CHINA YOUZAN

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Interim Report 2019

A Better Business with Youzan

中國有贊有限公司
CHINA YOUZAN LIMITED

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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$589,691,000 for the six months ended 30 June 2019, representing an increase of 147% 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.

As stated in the 2018 annual report of the Group, the principal operation of the Group includes the merchant service segment in addition to the original third-party payment service segment. The merchant service segment mainly consists of SaaS, value-added service, advertising service, distribution service and transaction fees generated from the third party payment service ability provided by the Group to additional merchants brought by Youzan Group. During the six months ended 30 June 2019, the revenue from the newly added merchant service segment was approximately HK$508,724,000, representing approximately 86% of the total revenue of the Group.

The third party payment service segment contributed a revenue of approximately HK$76,605,000 for the six months ended 30 June 2019, accounting for approximately 13% of the total revenue of the Group and representing a decrease of approximately 25% 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$3,865,000, representing 1% of the total revenue, for the six months ended 30 June 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 for the six months ended 30 June 2019 decreased by approximately 82%, compared with the same period in last year.

The Group recorded a gross profit of approximately HK$251,550,000 for the six months ended 30 June 2019, representing an increase of 229% 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 six months ended 30 June 2019 increased to 43% from 32% for the same period in last year. The increase in gross profit margin was mainly contributed to the increase in Merchant Service with a higher margin as well as the strategic cut back in general trading and Onecomm.

The Group's operating loss for the six months ended 30 June 2019 was approximately HK$411,366,000, whereas a loss of approximately HK$203,482,000 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, R&D 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 six months ended 30 June 2019, the amortisation of intangible assets amounted to approximately HK$111,663,000 (2018: HK$53,986,000). Equity-settled share-base payment was recorded approximately HK$68,788,000 for the period (2018: Nil).

For the three months ended 30 June 2019, the Group made sales of approximately HK$296,137,000, representing an increase of 65% over the same period in last year. The increase in revenue was mainly due to the increase in Merchant Service and partially offset by the decrease in Third Party Payment Service and general trading. Gross profit margin for the three months ended 30 June increased from 38% in last year to 45% in the current year as Merchant Service has a higher margin than other segments.

As at 30 June 2019, the Group had a total of HK$979,100,000 cash on hand and the current ratio was at 1.18 times.

The Board does not recommend the payment of a dividend for the six months ended 30 June 2019.

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 2019 together with the comparative unaudited figures for the corresponding periods in 2018 as follows:

Condensed Consolidated Statement of Comprehensive Income

	Notes	Three months ended 30 June 2019 (Unaudited) HK$'000	Three months ended 30 June 2018 (Unaudited) (Restated) HK$'000	Six months ended 30 June 2019 (Unaudited) HK$'000	Six months ended 30 June 2018 (Unaudited) (Restated) HK$'000
Revenue	*3, 18*	**296,137**	179,553	**589,691**	238,663
Cost of sales		**(163,192)**	(111,005)	**(338,141)**	(162,132)
Gross profit		**132,945**	68,548	**251,550**	76,531
Investment and other income		**6,975**	5,974	**11,151**	6,068
Other gains and losses, net	*4*	**11,700**	19,474	**16,144**	20,039
Selling and distribution expenses		**(117,084)**	(48,204)	**(199,137)**	(53,448)
Administrative expenses		**(73,599)**	(49,351)	**(168,179)**	(82,124)
Other operating expenses	*10*	**(68,099)**	(59,615)	**(142,444)**	(59,965)
Equity-settled share-based payment		**(19,743)**	–	**(68,788)**	–
Amortisation of intangible assets	*8*	**(54,931)**	(53,986)	**(111,663)**	(53,986)
Impairment loss of goodwill	*9*	**–**	(56,597)	**–**	(56,597)
Loss from operations		**(181,836)**	(173,757)	**(411,366)**	(203,482)
Share of associate		**1,940**	989	**6,462**	989
Finance costs	*2*	**(6,716)**	–	**(6,716)**	–
Loss before taxation	*5*	**(186,612)**	(172,768)	**(411,620)**	(202,493)
Income tax credit	*6*	**30,862**	–	**50,792**	–
Loss for the period		**(155,750)**	(172,768)	**(360,828)**	(202,493)
Attributable to:					
Owners of the Company		**(80,093)**	(116,084)	**(197,437)**	(145,198)
Non-controlling interests		**(75,657)**	(56,684)	**(163,391)**	(57,295)
		(155,750)	(172,768)	**(360,828)**	(202,493)
Loss per share					
– basic	*7*	**HK(0.54) cents**	(0.98) cents	**HK(1.38) cents**	(1.54) cents
– diluted		**N/A**	N/A	**N/A**	N/A
Dividend	*19*	**N/A**	N/A	**N/A**	N/A

