

CHINA YOUZAN

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First Quarterly Report 2019

A Better Business with Youzan



中國有贊有限公司
CHINA YOUZAN LIMITED

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Main Board of the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of China Youzan Limited (the “Company”, together with its subsidiaries, the “Group” or “We”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (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 this report or any statement herein misleading.



China Youzan Limited

中國有贊有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

HIGHLIGHTS

The Group recorded a revenue of approximately HK\$293,554,000 for the three months ended 31 March 2019, representing an increase of 397% compared with the same period in 2018. The increase in revenue was mainly attributable to the inclusion of the revenue from Merchant Service as a new business segment since the completion of the acquisition of 51% equity interest in Youzan Group on 18 April 2018.

The principal operation of China Youzan includes the merchant service segment in addition to the original third-party payment service segment. The merchant service mainly consists of SaaS, value-added service, advertising service, distribution service and transaction fees generated from the third party payment service ability provided to additional merchants brought by Youzan Group. During the three months ended 31 March 2019, the revenue from the newly added merchant service segment was approximately HK\$245,561,000, representing approximately 84% of the total revenue of the Group.

The third party payment service contributed a revenue of approximately HK\$44,497,000 for the three months ended 31 March 2019, accounting for approximately 15% of the total revenue of the Group and representing a decrease of approximately 10% as compared with the same period in 2018. The decrease was primarily attributable to the Group strategically concentrates the third party payment service ability on additional merchants brought by Youzan Group instead of expanding new merchants for the original third-party payment service. General trading recorded a revenue of approximately HK\$3,496,000, representing 1% of the total revenue, for the three months ended 31 March 2019. As the Group is focusing on Merchants Service and Third Party Payment Service and curtailing resources on general trading and Onecomm, revenue from general trading and Onecomm for the three months ended 31 March 2019 decreased by approximately 64% and 100%, respectively, compared with the same period in last year.

The Group recorded a gross profit of approximately HK\$118,605,000 for the three months ended 31 March 2019, representing an increase of 1,386% compared with the same period in 2018. The increase in gross profit was mainly attributable to the inclusion of Merchant Service as a new business segment. Gross profit margin for the three months ended 31 March 2019 increased to 40.4% from 13.5% in last year. The increase in gross profit margin was mainly contributable to the higher margin of Merchant Service, as well as the strategic cut back in general trading and Onecomm.

The Group's operating loss for the three months ended 31 March 2019 was approximately HK\$229,530,000, whereas a loss of approximately HK\$29,725,000 was recorded for the same period in last year. The increase in operating loss was mainly due to the increase in selling and distribution expenses, other operating expenses and administrative expenses, the amortisation of intangible assets arose from the acquisition of Youzan Group, as well as the grant of Awarded Shares under the Share Award Scheme. During the three months ended 31 March 2019, the amortisation of intangible assets amounted to approximately HK\$56,732,000 (2018: approximately HK\$110,000). Equity-settled share-base payment was recorded approximately HK\$49,045,000 for the period.

The Board does not recommend the payment of a dividend for the three months ended 31 March 2019.

FINANCIAL RESULTS

The board of directors (the “Board”) of China Youzan Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2019 together with the comparative unaudited figures for the corresponding periods in 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the three months ended 31 March	
	<i>Notes</i>	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Revenue	2	293,554	59,110
Cost of sales		(174,949)	(51,127)
Gross profit		118,605	7,983
Investment and other income		4,176	–
Other gains and losses, net	3	4,444	309
Selling and distribution expenses		(82,053)	(5,244)
Administrative expenses		(94,580)	(32,663)
Equity-settled share-based payment		(49,045)	–
Amortisation of intangible assets		(56,732)	(110)
Other operating expenses	11	(74,345)	–
Loss from operations		(229,530)	(29,725)
Share of associate		4,522	–
Loss before taxation		(225,008)	(29,725)
Income tax credit	4	19,930	–
Loss for the period		(205,078)	(29,725)
Attributable to:			
Owners of the Company		(117,344)	(29,113)
Non-controlling interests		(87,734)	(612)
		(205,078)	(29,725)
Loss per share	5		
– basic		HK(0.87) cents	HK(0.42) cents
– diluted		N/A	N/A

	For the three months ended 31 March	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss for the period	(205,078)	(29,725)
Exchange differences on translating foreign operations	4,254	13,513
Total comprehensive income for the period, net of tax	(200,824)	(16,212)
Attributable to:		
Owners of the Company	(113,090)	(15,600)
Non-controlling Interests	(87,734)	(612)
	(200,824)	(16,212)

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 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 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 methods of computation used in the preparation of the unaudited consolidated financial statements for the three months ended 31 March 2019 are consistent with those adopted in preparing the audited financial statements of the Group for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (the "New and Revised HKFRSs") (which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA that are adopted for the first time for the current periods financial statements.

