor, which is in turn in the best interest of the Company and shareholders of the Company (the "Shareholders") as a whole.

The Board has also resolved, with the recommendation of the Audit Committee and subject to the passing of an ordinary resolution at the SGM, to appoint Ernst & Young as the new auditor of the Company to fill the casual vacancy arising from the departure of RSM and to hold office until the conclusion of the next annual general meeting of the Company.

The Board has confirmed that there is no matter in respect of the proposed change of auditor that needs to be brought to the attention of the Shareholders.

The proposed change of auditor is subject to the approval of the Shareholders at the SGM. A circular containing further information of the proposed change of auditor, together with the notice of the SGM, will be despatched to the Shareholders in due course in accordance with the GEM Listing Rules.


The Company will publish further announcement(s) when the change of auditor has become effective and when the confirmation of RSM as required under the note to Rule 17.50(4) of the GEM Listing Rules is received.

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	7.23%
Mr. Cao Chunmeng	67,420,000	36,000,000 <i>(Note 2)</i>	103,420,000	0.77%
Mr. Yan Xiaotian	21,640,000	25,000,000 <i>(Note 2)</i>	46,640,000	0.35%
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	13.42%
Mr. Yu Tao	363,170,101 <i>(Note 4)</i>	–	363,170,101	2.70%
Mr. Cui Yusong	241,885,127 <i>(Note 5)</i>	–	241,885,127	1.80%
Ms. Ying Hangyan	363,170,101 <i>(Note 4)</i>	–	363,170,101	2.70%



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	7.23%
Mr. Zhu Ning	1,440,601,703 <i>(Note 2)</i> 363,170,101 <i>(Note 3)</i>	–	1,803,771,804	13.42%

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. There are 176,560,000 share options under this Share Option Scheme not been exercised as at the report date.



COMPETING INTERESTS

The Directors are not aware of, as at 30 September 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

During the nine-month period ended 30 September 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 September 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 nine-month period ended 30 September 2018 the board practices and procedures as set out in Rules 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 nine months ended 30 September 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 nine-month period ended 30 September 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 nine-month period ended 30 September 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, 5 November 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
Mr. Cui Yusong
Mr. Yu Tao
Ms. Ying Hangyan

Independent Non-executive Directors

Dr. Fong Chi Wah
Mr. Gu Jiawang
Mr. Xu Yanqing
Mr. Deng Tao

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.