	Notes	Three months ended 30 June 2019 (Unaudited) HK$'000	Three months ended 30 June 2018 (Unaudited) (Restated) HK$'000	Six months ended 30 June 2019 (Unaudited) HK$'000	Six months ended 30 June 2018 (Unaudited) (Restated) HK$'000
Loss for the period		**(155,750)**	(172,768)	**(360,828)**	(202,493)
Exchange differences on translating foreign operations		**(4,142)**	(17,358)	**112**	(3,846)
Total comprehensive income for the period, net of tax		**(159,892)**	(190,126)	**(360,716)**	(206,339)
Attributable to:					
Owners of the Company		**(84,235)**	(133,442)	**(197,325)**	(149,044)
Non-controlling Interests		**(75,657)**	(56,684)	**(163,391)**	(57,295)
		(159,892)	(190,126)	**(360,716)**	(206,339)

Condensed Consolidated Statement of Changes in Equity

	As at 1 January 2018 (Audited) (Restated) HK$'000	Movements HK$'000	As at 30 June 2018 (Unaudited) (Restated) 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	(3,846)	22,169
Financial assets at FVTOCI reserve	25,672	(20,901)	4,771
Share option reserve	118,345	–	118,345
Warrant reserve	1,000	–	1,000
Accumulated losses	(585,330)	(145,198)	(730,528)
Total	1,265,852	3,003,616	4,269,468
Non-controlling interests	(7,641)	872,769	865,128
Total equity	1,258,211	3,876,385	5,134,596

	As at 1 January 2019 (Audited) HK$'000	**Movements HK$'000**	**As at 30 June 2019 (Unaudited) HK$'000**
Share capital	**134,425**	**20,233**	**154,658**
Share premium	**5,052,467**	**1,050,529**	**6,102,996**
Capital reserve	**(67,455)**	**–**	**(67,455)**
Statutory reserve	**9,898**	**–**	**9,898**
Exchange reserve	**(283,658)**	**115**	**(283,543)**
Share option reserve	**105,089**	**(2,378)**	**102,711**
Warrant reserve	**981**	**–**	**981**
Shares held for Share Award Scheme	**(208,995)**	**(89,420)**	**(298,415)**
Share Award Scheme reserve	**148,805**	**–**	**148,805**
Financial assets at FVTOCI reserve	**(31,411)**	**104**	**(31,307)**
Accumulated losses	**(1,073,785)**	**(197,437)**	**(1,271,222)**
Total	**3,786,361**	**781,746**	**4,568,107**
Non-controlling interests	**636,654**	**(163,086)**	**473,568**
Total equity	**4,423,015**	**618,660**	**5,041,675**

Consolidated Statement of Financial Position

	Note	As at 30 June 2019 HK$'000 (Unaudited)	As at 31 December 2018 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**54,116**	42,772
Right-of-use assets	*2*	**238,767**	–
Long term deposits		**14,516**	13,034
Goodwill	*9*	**2,455,742**	2,455,742
Intangible assets	*8*	**1,967,691**	2,078,406
Investments in associates		**7,571**	4,574
Capitalised contract costs		**17,482**	23,904
Deferred tax assets	*14*	**140,252**	107,620
Financial assets at FVTOCI		**145,402**	145,455
		5,041,539	4,871,507
Current assets			
Inventories		**2,280**	2,206
Trade receivables	*11*	**55,972**	15
Prepayments, deposits and other receivables		**210,316**	464,776
Capitalised contract costs		**82,660**	79,706
Amount due from a non-controlling shareholder of subsidiaries		**290**	290
Financial assets at fair value through profit or loss (FVTPL)		**19,132**	34,792
Indemnification assets	*12*	**230,191**	230,191
Restricted bank balances		**1,072,877**	490,313
Balances with central bank		**1,382,713**	981,207
Bank and cash balances		**979,100**	455,628
		4,035,531	2,739,124
Current liabilities			
Settlement obligations		**2,537,164**	2,000,965
Trade payables	*13*	**61,352**	7,003
Accruals and other payables		**275,994**	261,355
Amount due to a director		**3**	51
Contract liabilities		**263,279**	294,875
Current tax liabilities		**2,499**	2,500
Withholding tax payables	*12*	**230,191**	230,191
Lease liabilities	*2*	**51,033**	–
		3,421,515	2,796,940

