

CHINA YOUZAN

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Third Quarterly 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\$914,515,000 for the nine months ended 30 September 2019, representing an increase of 110% compared with the same period in 2018.

During the nine months ended 30 September 2019, the revenue from the newly added merchant service segment was approximately HK\$776,035,000, representing approximately 85% of the total revenue of the Group.

The third party payment service segment contributed a revenue of approximately HK\$133,808,000 for the nine months ended 30 September 2019, accounting for approximately 15% of the total revenue of the Group and representing an increase of approximately 7% as compared with the same period in 2018.

General trading recorded a revenue of approximately HK\$4,175,000 for the nine months ended 30 September 2019, representing a decreased of approximately 84%, compared with the same period in last year.

The Group recorded a gross profit of approximately HK\$376,106,000 for the nine months ended 30 September 2019, representing an increase of 177% compared with the same period in 2018. Gross profit margin for the nine months ended 30 September 2019 increased to 41% from 31% for the same period in last year.

The Group's operating loss for the nine months ended 30 September 2019 was approximately HK\$629,334,000, whereas a loss of approximately HK\$649,431,000 was recorded for the same period in last year.

For the three months ended 30 September 2019, the Group made sales of approximately HK\$324,824,000, representing an increase of 65% over the same period in last year. Gross profit margin for the three months ended 30 September increased from 30% in last year to 38% in the current year and loss from operations decreased by 51%.

The Board does not recommend the payment of a dividend for the three months ended and nine months ended 30 September 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 and nine months ended 30 September 2019 together with the comparative unaudited figures for the corresponding periods in 2018 as follows:

Consolidated Statement of Profit or Loss

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) (Restated) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) (Restated) HK\$'000
Revenue	2	324,824	196,582	914,515	435,245
Cost of sales		(200,268)	(137,134)	(538,409)	(299,266)
Gross profit		124,556	59,448	376,106	135,979
Investment and other income		13,196	9,182	24,347	15,250
Other gains and losses, net	3	5,843	2,233	21,987	22,272
Selling and distribution expenses		(126,483)	(76,296)	(325,620)	(129,744)
Administrative expenses		(83,784)	(69,225)	(251,963)	(151,349)
Other operating expenses	9	(81,530)	(70,871)	(223,974)	(130,836)
Equity-settled share-based payment		(16,203)	(232,383)	(84,991)	(232,383)
Amortisation of intangible assets	7	(53,563)	(68,037)	(165,226)	(122,023)
Impairment loss of goodwill	8	-	-	-	(56,597)
Loss from operations		(217,968)	(445,949)	(629,334)	(649,431)
Share of associate		1,380	2,801	7,842	3,790
Finance costs		(4,925)	-	(11,641)	-
Loss before taxation	4	(221,513)	(443,148)	(633,133)	(645,641)
Income tax credit	5	22,944	30,300	73,736	36,065
Loss for the period		(198,569)	(412,848)	(559,397)	(609,576)
Attributable to:					
Owners of the Company		(104,137)	(332,684)	(301,574)	(477,969)
Non-controlling interests		(94,432)	(80,164)	(257,823)	(131,607)
		(198,569)	(412,848)	(559,397)	(609,576)
Loss per share					
- basic	6	HK(0.69) cents	HK(2.96) cents	HK(2.07) cents	HK(4.50) cents
- diluted		N/A	N/A	N/A	N/A
Dividend	10	N/A	N/A	N/A	N/A

	Three months ended 30 September		Nine months ended 30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) (Restated) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) (Restated) HK\$'000
Loss for the period	(198,569)	(412,848)	(559,397)	(609,576)
Exchange differences on translating foreign operations	(15,483)	75,302	(15,371)	71,456
Total comprehensive income for the period, net of tax	(214,052)	(337,546)	(574,768)	(538,120)
Attributable to:				
Owners of the Company	(119,620)	(257,382)	(316,945)	(406,513)
Non-controlling Interests	(94,432)	(80,164)	(257,823)	(131,607)
	(214,052)	(337,546)	(574,768)	(538,120)

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 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 GEM 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 nine-month period ended 30 September 2019 are consistent with those adopted in preparing the unaudited financial statements of the Group for the six-month period ended 30 June 2019.