The adoption of the New and Revised HKFRSs has had no significant effect on these unaudited consolidated financial statements for the three months ended 31 March 2019 and there have been no significant changes to the accounting policies applied in these unaudited consolidated financial statements for the three months ended 31 March 2019.

The Group has not applied new and revised standards, amendments or interpretations that have been issued but are not yet effective. The Group is currently assessing the impact of the adoption of such new and revised standards, amendments or interpretations to the Group but is yet to be in a position to state whether they would have any material financial impact on the Group's results of operations and financial position.

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. Revenue

Revenue comprises the net invoiced value of merchandise sold after allowances for returns and discounts and exclusion of value-added tax.

Revenue by business segment is as follows:

	2019	2018
	HK\$'000	HK\$'000
– Merchant Service	245,561	–
– Third Party Payment Services	44,497	49,368
– General trading	3,496	9,741
– Onecomm	–	1
	293,554	59,110

A breakdown of revenue by category is as follows:

	Three months ended 31 March	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
SaaS	135,214	–
Value-added services	13,904	–
Advertising services		
– Gross method	12,835	–
– Net method	19,772	–
Distribution services		
– Net method	11,871	–
Transaction fees	91,108	49,368
Sale of goods	5,630	9,741
Others	3,220	1
	293,554	59,110

3. Other gain and losses, net

Other gain and losses for the three months period ended 31 March 2019 consisted of a sundry revenue of approximately HK\$4,444,000 (2018: HK\$309,000).

4. Taxation

No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong during the three months period ended 31 March 2019 (2018: Nil).

The amount of income tax credit for Mainland China subsidiaries was HK\$19,930,000 during the three months period ended 31 March 2019 (2018: HK\$Nil).

There was no significant unprovided deferred taxation for the three months period ended 31 March 2019 (2018: Nil).

5. Loss per share

The calculation of the basic loss per share for the three months period ended 31 March 2019 were based on the unaudited loss attributable to shareholders of approximately HK\$117,344,000 (2018: HK\$29,113,000) for the three months period ended 31 March 2019 and on the weighted average number of approximately 13,550,707,011 shares (2018: 6,978,955,197 shares) in issue during the three month period ended 31 March 2019.

6. Interim dividend

The Board does not recommend the payment of an interim dividend for the three months period ended 31 March 2019 (2018: Nil).

7. Share capital

As at the report date, the number of issued shares of the Company was 15,465,807,617 shares.

8. Reserves movement

At the beginning of 2019, the Group had consolidated reserves, excluding retained profits, of approximately HK\$4,725,720,000 (2018: HK\$1,851,182,000). For the three months period ended 31 March 2019, the Group's reserves increased by approximately HK\$50,257,000 (2018: increase of HK\$13,513,000), representing the increase in share premium approximately HK\$155,166,000 (2018: Nil), the increase in shares held for Share Award Scheme approximately HK\$109,163,000 (2018: nil), and the decrease in exchange reserve approximately HK\$4,254,000 (2018: increase of HK\$13,513,000) for the period. As a result, the consolidated reserves, excluding retained profits, of the Group as at 31 March 2019 were approximately HK\$4,775,977,000 (2018: HK\$1,864,695,000).

At the beginning of 2019, the Group had retained loss of approximately HK\$1,073,785,000 (2018: retained loss of HK\$585,330,000). For the three months period ended 31 March 2019, the Group's retained loss increased by approximately HK\$117,344,000 (2018: HK\$29,113,000), representing the total comprehensive loss attributable to shareholders for the period. As a result, the accumulated loss of the Group as at 31 March 2019 was approximately HK\$1,191,129,000 (2018: HK\$614,443,000).

9. Convertible bonds

As at the date of this report, 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.

11. Other operating expenses

Other operating expenses included allowance for inventories amounted to approximately HK\$455,000 (2018: Nil), and research and development expenditures amounted to approximately HK\$73,890,000 (2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

About China Youzan and Business Review

China Youzan Limited is a renowned investment holding company committed to providing innovative 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 Youzan Group.