	Note	As at 30 June 2019 HK$'000 (Unaudited)	As at 31 December 2018 HK$'000 (Audited)
Net current assets/(liabilities)		**614,016**	(57,816)
Total assets less current liabilities		**5,655,555**	4,813,691
Non-current liabilities			
Contract liabilities		**112,699**	63,675
Deferred tax liabilities	*14*	**309,732**	327,001
Lease liabilities	*2*	**191,449**	–
		613,880	390,676
NET ASSETS		**5,041,675**	4,423,015
Capital and reserves			
Equity attributable to owners of the Company			
Share capital	*15*	**154,658**	134,425
Reserves		**4,413,449**	3,651,936
		4,568,107	3,786,361
Non-controlling interests		**473,568**	636,654
TOTAL EQUITY		**5,041,675**	4,423,015

Condensed Consolidated Cash Flow Statement

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash inflow/(outflow) from operating activities	**(356,788)**	97,691
Net cash inflow/(outflow) from investing activities	**(12,825)**	(59,273)
Cash generated from acquisition of Youzan Group	**–**	1,225,326
Net cash inflow/(outflow) before financing activities	**(369,613)**	1,263,744
Net cash inflow from financing activities	**893,085**	200,200
Increase in cash and bank balances	**523,472**	1,463,944
Cash and bank balances, beginning of the six-month period	**455,628**	304,612
Cash and bank balances, end of the six-month period	**979,100**	1,768,556

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 Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, 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 condensed financial statements ("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 these Financial Statements for the six-month period ended 30 June 2019 are consistent with those adopted in preparing the audited financial statements of the Group for the year ended 31 December 2018 other than as explained below.

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. Changes in accounting policies and disclosures

The Group has adopted the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA for the first time for these Financial Statements.

Amendments to HKFRS 9	Prepayment Features with Negative Compensation
HKFRS 16	Leases
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Annual Improvements 2015 – 2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 Leases, the new and revised HKFRSs has had no significant financial impact on these Financial Statements. The nature and impact of the HKFRS 16 are described as below:

HKFRS 16 Leases

HKFRS 16 supersedes HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases-Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single lessee accounting model. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Comparative information has not been restated and continues to be reported under HKAS 17. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases"), and lease contracts for which the underlying asset is of low value ("leases of low-value assets").

The transition effects arising from the adoption of HKFRS 16 are presented below.

New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use. The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease components continue to be accounted for as executory contracts. Upon adoption of HKFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Lessee accounting – As a lessee – Leases previously classified as operating leases
HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term. Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate.

After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred. The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right of-use asset has been reduced to zero.

Critical accounting judgements and key estimations in applying the above accounting policies

Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019.

In addition to those disclosed elsewhere in the announcement, the Group also applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;

(ii) reliance on previous assessments on whether leases are onerous;

(iii) the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;

(iv) the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and

(v) the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

Impacts on assets and liabilities by the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	HK$'000 (Unaudited)
Assets	
Decrease in prepayment	**(2,851)**
Increase in right-of-use assets	**260,828**
Increase in total assets	**257,977**
Liabilities	
Increase in total lease liabilities and total liabilities	**257,977**

The underlying assets of the right-of-use assets are mainly office spaces, and the carrying amount of the Group's right-of-use assets of the date of transition to HKFRS 16 as at 1 January 2019 and as at 30 June 2019 was HK$260,828,000 and HK$238,767,000, respectively.