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) (Restated) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) (Restated) HK\$'000
– Merchant service	267,310	168,633	776,035	284,551
– Third Party Payment Services	57,202	23,545	133,808	125,080
– General trading	312	4,404	4,175	25,597
– Onecomm	–	–	497	17
	324,824	196,582	914,515	435,245

A breakdown of revenue by category is as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) (Restated) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) (Restated) HK\$'000
SaaS	169,367	92,564	456,276	155,188
Value-added services	21,902	8,087	52,250	10,945
Advertising services				
– Gross method	8,549	12,496	30,722	20,786
– Net method	17,061	–	57,793	–
Distribution services				
– Net method	12,886	9,007	39,741	13,459
Transaction fees	90,384	66,619	257,271	203,519
Sale of goods	3,900	6,297	13,298	28,618
Others	775	1,512	7,164	2,730
	324,824	196,582	914,515	435,245

3. Other gains and losses, net

	For the three months ended 30 September		For the nine months ended 30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) (Restated) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) (Restated) HK\$'000
Sundry revenue, net	676	1,030	6,780	2,713
Governmental subsidies	4,821	1,203	10,068	1,203
Reversal of impairment of other receivables	346	–	5,139	18,356
	5,843	2,233	21,987	22,272

4. Loss before taxation

Loss before taxation was determined after charging (crediting):

	For the three months ended 30 September		For the nine months ended 30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) (Restated) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) (Restated) HK\$'000
Interest income	(13,196)	(9,182)	(24,347)	(15,250)
Equity-settled share-based payment	16,203	232,383	84,991	232,383
Share of associate	(1,380)	(2,801)	(7,842)	(3,790)
Finance costs	4,925	–	11,641	–
Amortisation of intangible assets	53,563	68,037	165,226	122,023
Amortisation of capitalised contract costs	48,657	24,480	132,029	44,000
Reversal of impairment of other receivables	(346)	–	(5,139)	(18,356)
Cost of inventories sold	2,678	6,024	9,586	26,951
Depreciation of property, plant and equipment	16,227	2,008	47,666	4,509
Impairment of goodwill	–	–	–	56,597
Research and development expenditure (included in other operating expenses)	80,191	70,413	222,489	129,837

5. Taxation

No provision for Hong Kong profits tax was made as the Group had no assessable profit in Hong Kong during the three-month period and the nine-month period ended 30 September 2019 (2018: Nil).

The amount of income tax credit for Mainland China subsidiaries was HK\$22,944,000 and HK\$73,736,000 during the three-month period and the nine-month period ended 30 September 2019 respectively (2018: HK\$30,300,000 and HK\$36,065,000, respectively).

The amount of deferred tax assets and deferred tax liabilities as at 30 September 2019 was HK\$151,929,000 and HK\$303,104,000 respectively (2018: HK\$91,767,000 and HK\$361,091,000, respectively).

6. Loss per share

The calculation of the basic loss per share for the three-month period and the nine-month period ended 30 September 2019 respectively were based on the unaudited loss attributable to shareholders of approximately HK\$104,137,000 (2018: HK\$332,684,000) for the three-month period ended 30 September 2019 and the unaudited loss attributable to shareholders of approximately HK\$301,574,000 (2018: HK\$477,969,000) for the nine-month period ended 30 September 2019 and on the weighted average number of 15,128,034,237 shares in issue during the three-month period ended 30 September 2019 and 14,583,666,070 shares in issue during the nine-month period ended 30 September 2019.

The basic loss per share for the three months and nine months ended 30 September 2019 was HK\$0.69 cents (2018: HK\$2.96 cents) and HK\$2.07 cents (2018: HK\$4.50 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 nine months ended 30 September 2019 would be HK\$0.51 cents (2018: HK\$2.33 cents) and HK\$1.51 cents (2018: HK\$3.68 cents), respectively.

7. Amortisation of 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").

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset.

Trademarks assessed to have indefinite useful lives are not amortised. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and amortisation is charged to profit or loss on a straight-line basis over the asset's estimated remaining useful life.

Impairment reviews of intangible assets with indefinite useful lives are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment.

E-commerce applications and distribution network are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over their estimated useful lives of 6.7 years and 2.7 years since the date of acquisition.

An amortisation of the identified intangible assets of HK\$165,226,000 was recorded for the nine months ended 30 September 2019 (2018: HK\$122,023,000).

As at 30 September 2019, the Group is currently assessing whether there is any event or changes in circumstances indicating that intangible assets would have any material impairment and the financial impact on the Group's results of operations and financial position in the annual report, if any.

8. Impairment loss of goodwill

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

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 September 2019, the Group is currently assessing whether there is any event or changes in circumstances indicating that the carrying amounts of CGUs may be impaired (2018: HK\$56,597,000) but is yet to be in a position to further evaluate and state whether it, if any, would have any material financial impact on the Group's results of operations and financial position in the annual report.

The Group will perform a detailed assessment on the carrying amount of the CGUs at year ended 31 December 2019.