The Company was listed on the GEM of The Stock Exchange (stock code: 8083) in 2000. At present, the Group mainly operates its business across the People’s Republic of China (the “PRC”). The Group currently offers online and offline merchants suites of comprehensive solutions comprising third-party payments and variety of SaaS products and comprehensive service through its e-commerce platform, like marketing and customer engagement tools to facilitate the process of transactions between merchants and their customers. As at 31 March 2019, the Group’s operation consists of four operating segments, which are (i) merchant service – provision of e-commerce platform with a variety of SaaS products and comprehensive services in the PRC through Youzan Group, which owns Youzan WeiMall, Youzan Retail, Youzan Beauty and other SaaS products; (ii) third-party payment service; (iii) Onecomm – provision of third-party payment system solution and sales of integrated smart point of sales devices; and (iv) general trading.

As previously disclosed in the circular dated 2 January 2018, Youzan Group derived its revenue from (i) transaction fee charged for transactions conducted on its e-commerce platform based SaaS products; and (ii) licence fee, premium functions, membership and other services charged for various e-commerce platform based SaaS products and solutions offering to merchants with aim to enhance their future transactions. Following the completion of the acquisition in April 2018, the Group has evolved to providing comprehensive and all-round e-commerce platform, which mainly includes e-commerce SaaS, store SaaS, distribution service, advertising service, value-added service and PaaS cloud service, constitute the Group’s merchant service sector. For details, please refer to the section below – “(A) MERCHANT SERVICE SEGMENT”.

With the expansion and in-depth development of its business, the Group began to focus on the merchant service segment and third-party payment service segment since 2018.

(A) *Merchant Service segment*

The merchant service is to help each and every merchant who values products and services to privatize customer assets, expand the internet customer base, and boost operating efficiency, help merchants achieve all around success. At the same time, it also satisfies merchants' needs on customer operation and precision marketing and provides all-rounded coverage on merchants' business scenarios to increase potential customers and reduce existing customer loss. The merchant service mainly consists of e-commerce SaaS, store SaaS, distribution service, advertising service, value-added service and PaaS cloud service.

- E-commerce SaaS: The e-commerce 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 1,000 functions to manage their online stores. The e-commerce SaaS mainly consists of "Youzan WeiMall".
- Store SaaS: The store SaaS provides merchants with one-stop solutions in improving the operation efficiency of their physical stores. At present, the store SaaS is on its initial stage of commercialization. The store SaaS mainly consists of "Youzan Retail", "Youzan Chain", "Youzan Beauty" and "Youzan Catering".
- Distribution Service: The distribution service and SaaS service are highly mutually beneficial and win-win and it aims to set up a commercial system that links merchants on different points of the distribution chain.
- Advertising Service: The advertising service helps merchants to enlarge their brand influence and improve their operation efficiency by offering various online marketing and advertising channels. 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.
- Value-added Service: The value-added service improves the transaction conversion rate and capital turnover efficiency of merchants by providing services such as transaction endorsement and quick payment collection for Youzan merchants to enhance the trust between consumers and merchants, for the purpose of improving the customer base and operational efficiency of merchants.

- PaaS Cloud Service: Youzan Cloud aims to create ecological products with more value for merchants by aggregating third-party development resources to help merchants realizing business customization in terms of business process, page templates, visual components, business logic, and interface messages based on the existing standardized SaaS products.

(B) *Third-party Payment Service segment*

The third-party payment service aims at helping merchants to manage their assets and complete their online and offline transactions by providing various payment channels. Companies under the Group possess the "Certificate for Approval for Payment Business" issued by the People's Bank of China, which entitle them to operate the third-party payment business, physical prepaid cards business and virtual prepaid cards business in Mainland China. The third-party payment service mainly consists of the internet payment service, integrated payment service, cross-border Renminbi payment service and 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.
- Integrated Payment Service: Integrated payment service can provide merchants with all-rounded support such as membership management and omni-channel, self-marketing services.
- Cross-border Renminbi Payment Service: The cross-border Renminbi payment service provides merchants with payment services in doing their businesses of cross-border trading in goods/services.
- 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

The Group recorded a revenue of approximately HK\$293,554,000 for the three months ended 31 March 2019, representing an increase of 397% compared with the same period in 2018. The increase in revenue was mainly attributable to the inclusion of the revenue from Merchant Service as a new business segment since the completion of the acquisition of 51% equity interest in Youzan Group on 18 April 2018.