	HK$'000 (Unaudited)
Operating lease commitments as at 31 December 2018	**369,146**
Weighted average incremental borrowing rate as at 1 January 2019	**5.3%**
Discounted operating lease commitments at 1 January 2019	**277,672**
Less: short-term leases recognised on a straight-line basis as expense	**(19,695)**
Lease liability recognised as at 1 January 2019	**257,977**
Of which are:	
Current lease liabilities	**47,064**
Non-current lease liabilities	**210,913**
Total lease liabilities	**257,977**

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities move and the movement during the period:

	Right-of-use assets HK$'000 (Unaudited)	**Lease liabilities** HK$'000 (Unaudited)
As at 1 January 2019	260,828	257,977
Addition	2,453	2,453
Depreciation expense	(24,683)	–
Interest expense	–	6,716
Payment	–	(24,717)
Exchange realignment	169	53
As at 30 June 2019	238,767	242,482

The Group recognised rental expense from short-term leases of HK$10,771,000 for the six-month period ended 30 June 2019.

3. Revenue

	For the three months ended 30 June		For the six months ended 30 June	
	2019	2018	**2019**	2018
	(Unaudited)	(Unaudited) (Restated)	**(Unaudited)**	(Unaudited) (Restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000
– Merchant service	**263,163**	115,918	**508,724**	115,918
– Third Party Payment Services	**32,108**	52,168	**76,605**	101,536
– General trading	**369**	11,452	**3,865**	21,193
– Onecomm	**497**	15	**497**	16
	296,137	179,553	**589,691**	238,663

A breakdown of revenue by category is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	**2019**	2018
	(Unaudited)	(Unaudited) (Restated)	**(Unaudited)**	(Unaudited) (Restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000
SaaS	**151,695**	62,624	**286,909**	62,624
Value-added services	**16,444**	2,858	**30,348**	2,858
Advertising services				
– Gross method	**9,338**	8,290	**22,173**	8,290
– Net method	**20,960**	–	**40,732**	–
Distribution services				
– Net method	**14,984**	4,452	**26,855**	4,452
Transaction fees	**75,779**	87,532	**166,887**	136,900
Sale of goods	**3,767**	12,580	**9,398**	22,321
Others	**3,170**	1,217	**6,389**	1,218
	296,137	179,553	**589,691**	238,663

4. Other gains and losses, net

	For the three months ended 30 June		For the six months ended 30 June	
	2019	2018	**2019**	2018
	(Unaudited)	(Unaudited) (Restated)	**(Unaudited)**	(Unaudited) (Restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000
Sundry revenue, net	**4,547**	2,461	**7,866**	3,026
Governmental subsidies	**3,456**	–	**3,456**	–
Reversal of impairment of other receivables	**3,697**	17,013	**4,822**	17,013
	11,700	19,474	**16,144**	20,039

5. 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	
	2019	2018	**2019**	2018
	(Unaudited)	(Unaudited) (Restated)	**(Unaudited)**	(Unaudited) (Restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000
Interest income	**6,975**	5,974	**11,151**	6,068
Equity-settled share-based payment	**(19,743)**	–	**(68,788)**	–
Share of associate	**1,940**	989	**6,462**	989
Finance costs – interest on lease liabilities	**(6,716)**	–	**(6,716)**	–
Amortisation of intangible assets	**(54,931)**	(53,986)	**(111,663)**	(53,986)
Amortisation of capitalised contract costs	**46,491**	37,261	**83,087**	37,261
Reversal of impairment of other receivables	**3,697**	17,013	**4,822**	17,013
Cost of inventories sold	**2,099**	11,888	**6,908**	20,927
Depreciation of property, plant and equipment	**27,314**	1,257	**31,439**	2,501
Impairment of goodwill	**–**	56,597	**–**	56,597
Research and development expenditure (included in other operating expenses)	**67,666**	59,424	**142,298**	59,424

6. **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 2019 (2018: Nil).

The amount of income tax credit for Mainland China subsidiaries was HK$30,862,000 and HK$50,792,000 during the three-month period and the six-month period ended 30 June 2019 respectively (2018: Nil).

