

# CHINA YOUZAN

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## First Quarterly Report 2020

A Better Business with Youzan



中國有贊有限公司  
CHINA-YOUZAN LIMITED

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

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

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# China Youzan Limited

## 中國有贊有限公司

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 8083)**

### HIGHLIGHTS

For the three months ended 31 March 2020, the Group recorded a revenue of approximately RMB373,416,000, representing an increase of 48.9% compared to the same period of last year. Of which, the revenue from SaaS and extended services was approximately RMB264,831,000, representing an increase of 78.3% compared to the same period of last year, and the revenue from transaction fees was approximately RMB97,848,000, representing an increase of 25.7% compared to the same period of last year.

For the three months ended 31 March 2020, the Group recorded a gross profit of approximately RMB215,101,000, representing an increase of 77.1% compared to the same period of last year. Of which, the gross profit of SaaS and extended services was approximately RMB206,991,000, representing an increase of 94.6% compared to the same period of last year, and the gross profit of transaction fees was approximately RMB 3,344,000 (Three months ended 31 March 2019: gross loss of approximately RMB1,857,000 (Restated)).

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For the three months ended 31 March 2020, the Group's gross profit margin increased from 48.4% in the same period of last year to 57.6% for the current period. Of which, the gross profit margin of SaaS and extended services increased from 71.6% in the same period of last year to 78.2% for the current period, and the gross profit margin of transaction fees increased from -2.4% in the same period of last year to 3.4% for the current period.

The Group recorded an operating loss of approximately RMB143,865,000 for the three months ended 31 March 2020, representing a decrease of 26.6% when compared to an operating loss of approximately RMB 196,094,000 (Restated) for the same period in last year.

The board of directors (the "Board") does not recommend the payment of interim dividend for the three months ended 31 March 2020.

## FINANCIAL RESULTS

The board of directors (the “Board”) of China Youzan Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2020 together with the comparative unaudited figures for the corresponding periods in 2019 (restated) as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		<b>For the three months ended 31 March</b>	
		<b>2020</b>	2019
	<i>Notes</i>	<b>(Unaudited) RMB'000</b>	(Unaudited) RMB'000 (Restated)
Revenue	2	<b>373,416</b>	250,790
Cost of sales		<b>(158,315)</b>	(129,331)
<b>Gross profit</b>		<b>215,101</b>	121,459
Investment and other income	3	<b>17,975</b>	3,568
Other gains and losses, net		<b>300</b>	3,797
Selling expenses		<b>(160,695)</b>	(100,131)
Administrative expenses		<b>(50,888)</b>	(58,934)
Equity-settled share-based payment		<b>(17,328)</b>	(41,900)
Amortisation of intangible assets		<b>(48,536)</b>	(48,467)
Other operating expenses	4	<b>(99,794)</b>	(75,486)
<b>Loss from operations</b>		<b>(143,865)</b>	(196,094)
Finance costs		<b>(7,992)</b>	–
Share of profits of associates		<b>5,038</b>	3,863
<b>Loss before taxation</b>		<b>(146,819)</b>	(192,231)
Income tax credit	5	<b>14,535</b>	17,027
<b>Loss for the period</b>		<b>(132,284)</b>	(175,204)
<b>Attributable to:</b>			
Owners of the Company		<b>(74,890)</b>	(100,251)
Non-controlling interests		<b>(57,394)</b>	(74,953)
		<b>(132,284)</b>	(175,204)
<b>Loss per share</b> (express in RMB per share)	6		
Basic		<b>(0.0049)</b>	(0.0074)
Diluted		<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the three months ended 31 March	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)
<i>Notes</i>		
<b>Loss for the period</b>	<b>(132,284)</b>	(175,204)
<b>Other comprehensive income:</b>		
<i>Item that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	<b>2,253</b>	(2,554)
<b>Total comprehensive income for the period, net of tax</b>	<b>(130,031)</b>	(177,758)
<b>Attributable to:</b>		
Owners of the Company	<b>(65,669)</b>	(102,805)
Non-controlling Interests	<b>(64,362)</b>	(74,953)
	<b>(130,031)</b>	(177,758)

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*Notes:*

**1. General information and basis of presentation**

The Company was incorporated in Bermuda with limited liability. The address of its registered office is Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM10, Bermuda. The address of its principal place of business is Unit 2708, 27/F, The Center, 99 Queen's Road Central, Hong Kong. The Company's shares are listed on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The functional currency of the Company is Hong Kong Dollars ("HK\$") and accordingly, the condensed consolidated financial statements of the Group was presented in HK\$ in prior years. Starting from 1 January 2019, the Group has changed its presentation currency for the preparation of its condensed consolidated financial statement from HK\$ to Renminbi ("RMB"). The directors of the Company considered presenting the Group's condensed consolidated financial results and financial position in RMB can reflect more closely of the Group's business operations and its business environment.