The principal operation of China Youzan includes the merchant service segment in addition to the original third-party payment service segment. The merchant service mainly consists of SaaS, value-added service, advertising service, distribution service and transaction fees generated from the third party payment service ability provided to additional merchants brought by Youzan Group. During the three months ended 31 March 2019, the revenue from the newly added merchant service segment was approximately HK\$245,561,000, representing approximately 84% of the total revenue of the Group.

The third party payment service contributed a revenue of approximately HK\$44,497,000 for the three months ended 31 March 2019, accounting for approximately 15% of the total revenue of the Group and representing a decrease of approximately 10% as compared with the same period in 2018. The decrease was primarily attributable to the Group strategically concentrates the third party payment service ability on additional merchants brought by Youzan Group instead of expanding new merchants for the original third-party payment service. General trading recorded a revenue of approximately HK\$3,496,000, representing 1% of the total revenue, for the three months ended 31 March 2019. As the Group is focusing on Merchants Service and Third Party Payment Service and curtailing resources on general trading and Onecomm, revenue from general trading and Onecomm for the three months ended 31 March 2019 decreased by approximately 64% and 100%, respectively, compared with the same period in last year.

The Group recorded a gross profit of approximately HK\$118,605,000 for the three months ended 31 March 2019, representing an increase of 1,386% compared with the same period in 2018. The increase in gross profit was mainly attributable to the inclusion of Merchant Service as a new business segment. Gross profit margin for the three months ended 31 March 2019 increased to 40.4% from 13.5% in last year. The increase in gross profit margin was mainly contributable to the higher margin of Merchant Service, as well as the strategic cut back in general trading and Onecomm.

The Group's operating loss for the three months ended 31 March 2019 was approximately HK\$229,530,000, whereas a loss of approximately HK\$29,725,000 was recorded for the same period in last year. The increase in operating loss was mainly due to the increase in selling and distribution expenses, other operating expenses and administrative expenses, the amortisation of intangible assets arose from the acquisition of Youzan Group, as well as the grant of Awarded Shares under the Share Award Scheme. During the three months ended 31 March 2019, the amortisation of intangible assets amounted to approximately HK\$56,732,000 (2018: approximately HK\$110,000). Equity-settled share-based payment was recorded approximately HK\$49,045,000 for the period.

The Board does not recommend the payment of a dividend for the three months ended 31 March 2019.

Significant Investment and Acquisition

On 19 November 2018, the Board announced the awarding of 314,376,000 Awarded Shares and subsequently reduced to 304,247,200 Awarded Shares ("Second Awards") on 24 January 2019. On 1 February 2019, the Company received all approvals and allotted 304,247,200 Awarded Shares to the Trustee on the same day. The fair value of Awarded Shares for the Second Awards is HK\$0.55 per share. Details of the Second Awards can be found in the Company's announcements dated 19 November 2018, 24 January 2019, 25 January 2019 and 1 February 2019.

Liquidity and Financial Resources

As at 31 March 2019, the Group's cash and cash equivalents amounted to approximately HK\$1,062,888,000.

As at 31 March 2019, the Company did not have any bank borrowings (2018: HK\$Nil).

Capital Commitments, Pledge of Assets and Contingent Liabilities

Capital Commitments

Capital commitments contracted for property, plant and equipment at the end of the reporting period but not yet incurred were amounted to approximately HK\$18,805,000.

Lease Commitments

Lease commitments under non-cancellable operating lease amounted to approximately HK\$69,128,000 within one year.

Operating lease payments represent rental payable by the Group for its offices. Leases are negotiated for terms of one to ten years (2018: one to ten years) and rentals are fixed over the lease terms and do not include contingent rentals.

Pledge of Assets

As at 31 March 2019, the Group did not have any pledge of assets.

Contingent liabilities

As at 31 March 2019, the Group did not have any material contingent liabilities (2018: Nil).

Foreign Exchange Exposure

Since the Remaining 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

The e-commerce SaaS of China Youzan has been commercialized and is slowly entering into its maturing stage. To cope with its market development, we hope to serve a wider range of users, and expand from single merchant service to the entire industry ecosystem. This is a brand new challenge for our services, so China Youzan will embrace these challenges with the tenet of being efficient, open and win-win.

Currently, the development of consumption and retail industry is undergoing the stage of transformation from automation to informatization, and from Internet-based to intelligence-based. Looking back to 2018, the new consumption and retail market had changed from online and offline competition to hand-in-hand integration. This kind of hand-in-hand integration is resulted from: i) merchants' lack of competitive advantage of single-channel management; or ii) merchants' lack of relevant information, so that they can only operate their business by following the market trend. Many merchants go from online to offline and face a lot of problems in terms of offline business model and capability. However, offline merchants hope to be internet-oriented and form connections, and they also encounter many operational problems.