The amount of deferred tax assets and deferred tax liabilities as at 30 June 2019 was HK$140,252,000 and HK$309,732,000 respectively (2018: HK$107,620,000 and HK$327,001,000).

7. **Loss per share**

The calculation of the basic loss per share for the three-month period and the six-month period ended 30 June 2019 respectively were based on the unaudited loss attributable to shareholders of approximately HK$80,093,000 (2018: HK$116,084,000) for the three-month period ended 30 June 2019 and the unaudited loss attributable to shareholders of approximately HK$197,437,000 (2018: HK$145,198,000) for the six-month period ended 30 June 2019 and on the weighted average number of 14,871,118,896 shares in issue during the three-month period ended 30 June 2019 and 14,278,798,877 shares in issue during the six-month period ended 30 June 2019.

The basic loss per share for the three months and six months ended 30 June 2019 was HK$0.54 cents (2018: HK$0.98 cents) and HK$1.38 cents (2018: HK$1.54 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 2019 would be HK$0.35 cents (2018: HK$0.50 cents) and HK$0.98 cents (2018: HK$0.94 cents), respectively.

8. **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").

An amortisation of the identified intangible assets of HK$111,663,000 was recorded for the six months ended 30 June 2019 (2018: HK$53,986,000).

9. 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 ("CGU4").

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.

The recoverable amounts of the CGUs have been determined on the basis of their value in use using discounted cash flow method, which is defined as the present value of the future cash flow expected to be derived from the cash generating units. As at 30 June 2019, there was no events or changes in circumstances indicated that the carrying amounts of CGUs may be impaired (2018: HK$56,597,000).

10. Other operating expenses

	For the three months ended 30 June		**For the six months ended 30 June**	
	2019	2018	**2019**	2018
	(Unaudited)	(Unaudited) (Restated)	**(Unaudited)**	(Unaudited) (Restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000
Research and development expenditures	**(67,666)**	(59,424)	**(142,298)**	(59,424)
Others	**(433)**	(191)	**(146)**	(541)
	(68,099)	(59,615)	**(142,444)**	(59,965)

11. Trade receivables

	As at 30 June 2019 (Unaudited) HK$'000	As at 31 December 2018 (Audited) HK$'000
Trade receivables	**55,972**	15

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

Aging analysis of trade receivables is as follows:

0 to 90 days	**38,271**	15
91 to 180 days	**17,701**	–
181 to 365 days	**–**	–
	55,972	15

12. Withholding tax payables, indemnification assets

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

13. Trade payables

	As at 30 June 2019 (Unaudited) HK$'000	As at 31 December 2018 (Audited) HK$'000
Trade creditors	**61,352**	7,003

Aging analysis of trade payables is as follows:

Current to 90 days	**58,169**	3,036
91 to 180 days	**3,183**	2,314
181 to 365 days	**–**	–
Over 365 days	**–**	1,653
	61,352	7,003

14. Deferred tax assets, deferred tax liabilities

Deferred tax assets against deductible tax losses and deferred tax liabilities related to intangible assets and capitalized contract costs were estimated by applying PRC enterprise income tax rate of 15%.

15. Share capital

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

16. Convertible bonds

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

17. 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.

18. Revenue and segment information

The Group's revenue and contribution to profit after taxation for the six-month period ended 30 June, analyzed by principal activity and geographical location, are as follows:

a.

	Revenue		Contribution to profit/(loss) after taxation	
	2019 From 1 January to 30 June (Unaudited)	2018 From 1 January to 30 June (Unaudited) (Restated)	**2019 From 1 January to 30 June (Unaudited)**	2018 From 1 January to 30 June (Unaudited) (Restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000
By principal activity:				
– Merchant service	**508,724**	115,918	**225,774**	46,367
– Third Party Payment Services	**76,605**	101,536	**24,639**	28,397
– General trading	**3,865**	21,193	**640**	1,752
– Onecomm	**497**	16	**497**	15
	589,691	238,663	**251,550**	76,531
Investment and other income			**11,151**	6,068
Other gains and losses, net			**16,144**	20,039
Selling and distribution expenses			**(199,137)**	(53,448)
Administrative expenses			**(168,179)**	(82,124)
Equity settled share-based payment			**(68,788)**	–
Impairment of goodwill			**–**	(56,597)
Amortisation of intangible assets			**(111,663)**	(53,986)
Other operating expenses			**(142,444)**	(59,965)
Share of associate			**6,462**	989
Income tax credit			**50,792**	–
Finance costs – interest expenses – lease liabilities			**(6,716)**	–
			(360,828)	(202,493)

b.