The effects of the change in the presentation currency have been accounted for retrospectively with comparative figures restated. The comparative amounts in the condensed consolidated financial statements are presented as if RMB had always been the presentation currency of the condensed consolidated financial statements.

For the purpose of presenting the condensed consolidated financial statement of the Group in RMB, the assets and liabilities for the condensed consolidated statement of financial position are translated into RMB at the closing rate at the respective reporting dates. Income and expenses for the condensed consolidated statement of profit or loss and other comprehensive income are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Share capital, share premium and other reserves are translated at the exchange rate at the date when the respective amounts were determined. The non-controlling interests presented in the condensed consolidated statement of financial position are translated into RMB at the closing rate at the respective reporting dates.

These condensed consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. These condensed consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

## 2. Revenue

### Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service line for the period is as follows:

For the three months ended 31 March	
2020	2019
(Unaudited)	(Unaudited)
RMB'000	RMB'000
	(Restated)

### Revenue from contracts with customers within the scope of HKFRS 15

SaaS and Extended Services	<b>264,831</b>	148,501
Transaction fees	<b>97,848</b>	77,835
Others	<b>10,737</b>	24,454
	<b>373,416</b>	250,790

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical regions:

For the three months ended 31 March	General trading		Third party payment services		Onecomm		Merchant services		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	(Unaudited) RMB'000	(Unaudited) RMB'000 (Restated)	(Unaudited) RMB'000	(Unaudited) RMB'000 (Restated)	(Unaudited) RMB'000	(Unaudited) RMB'000 (Restated)	(Unaudited) RMB'000	(Unaudited) RMB'000 (Restated)	(Unaudited) RMB'000	(Unaudited) RMB'000 (Restated)
<b>Primary geographical markets</b>										
- PRC except Hong Kong	<b>198</b>	2,986	<b>57,009</b>	79,332	-	-	<b>326,032</b>	209,789	<b>383,239</b>	292,107
Segment revenue	<b>198</b>	2,986	<b>57,009</b>	79,332	-	-	<b>326,032</b>	209,789	<b>383,239</b>	292,107
Intersegment revenue										
- PRC except Hong Kong	-	-	<b>(9,823)</b>	(41,317)	-	-	-	-	<b>(9,823)</b>	(41,317)
Revenue from external customers	<b>198</b>	2,986	<b>47,186</b>	38,015	-	-	<b>326,032</b>	209,789	<b>373,416</b>	250,790
<b>Timing of revenue recognition</b>										
Products transferred at a point in time	<b>198</b>	2,986	<b>6</b>	1,481	-	-	<b>47,163</b>	41,008	<b>47,367</b>	45,475
Products and services transferred over time	-	-	<b>47,180</b>	36,534	-	-	<b>278,869</b>	168,781	<b>326,049</b>	205,315
Total	<b>198</b>	2,986	<b>47,186</b>	38,015	-	-	<b>326,032</b>	209,789	<b>373,416</b>	250,790



### 3. Investment and other income

	For the three months ended 31 March	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
Interest income	8,065	3,095
Government grants	2,610	–
VAT super-credit	6,441	–
Others	859	473
	<b>17,975</b>	<b>3,568</b>

### 4. Other operating expenses

For the three months ended 31 March 2020, other operating expenses amounted to approximately RMB99,794,000 (Three months ended 31 March 2019: approximately RMB75,486,000 (Restated)), which included research and development expenditures amounting to approximately RMB99,020,000 (Three months ended 31 March 2019: RMB75,097,000 (Restated)).

### 5. Income tax credit

Income tax has been recognised in profit or loss as follows:

	For the three months ended 31 March	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
Current tax – the PRC		
Provision for the period	–	–
Deferred tax	(14,535)	(17,027)
	<b>(14,535)</b>	<b>(17,027)</b>

PRC Enterprises Income Tax has been provided at a rate of 25% (Three months ended 31 March 2019: 25%).

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the period (Three months ended 31 March 2019: Nil).