9. Other operating expenses

	For the three months ended 30 September		For the nine months ended 30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) (Restated) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) (Restated) HK\$'000
Research and development expenditures	80,191	70,413	222,489	129,837
Others	1,339	458	1,485	999
	81,530	70,871	223,974	130,836

10. Dividend

The Board does not recommend the payment of an interim dividend for the three month period and the nine-month period ended 30 September 2019 (2018: Nil).

11. Share capital

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

12. Reserves movement

At the beginning of 2019, the Group had consolidated reserves, excluding retained profits, of approximately HK\$4,725,720,000 (2018: HK\$1,781,392,000). For the nine months period ended 30 September 2019, the Group's reserves increased by approximately HK\$960,683,000 (2018: HK\$3,417,536,000), representing the increase in share premium approximately HK\$1,050,528,000 (2018: HK\$3,456,385,000), the decrease in shares held for Share Award Scheme approximately HK\$73,218,000 (2018: HK\$115,076,000), the increase in financial assets at FVTOCI reserve approximately HK\$1,121,000 (2018: HK\$4,771,000), the decrease in option reserve approximately HK\$2,378,000 (2018: Nil) and the decrease in exchange reserve approximately HK\$15,370,000 (2018: increase of HK\$71,456,000) for the period. As a result, the consolidated reserves, excluding retained profits, of the Group as at 30 September 2019 were approximately HK\$5,686,403,000 (2018: HK\$5,198,928,000).

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 nine months period ended 30 September 2019, the Group's retained loss increased by approximately HK\$559,397,000 (2018: HK\$609,576,000), representing the total comprehensive loss attributable to shareholders for the period. As a result, the accumulated loss of the Group as at 30 September 2019 was approximately HK\$1,633,182,000 (2018: HK\$1,194,906,000).

13. Convertible bonds

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

14. 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.

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 30 September 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, Youzan Education and other SaaS products. For details, please refer to the section below – “MERCHANT SERVICE SEGMENT”; (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.

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 Catering”, “Youzan Beauty” and “Youzan Education”.
- 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\$914,515,000 for the nine months ended 30 September 2019, representing an increase of 110% compared with the same period in 2018. The increase in revenue was mainly attributable to the 173% growth compared with the same period in 2018 in merchant service which became 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 nine months ended 30 September 2019, the revenue from the newly added merchant service segment was approximately HK\$776,035,000, representing approximately 85% of the total revenue of the Group.

The third party payment service segment contributed a revenue of approximately HK\$133,808,000 for the nine months ended 30 September 2019, accounting for approximately 85% of the total revenue of the Group and representing an increase of approximately 7% as compared with the same period in 2018. The increase was due to the synergetic effect of merchant service that brought more new merchant and transactions by Youzan Group and partially offset by the strategic contraction on promoting the original third-party payment service, as the Group is aiming to improve its service level through focusing main sources on our SaaS merchants and to construct long-term ecosystem in the SaaS industry.

General trading recorded a revenue of approximately HK\$4,175,000 for the nine months ended 30 September 2019, representing a decreased of approximately 84%, compared with the same period in last year. As the Group is curtailing resources on general trading.

The Group recorded a gross profit of approximately HK\$376,106,000 for the nine months ended 30 September 2019, representing an increase of 177% compared with the same period in 2018. The increase in gross profit was mainly attributable to the growth in Merchant Service. Gross profit margin for the nine months ended 30 September 2019 increased to 41% from 31% 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 nine months ended 30 September 2019 was approximately HK\$629,334,000, whereas a loss of approximately HK\$649,431,000 was recorded for the same period in last year. The decrease in operating loss was mainly due to no impairment loss of goodwill for the period. During the nine months ended 30 September 2019, the amortisation of intangible assets amounted to approximately HK\$165,226,000 (2018: HK\$122,023,000). Equity-settled share-base payment was recorded approximately HK\$84,991,000 for the period (2018: HK\$232,383,000).

For the three months ended 30 September 2019, the Group made sales of approximately HK\$324,824,000, 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 Third Party Payment Service and partially offset by the decrease in general trading. Gross profit margin for the three months ended 30 September increased from 30% in last year to 38% in the current year as Merchant Service has a higher margin than other segments.

The Board does not recommend the payment of a dividend for the three months ended and nine months ended 30 September 2019.

Major Event

(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 7 August 2019 (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.

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.

Completion

On 14 August 2019, the Company announced that Completion took place on 13 August 2019 in accordance with the terms of the Subscription Agreement and, among other things, (i) Qima Shares had been issued and allotted to the Company and Baidu SPV, (ii) a deposit in RMB equivalent of the aggregate exercise price of US\$29,999,823 in relation to the Deposit was paid in full by Baidu Online to the WFOE, and (iii) the Qima Warrant had been issued to Baidu Online. As at the date of this report, the Company holds approximately 50.76% of the total issued shares of Qima, and Baidu SPV held approximately 1.20% of the total issued shares of Qima. In both cases, Qima will remain as a non-wholly owned subsidiary of the Company.