	Revenue 2019 From 1 January to 30 June (Unaudited) HK$'000	Revenue 2018 From 1 January to 30 June (Unaudited) (Restated) HK$'000	Contribution to profit/(loss) after taxation 2019 From 1 January to 30 June (Unaudited) HK$'000	Contribution to profit/(loss) after taxation 2018 From 1 January to 30 June (Unaudited) (Restated) HK$'000
By geographical location:				
– Hong Kong	**–**	–	**–**	–
– Mainland China	**589,691**	238,663	**251,550**	76,531
	589,691	238,663	**251,550**	76,531
Investment and other income			**11,151**	6,068
Other gains and losses, net			**16,144**	20,039
Selling and distribution expenses			**(199,137)**	(53,448)
Administrative expenses			**(168,179)**	(82,124)
Equity settled share-based payment			**(68,788)**	–
Impairment of goodwill			**–**	(56,597)
Amortisation of intangible assets			**(111,663)**	(53,986)
Other operating expenses			**(142,444)**	(59,965)
Share of associate			**6,462**	989
Income tax credit			**50,792**	–
Finance costs				
– interest expenses				
– lease liabilities			**(6,716)**	–
			(360,828)	(202,493)

19. 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 2019 (2018: Nil).

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 30 June 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 – "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.

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 revenue 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.

Financial Review

The Group recorded a revenue of approximately HK$589,691,000 for the six months ended 30 June 2019, representing an increase of 147% 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.

As stated in the 2018 annual report of the Group, the principal operation of the Group includes the merchant service segment in addition to the original third-party payment service segment. The merchant service segment mainly consists of SaaS, value-added service, advertising service, distribution service and transaction fees generated from the third party payment service ability provided by the Group to additional merchants brought by Youzan Group. During the six months ended 30 June 2019, the revenue from the newly added merchant service segment was approximately HK$508,724,000, representing approximately 86% of the total revenue of the Group.

The third party payment service segment contributed a revenue of approximately HK$76,605,000 for the six months ended 30 June 2019, accounting for approximately 13% of the total revenue of the Group and representing a decrease of approximately 25% 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$3,865,000, representing 1% of the total revenue, for the six months ended 30 June 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 for the six months ended 30 June 2019 decreased by approximately 82%, compared with the same period in last year.

The Group recorded a gross profit of approximately HK$251,550,000 for the six months ended 30 June 2019, representing an increase of 229% 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 six months ended 30 June 2019 increased to 43% from 32% for the same period in last year. The increase in gross profit margin was mainly contributed to the increase in Merchant Service with a higher margin as well as the strategic cut back in general trading and Onecomm.

The Group's operating loss for the six months ended 30 June 2019 was approximately HK$411,366,000, whereas a loss of approximately HK$203,482,000 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, R&D 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 six months ended 30 June 2019, the amortisation of intangible assets amounted to approximately HK$111,663,000 (2018: HK$53,986,000). Equity-settled share-base payment was recorded approximately HK$68,788,000 for the period (2018: Nil).

For the three months ended 30 June 2019, the Group made sales of approximately HK$296,137,000, representing an increase of 65% over the same period in last year. The increase in revenue was mainly due to the increase in Merchant Service and partially offset by the decrease in Third Party Payment Service and general trading. Gross profit margin for the three months ended 30 June increased from 38% in last year to 45% in the current year as Merchant Service has a higher margin than other segments.

As at 30 June 2019, the Group had a total of HK$979,100,000 cash on hand and the current ratio was at 1.18 times.

The Board does not recommend the payment of a dividend for the six months ended 30 June 2019.

Major Event

Subscription of New Shares Under General Mandate

On 2 April 2019 (after trading hours), the Company entered into the Subscription Agreements with the Subscribers (One of the subscribers, Poyang Lake Investment Limited, is a wholly-owned subsidiary of Tencent Holdings Limited (stock code: 700)), 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 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.