Product innovation, consumption upgrading, physical store growth and e-commerce development are still the main driving forces to maintain the vitality and growth of the consumption and retail market. In light of this, we hope to link up online stores and physical stores to enable traditional retail embracing Internet and online retail embracing physical stores, and at the same time achieve the comprehensive upgrading in business content, scope and customers of stores. An online connection will be established when customers shop at the merchant stores. It will expand the commodity varieties of merchants, and achieve synchronous sales at online stores and physical stores, so as to connect commodities, inventory, orders, members, stored-value and funds for unified management. Finally, we hope to unify merchants' stores, so that they can read and retrieve real-time online data, with full improvement in the overall operating efficiency. Therefore, promoting e-commerce SaaS and store SaaS together with their integration will become one of our future strategic priorities.

The past year witnessed a slowdown in online retail growth, accelerated offline retail competition, and Internet companies competing for layout setting to get involved in the offline business. Currently, the Group is actively developing store SaaS, of which it mainly consists of "Youzan Retail", "Youzan Chain", "Youzan Beauty" and "Youzan Education".

Our "Youzan Cloud" belongs to PaaS service. In facing the different operation requirements of a large number of merchants, we have all along been committed to meeting the prominent characteristics of various industries, the emerging innovative business models and the business plans for different scenarios. However, we understand that even if we have a strong technical system, it will also be difficult for us to meet a large number of personalized requirements of merchants. Therefore, through open capabilities, social development resources can be gathered to help merchants realizing service customization of business processes, page templates, visual components, business logics and interface messages on the standard products of "Youzan WeiMall" and "Youzan Retail". After accumulating the technologies, data and the number of merchants of e-commerce SaaS and store SaaS, we share part of the technologies and develop an open platform for the third-party. Open platform refers to the "Youzan ecological platform" that creates more value for merchants by connecting with external third-parties. By opening API interface based on the existing systems of China Youzan and connecting with trusted third-party developers in different regions, the platform provides merchants with e-commerce enterprise resource planning ("ERP"), marketing plugins, hardware, store goods purchase and sales and inventory as well as other tools, with its functions covering order processing, warehousing and logistics, online marketing, store cashier, store goods purchase and sales and inventory, member management, order conversion, brand communication, customer services, etc. In 2019, we will endeavor to upgrade the open platform to "Youzan Cloud" to create a more diversified open ecosystem.

Event After the Reporting Period

Subscription of New Shares Under General Mandate

On 2 April 2019 (after trading hours), the Company entered into the Subscription Agreements with the Subscribers, pursuant to which the Subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, a total of 1,719,030,188 Subscription Shares at the Subscription Price of HK\$0.53 per Subscription Share. The Subscription Shares represent (i) approximately 12.5% of the existing total number of issued Shares of the Company, being 13,746,777,429 Shares, as at the date of this report; and (ii) approximately 11.1% of the enlarged total number of issued Shares of 15,465,807,617 Shares immediately following Completion, assuming that there will be no change in the total number of Shares in issue (other than the issue of the Subscription Shares) between the date of 2 April 2019 and Completion. The gross proceeds and net proceeds from the issue of the Subscription Shares are estimated to be approximately HK\$911.1 million and HK\$910.0 million, respectively. The Company intends to use the net proceeds for system upgrade, product development, marketing, promotion of advertising services and general working capital for the Group.

Details of the transaction, please refer to the Company's announcement dated 2 April 2019.

Partial Completion of the Subscription of New Shares under General Mandate

All conditions set out in the Subscription Agreements have been fulfilled and, save for the Subscriptions between (i) the Company and Subscriber II and (ii) the Company and Subscriber IV, completion of the Subscriptions took place on 16 April 2019 ("Partial Completion"). An aggregate of 1,404,690,566 Shares were issued to Subscriber I, Subscriber III and Subscriber V at the Subscription Price of HK\$0.53.

Details of the transaction please refer to the Company's announcement dated 16 April 2019.

Completion of the Subscription of New Shares under General Mandate

Completion of the Subscriptions between (i) the Company and Subscriber II and (ii) the Company and Subscriber IV took place on 23 April 2019. An aggregate of 314,339,622 Shares were issued to Subscriber II and Subscriber IV at the Subscription Price of HK\$0.53 per Subscription Share.

Details of the transaction please refer to the Company's announcement dated 23 April 2019.