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Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

One of the Group's subsidiary operating in Hangzhou, the PRC, was recognised as an advance technology enterprise (高新技術企業) in 2019 and were entitled to enjoy an income tax concession at preferential rate of 15% effective from 1 January 2019. In order to enjoy the preferential rate of 15%, the subsidiary was required to apply for renewal every three years from first year of approval. The EIT rate was changed from 25% to 15% since the year beginning 1 January 2019 to 2021.

## **6. Loss per share**

The calculation of the basic loss per share for the three months period ended 31 March 2020 were based on the unaudited loss attributable to owners of the Company of approximately RMB74,890,000 (Three months ended 31 March 2019: RMB100,251,000 (Restated)) and on the weighted average number of approximately 15,192,515,000 shares (Three months ended 31 March 2019: 13,550,707,011 shares) in issue during the three month period ended 31 March 2020.

## **7. Interim dividend**

The Board does not recommend the payment of an interim dividend for the three months period ended 31 March 2020 (Three months ended 31 March 2019: Nil).

## **8. Share capital**

As at 31 March 2020, the number of issued shares of the Company was 15,465,807,617 shares.

As at the report date, the number of issued shares of the Company was 16,705,807,617 shares.

## **9. Reserves movement**

At the beginning of 2020, the Group had consolidated reserves (excluding accumulated losses and non-controlling interest) of approximately RMB4,998,951,000 (At the beginning of 2019: approximately RMB4,127,146,000 (Restated)). For the three months period ended 31 March 2020, the Group's reserves increased by approximately RMB26,549,000 (Three months ended 31 March 2019: increase of approximately RMB39,350,000 (Restated)), representing no changes in share premium (Three months ended 31 March 2019: increase of approximately RMB132,479,000 (Restated)), the increase in share option reserve by approximately RMB10,303,000 (Three months ended 31 March 2019: Nil), the increase in shares held for Share Award Scheme and Share Award Reserve approximately RMB7,025,000 (Three months ended 31 March 2019: a decrease of approximately RMB90,575,000 (Restated)), and the increase in exchange reserve approximately RMB9,221,000 (Three months ended 31 March 2019: a decrease of approximately RMB2,554,000 (Restated)) for the period. As a result, the consolidated reserves, (excluding accumulated losses and non-controlling interest) of the Group as at 31 March 2020 were approximately RMB5,025,500,000 (31 March 2019: approximately RMB4,166,496,000 (Restated)).

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At the beginning of 2020, the Group had accumulated losses of approximately RMB1,469,148,000 (At the beginning of 2019: accumulated losses of RMB910,057,000 (Restated)). For the three months period ended 31 March 2020, the Group's accumulated losses increased by approximately RMB74,890,000 (Three months ended 31 March 2019: RMB100,251,000 (Restated)). As a result, the accumulated losses of the Group as at 31 March 2020 was approximately RMB1,544,038,000 (31 March 2019: RMB1,010,308,000 (Restated)).

**10. Convertible bonds**

As at 31 March 2020 and as at the date of this report, there were no outstanding convertible bonds.

**11. 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 31 March 2020 and 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.

**12. Comparative figures**

Certain comparative figures have been reclassified to conform to the current period's presentation as the directors of the Company consider that the new presentation is more relevant and appropriate to the condensed consolidated financial statements. The changes included the reclassification of certain revenue and expenditure items presented in the condensed consolidated statement of profit or loss and other comprehensive income.

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## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Overview

Youzan provides powerful SaaS software systems with omni-channel operations and integrated new retail solutions, applying PaaS to create business customization options, while providing extended services such as Youzan Guarantee, Youzan Distribution, Youzan Promotion, etc. We help every merchant who values products and services privatize customer assets, expanding internet customer base, improve business efficiency, and help his/her business comprehensively succeed.

Since the outbreak of coronavirus, merchants pay more and more attention to the ability of online business and the value of private traffic. A lot of merchants, especially the merchants with offline stores, set up online stores and start online business, using Youzan's products and services. With our e-commerce solutions and multiple plug-ins, such as the Salesperson, merchants' online sales increase rapidly, which help merchants offset the loss caused by the close of offline stores, avoid inventory overstock, and generate steady cash flow during coronavirus period.

As at 31 March 2020, the number of paying merchants was 91,209, increased 48% compared with the number of 61,686 as at 31 March 2019. The number of new paying merchants is 13,987 in the first quarter of 2020, increased 84% compared with the number of 7,604 in the same period.

The Gross Merchandise Volume ("GMV")<sup>1</sup> reached RMB20.8 billion in the first quarter of 2020 with Youzan's SaaS Products. The number was increased by 119% compared to the GMV of RMB9.5 billion in the same period.