For details please refer to the Company announcements dated 2 April 2019, 16 April 2019 and 23 April 2019 respectively.

Despatch of circular in relation to (1) Continuing Connected Transaction - Loan Agreement; (2) Proposed Adoption of New Share Option Scheme and (3) Notice of SGM

On 21 May 2019, the Company despatched the circular in relation to (1) Continuing Connected Transaction - Loan Agreement; (2) Proposed Adoption of New Share Option Scheme and (3) Notice of SGM.

On 12 June 2019, 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 21 May 2019 and 12 June 2019 respectively.

Connected Transaction – Provision of Warranty for Connected Subsidiaries

On 15 May 2019, Beijing Shangyin Investment Consultancy Co., Ltd., a wholly owned subsidiary of the Company (the "Warrantor") entered into the Warranty in favour of Beijing Tencent Culture Media Company Limited, pursuant to which the Company agreed, as the Warrantor, to provide warranty for the Agreements for the due performance of the obligations (including but not limited to payment obligations) of Tianjin Youzan and Youzan Dining (the "Advertising Subsidiaries") should the Advertising Subsidiaries fail to perform any of the terms of the Agreements.

Details of the transaction please refer to the Company's announcement dated 17 May 2019.

Financial Resources and Liquidity

As at 30 June 2019, the Group has a cash balance of approximately HK$979,100,000.

As at 30 June 2019, the total current assets over the total current liabilities is 1.18 times. The ratio of all liabilities to total assets is about 44.5%.

As at 30 June 2019, the Group has no bank borrowings.

Intellectual Property

As at 30 June 2019, the Group had 297 registered trademarks, all of which have been approved. At the same time, the Group had 83 software copyrights and 18 patents, 16 of which are in the review stage.

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.

Pledge of Assets and Contingent Liabilities

Pledge of Assets

As at 30 June 2019, the Group did not have any pledge of assets.

Contingent Liabilities

The Group and the Company had no material contingent liabilities as at 30 June 2019.

Employees

As at 30 June 2019, the Group had 2,512 employees (2018: 1,351) 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

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.

EVENTS AFTER THE REPORTING PERIOD

(i) Connected transaction: proposed subscription of shares in a non-wholly owned subsidiary; and (ii) Proposed issue of shares and warrants to baidu by a non-wholly owned subsidiary

The subscription of shares in and warrant of Qima

On 7 August 2019, the Company, Baidu SPV, a company incorporated and existing under the laws of the Cayman Islands and a wholly owned subsidiary of Baidu Holdings and Baidu Online, a company incorporated and existing under the laws of the PRC and a wholly owned subsidiary of Baidu Holdings entered into the Subscription Agreement with Qima Holdings Limited ("Qima"), a non-wholly owned subsidiary of the Company, in relation to the conditional (i) issue, sell and allot of 26,606,296 Youzan Qima Shares ("Youzan Qima Shares") by Qima to the Company for a cash consideration of US$45 million; (ii) issue, sell and allot of 17,737,531 Baidu Qima Shares ("Baidu Qima Shares") by Qima to Baidu SPV for a cash consideration of approximately US$177; and (iii) issue of Qima Warrants ("Qima Warrants") by Qima to Baidu Online. The holders of the Qima Warrants are entitled to subscribe for 17,737,531 Qima Warrant Shares for an aggregate exercise price of US$29,999,823. A deposit in RMB equivalent of the aggregate exercise price of US$29,999,823 is payable in full by Baidu Online to Hangzhou Youzan Technology Co., Ltd., a company incorporated in the PRC with limited liability and is an indirect non-wholly owned subsidiary of the Company as at the date of this announcement (the "WFOE") upon Completion.

Each party agrees that, in the event that the Qima Warrants are wholly exercised by its holders, Qima shall be entitled to forfeit all the Baidu Qima Shares at nil consideration. In the event that the Qima Warrants expires before it is exercised, any and all Youzan Qima Shares and Baidu Qima Shares shall be repurchased by Qima at their respective original Purchase Price upon the expiration of the Qima Warrants.