Details of the transaction please refer to the Company's announcements dated 7 August, 14 August and 16 August 2019.

Liquidity and Financial Resources

As at 30 September 2019, the Group's cash and cash equivalents amounted to approximately HK\$585,886,000 (As at 31 December 2018: HK\$490,420,000).

As at 30 September 2019, the Company did not have any bank borrowings (As at 31 December 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\$3,262,000 (As at 31 December 2018: HK\$18,180,000).

Pledge of Assets

As at 30 September 2019, the Group did not have any pledge of assets (As at 31 December 2018, unlisted equity securities with carrying amount of approximately HK\$126,390,000 were pledged as security for borrowings of the underlying investee company).

Contingent Liabilities

The Group and the Company had no material contingent liabilities as at 30 September 2019 (As at 31 December 2018: Nil).

Foreign Exchange Exposure

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

Future Plans and Prospects

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 Catering”, “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

(i) Poll results of the Special General Meeting held on 14 October 2019

On 14 October 2019 the Special General Meeting ("SGM") was held and voted on each proposed resolutions (the "Resolution(s)") as set out in the notice (the "Notice") of SGM in the circular dated 25 September 2019 (the "Circular").

As more than 50% of the votes were cast in favour of each of the Resolutions proposed at the SGM, each of the Resolutions was duly passed by the Shareholders as an ordinary resolution of the Company.

Details of the poll results please refer to the Company's announcement dated 14 October 2019.

(ii) Further Supplemental Announcement

On 25 October 2019, the Company provided additional information in relation to the use of net proceeds of HK\$390,156,000 raised from the placing under general mandate (the "GM Placing") completed on 26 April 2017 and the use of net proceeds of approximately HK\$187,500,000 raised from the placing under special mandate (the "SM Placing") completed on 16 April 2018.

Details of the information please refer to the Company's announcement dated 25 October 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		% Shareholding
		Interest in underlying shares	Total interest in shares	
Mr. Guan Guisen <i>(Note 1)</i>	411,592,000	–	411,592,000	2.66%
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%
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>	100,000,000 <i>(Note 6)</i> –	1,903,771,804	12.31%

Directors	Interest in shares	Long Position in Shares		
		Interest in underlying shares	Total interest in shares	% Shareholding
Mr. Yu Tao	363,170,101 (Note 4)	20,000,000 (note 7)	383,170,101	2.48%
Mr. Cui Yusong	241,885,127 (Note 5)	20,000,000 (note 7)	261,885,127	1.69%
Ms. Ying Hangyan	363,170,101 (Note 4)	20,000,000 (note 7)	383,170,101	2.48%

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.

Note 6: The Company granted the share options under New Share Option Scheme on 9 September 2019. The share options is valid until 8 September 2024 and has an exercise price of HK\$1.00.

Note 7: The Company granted the share options under New Share Option Scheme on 9 September 2019. The share options is valid until 8 September 2024 and has an exercise price of HK\$0.90.

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 <i>(Note 1)</i>	100,000,000 <i>(Note 3)</i>		
	363,170,101 <i>(Note 2)</i>	–	1,903,771,804	12.31%
Poyang Lake Investment Limited <i>(Note 4)</i>	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: The Company granted the share options under New Share Option Scheme on 9 September 2019. The share options is valid until 8 September 2024 and has an exercise price of HK\$1.00.

Note 4: Poyang Lake Investment Limited is a wholly-owned subsidiary of Tencent Holdings Limited (stock code: 700).

EMPLOYEE SHARE OPTIONS

- (i) 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.

- (ii) On 21 May 2019, the Company dispatched the circular and proposed the adoption of the New Share Option Scheme (“New Share Option Scheme”). On 9 September 2019, the Company has conditionally granted (i) the Directors’ Share Options to the Selected Directors and (ii) the Employees’ Share Options to the Selected Employees to subscribe for a total of 340,000,000 Shares. The adoption of the New Share Option Scheme was approved in the SGM held on 12 June 2019.

Details of the transaction please refer to the Company’s announcements dated 21 May, 12 June, 9 September, 25 September and 14 October 2019.

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 announcements dated 31 May 2018, 7 September 2018 and 19 November 2018 respectively.

COMPETING INTERESTS

During the nine-month period ended 30 September 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 September 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 September 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 September 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 nine-month period ended 30 September 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 nine months ended 30 September 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 nine-month period ended 30 September 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 nine-month period ended 30 September 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, 12 November 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.