### Future Business Strategies

Our future business plan has been made based on our mission, which is to help every merchant who values products and services to succeed. To help the merchants to succeed is to help them improve business efficiency and expand the business scale by providing better solutions to satisfy their business needs.

Youzan helps merchants to do business in multi-channels. With our SaaS products, merchants can start the storefronts in multiple platforms with only one backstage to manage products, orders, funds, inventories, members, etc. We believe that as long as there is on-line traffic, there will be e-commerce. We will continuously help merchants to open their storefronts in multi-channels to acquire more traffic. Meanwhile, we could explore more industries and serve more kinds of merchants to increase the number of our merchant by covering more operation channels.

<sup>1</sup> The total value of all confirmed transactions for products and services of Youzan Group, regardless of whether the goods are delivered or returned or how such orders are settled.

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Youzan cooperates with live-streaming platforms and provides merchants with live-streaming e-commerce solutions. Live-streaming e-commerce is a new trend born in 2019. Live-streaming e-commerce improves consumers' on-line shopping experience; meanwhile, live-streaming e-commerce could broadcast to more consumers at the same time, so it improves the merchant's business efficiency and increases the sales. To be a pioneer in live-streaming e-commerce, Youzan cooperates with multiple live-streaming platform and provides merchants with multiple live-streaming e-commerce solutions that enable merchants to do business with live-streaming in multi-channels. In the future, we will expand our advantages in live-streaming e-commerce sector and continuously work with more platforms which have live-streaming module and help our merchants to do business in more channels with live-streaming.

Youzan improves the ability to serve top-tier merchants. With the help of Youzan Cloud PaaS platform, we could realize merchants' customization need in a scalable way, which enable us to serve top-tier merchants efficiently. The customization needs of merchants are similar in some ways. Youzan Cloud PaaS platform modularizes the solutions that meet merchants' need and reduce merchants' R&D cost and increase the R&D efficiency. Besides, we have an experienced team of merchant service with experts in multiple industries and advisors of business operation, providing guidance, training and business advice to merchants for multi-channel operation, that improves our ability to serve top-tier merchants and will draw more top-tier merchants to use Youzan's products.

Youzan devotes to build a healthy e-commerce ecosystem. Youzan provides extended services such as Youzan Distribution and Youzan Guarantee to improve business efficiency and to satisfy merchants' requirement. Meanwhile, Youzan put resource to protect consumers' rights. A healthy e-commerce ecosystem could impel merchants to provide quality commodities and services, and improve consumers' shopping experience and then increase spending. This has positive value to attract more quality merchants to use Youzan's products and services. Besides, the ability of building-up a healthy e-commerce ecosystem is a foundation for Youzan to work with more partners.

We have great faith that our potential market is huge. Merchants' demand for digitalization is increasingly high and urgent. With our e-commerce SaaS, merchants can build up the on-line business to increase the sales; with our store SaaS, merchants can manage the on-line and off-line business altogether to improve operation efficiency. Youzan will endeavor to serve more merchants and provide integrated solutions for more numbers of and more comprehensive business scenarios.

## Financial Review

### Revenue

The Group's revenue for the period was approximately RMB373,416,000 (Three months ended 31 March 2019: approximately RMB250,790,000 (Restated)), representing an increase of about 48.9% compared with the same period in 2019, which was mainly attributable to the substantial increase in revenue from SaaS and Extended Services.

The following table sets forth the revenue breakdown by major products or service lines for the period indicated.

	For the three months ended 31 March		
	2020	2019	Changes
	(Unaudited)	(Unaudited)	
	RMB'000	RMB'000	%
		(Restated)	
SaaS and Extended Services	<b>264,831</b>	148,501	78.3%
Transaction Fees	<b>97,848</b>	77,835	25.7%
Others	<b>10,737</b>	24,454	-56.1%
Total	<b>373,416</b>	250,790	48.9%

## SaaS and Extended Services

SaaS and extended services income was approximately RMB264,831,000 for the period (Three months ended 31 March 2019: approximately RMB148,501,000 (Restated)), representing an increase of 78.3% compared with the same period in 2019. SaaS income was approximately RMB212,902,000 (Three months ended 31 March 2019: approximately RMB115,517,000 (Restated)), representing an increase of 84.3% compared with the same period in 2019 which was mainly attributable to the increase in the number of paying merchants from 61,686 as at 31 March 2019 to 91,209 as at 31 March 2020, and the increase in charging merchants with “Cloud Service Fee” since second half of 2019 which led to an increase in average revenue per merchant. Extended services income was approximately RMB51,929,000 (Three months ended 31 March 2019: approximately RMB32,984,000 (Restated)), representing an increase of 57.4% compared with the same period in 2019 which was primarily attributable to the increase in GMV and the increased number of merchants using extended services.