Completion
Upon Completion, the Company will hold approximately 50.76% of the total issued shares of Qima, and Baidu SPV will hold a minority percentage of Qima Shares. Upon the exercise of the Qima Warrants in full, the Company will hold approximately 50.76% of the total issued shares of Qima and the holder of Qima Warrants will hold a minority percentage of Qima Shares. In both cases, Qima will remain as a non-wholly owned subsidiary of the Company.

Business cooperation agreement
As one of the conditions precedent to Completion, Qima and Baidu Online and/or their respective affiliates shall enter into the Business Cooperation Agreement, pursuant to which Qima and Baidu Online and/or their respective affiliates agree to cooperate on a number of areas of business, including smart applets development, application and solution provision, on and subject to the terms and conditions contained in the Business Cooperation Agreement.

Details of the transaction please refer to the Company's announcement dated 7 August 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 *(Note 1)*	711,592,000	–	711,592,000	4.60%
Mr. Cao Chunmeng	67,420,000	36,000,000 *(Note 2)*	103,420,000	0.67%
Mr. Yan Xiaotian	21,640,000	25,000,000 *(Note 2)*	46,640,000	0.30%
Dr. Fong Chi Wah	1,000,000	3,000,000 *(Note 2)*	4,000,000	0.03%
Mr. Gu Jiawang	1,000,000	3,000,000 *(Note 2)*	4,000,000	0.03%
Mr. Zhu Ning	1,440,601,703 *(Note 3)* 363,170,101 *(Note 4)*	– –	1,803,771,804	11.66%

Directors	Long Position in Shares Interest in shares	Interest in underlying shares	Total interest in shares	% Shareholding
Mr. Yu Tao	363,170,101 *(Note 4)*	–	363,170,101	2.35%
Mr. Cui Yusong	241,885,127 *(Note 5)*	–	241,885,127	1.56%
Ms. Ying Hangyan	363,170,101 *(Note 4)*	–	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 Shareholders	Interest in shares	Interest in underlying shares	Total interest in shares	% Shareholding
Mr. Zhu Ning	1,440,601,703 *(Note 1)*	–	1,803,771,804	11.66%
	363,170,101 *(Note 2)*	–		
Poyang Lake Investment Limited *(Note 3)*	1,036,766,038	–	1,036,766,038	6.70%

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.

Note 3: Poyang Lake Investment Limited is a wholly-owned subsidiary of Tencent Holdings Limited (stock code: 700).

EMPLOYEE SHARE OPTIONS

The Company has set up employee share option schemes.

A. 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 2019	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	20,100,000	–	–	–	20,100,000
	1 February 2017 to 10 June 2020	HK$1.25	20,100,000	–	–	–	20,100,000
	1 February 2018 to 10 June 2020	HK$1.25	26,800,000	–	–	–	26,800,000
Subtotal			67,000,000	–	–	–	67,000,000
Other employees							
11 June 2015	1 February 2016 to 10 June 2020	HK$1.25	28,500,000	–	–	–	28,500,000
	1 February 2017 to 10 June 2020	HK$1.25	28,500,000	–	–	–	28,500,000
	1 February 2018 to 10 June 2020	HK$1.25	38,000,000	–	–	–	38,000,000
Subtotal			95,000,000	–	–	–	95,000,000
Total share options			162,000,000	–	–	–	162,000,000

B. The Company disclosed a circular on 21 May 2019 to propose the adoption of the new share option scheme. The approval of the new share option scheme was approved by the shareholders at the SGM on 12 June 2019. No options have been issued under the new share option scheme now.

For details please refer to the Company announcements dated 21 May 2019 and 12 June 2019.

COMPETING INTERESTS

During the six-month period ended 30 June 2019, a connected company of the Group named Hangzhou Aiguang Internet Information Service Co., Ltd ("Hangzhou Aiguang") was incorporated in the PRC and the beneficially owner is Mr. Zhu Ning. The main business of Hangzhou Aiguang is providing internet information and technology development service to its customers.

Save as disclosed above, the Directors are not aware of, as at 30 June 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

As at 30 June 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 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 2019, 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 2019 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 2019.

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 2019 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 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, 8 August 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.