Continuing Connected Transaction – Loan Agreement

On 8 April 2017, the Company entered into the Previous Loan Agreement with Youzan, pursuant to which the Company has conditionally agreed to grant to Youzan an unsecured loan facility up to HK\$200,000,000 (inclusive of the principal loan amount and interest) and subject to the terms and conditions set out therein. On 29 November 2017, the Company entered into a supplemental agreement with Youzan to supplement the Previous Loan Agreement.

On 27 April 2019, the Company entered into the Loan Agreement with Youzan, pursuant to which the Company has conditionally agreed to grant to Youzan an unsecured loan facility up to HK\$900,000,000 (inclusive of the principal loan amount and interest) which supersedes the Previous Loan Agreement and subject to the terms and conditions set out therein.

Details of the transaction please refer to the Company's announcement dated 29 April 2019.

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

Directors	Interest in shares	Long Position in Shares		
		Interest in underlying shares	Total interest in shares	% Shareholding
Mr. Guan Guisen <i>(Note 1)</i>	711,592,000	–	711,592,000	4.60%
Mr. Cao Chunmeng	67,420,000	36,000,000 <i>(Note 2)</i>	103,420,000	0.67%
Mr. Yan Xiaotian	21,640,000	25,000,000 <i>(Note 2)</i>	46,640,000	0.30%

Directors	Interest in shares	Long Position in Shares		% Shareholding
		Interest in underlying shares	Total interest in shares	
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	11.66%
Mr. Yu Tao	363,170,101 <i>(Note 4)</i>	–	363,170,101	2.35%
Mr. Cui Yusong	241,885,127 <i>(Note 5)</i>	–	241,885,127	1.56%
Ms. Ying Hangyan	363,170,101 <i>(Note 4)</i>	–	363,170,101	2.35%

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 is valid until 10 June 2020 and has an exercise price of 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 is 100% beneficially 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 and is owned as to 40% by Mr. Zhu Ning, 10% by Mr. Yu Tao and 10% by Ms. Ying Hangyan.

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 is 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. Zhu Ning	1,440,601,703 <i>(Note 1)</i>	–		
	363,170,101 <i>(Note 2)</i>	–	1,803,771,804	11.66%

Note 1: 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 2: The shares are held by Youzan Teamwork Inc. (“Youzan Teamwork”). Youzan Team is a company incorporated in the British Virgin Islands with limited liability. Mr. Zhu Ning holds 40% of its shares interest.

EMPLOYEE SHARE OPTIONS

On 11 June 2015, the Company granted certain share options (the "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 Share Options granted are set out on the announcement dated 11 June 2015.

As at the date of this report, there are still 162,000,000 share options to be exercised.

SHARE AWARD SCHEME

On 31 May 2018 ("Adoption Date"), the Group has adopted the Share Award Scheme ("Share Award Scheme") aimed to recognise the contributions by Eligible Persons and provide them with incentives in order to retain them for continuing operation and development of the Group, and to attract suitable personnel for further development of the Group.

The Share Award Scheme shall be valid and effective for a period of 10 years from the Adoption Date unless early terminated by the Board.

On 7 September 2018, the Board announced the granting of the first lot of 551,522,400 Awarded Shares.

On 19 November 2018, the Board announced the granting of second lot of 314,376,000 Awarded Shares and subsequently reduced to 304,247,200 Awarded Shares ("Second Awards") on 24 January 2019. The Company received all approvals and allotted Second Awards to Trustee on 1 February 2019.

Details of the share award scheme were set out on the announcement dated 31 May 2018, 7 September 2018 and 19 November 2018 respectively.

COMPETING INTERESTS

The Directors are not aware of, as at 31 March 2019, 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 three months period ended 31 March 2019, 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 DIRECTORS

The Company has adopted a Code of Practice for Securities Transactions by Directors and Designated Employees on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all Directors who have confirmed their compliance with required standard set out in the Securities Code during the three months ended 31 March 2019.

BOARD PRACTICES AND PROCEDURES

The Company has complied throughout the three months period ended 31 March 2019 the board practices and procedures as set out in Chapter 5 of the GEM Listing Rules.

CORPORATE GOVERNANCE AND COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

As at 31 March 2019, the Company has been in compliance with 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.

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 is of the opinion that the preparation of the unaudited results for the three months period ended 31 March 2019 has complied with applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosures had been made. The Committee has reviewed the Company's unaudited results for the three months period ended 31 March 2019 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, 9 May 2019

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.