	For the three months ended 31 March				Changes	
	2020		2019			
	(Unaudited)		(Unaudited)			
	Percentage	Percentage	Percentage	Percentage		
RMB'000	(%)	RMB'000	(%)	%		
		(Restated)				
SaaS	<b>212,902</b>	<b>80.4%</b>	115,517	77.8%	84.3%	
Extended Services	<b>51,929</b>	<b>19.6%</b>	32,984	22.2%	57.4%	
Total	<b>264,831</b>	<b>100.0%</b>	148,501	100.0%	78.3%	

## Transaction Fees

Transaction fees income was approximately RMB97,848,000 for the period (Three months ended 31 March 2019: approximately RMB77,835,000 (Restated)), representing an increase of 25.7% compared with the same period in 2019 which was benefited from the increase in GMV generated by merchants using SaaS systems, and was partially offset by the decrease in the original third-party payment business.

## Others

Other income was approximately RMB10,737,000 for the period (Three months ended 31 March 2019: approximately RMB24,454,000 (Restated)), representing a decrease of 56.1% compared with the same period in 2019. The decrease in other income was mainly due to the contraction of income from marketing services.

## Cost

The following table sets forth a breakdown of costs by nature for the periods indicated.

	For the three months ended 31 March		2019		Changes	
	2020		(Unaudited)			%
	(Unaudited)		(Unaudited)			
	Percentage		Percentage			
	RMB'000	(%)	RMB'000	(%)		
			(Restated)			
Staff costs	<b>35,957</b>	<b>22.7%</b>	31,928	24.7%	12.6%	
Server costs	<b>22,583</b>	<b>14.3%</b>	12,277	9.5%	83.9%	
Message costs	<b>2,059</b>	<b>1.3%</b>	2,583	2.0%	-20.3%	
Transaction costs	<b>93,094</b>	<b>58.8%</b>	76,193	58.9%	22.2%	
Costs of goods sold	<b>984</b>	<b>0.6%</b>	4,110	3.2%	-76.1%	
Others	<b>3,638</b>	<b>2.3%</b>	2,240	1.7%	62.4%	
Total	<b>158,315</b>	<b>100.0%</b>	129,331	100.0%	22.4%	

The Group's costs for the period were approximately RMB158,315,000 (Three months ended 31 March 2020: approximately RMB158,315,000), representing an increase of 22.4% compared with the same period in 2019 which was mainly attributable to the increase in server costs and transaction costs resulted from business expansion. Server costs increased by 83.9% from approximately RMB12,277,000 (Restated) in 2019 to approximately RMB22,583,000 in 2020, primarily attributable to the increase in server usage as a results of business expansion. Transaction costs increased by 22.2% from approximately RMB76,193,000 (Restated) in 2019 to approximately RMB93,094,000 in 2020, mainly due to the increase in GMV generated by merchants using SaaS systems, and was partially offset by the decrease in the original third-party payment business. Staff costs increased by 12.6% from approximately RMB31,928,000 (Restated) in 2019 to approximately RMB35,957,000 in 2020, mainly resulted from business expansion. Message costs decreased by 20.3% from approximately RMB2,583,000 (Restated) in 2019 to approximately RMB2,059,000 in 2020, which was mainly due to by optimizing the content and structure of message, the usage of message sending is reduced when the business volume expands. Costs of goods sold decreased by 76.1% from approximately RMB4,110,000 (Restated) in 2019 to approximately RMB984,000 in 2020, mainly because the Group continued to strategically downsize its general trading business.



### Gross Profit and Gross Profit Margin

The Group recorded a gross profit for the period of approximately RMB215,101,000 (Three months ended 31 March 2019: approximately RMB121,459,000 (Restated)), representing an increase of 77.1% compared with the same period in 2019. During the Reporting Period, the Group's gross profit margin increased from 48.4% in 2019 to 57.6% in current period. The increase in gross profit and gross profit margin was mainly due to the increase in the proportion of SaaS and extended services business that have high gross profit margin.

	For the three months ended 31 March 2020 (Unaudited)		2019 (Unaudited)	
	RMB'000	Gross profit margin (%)	RMB'000 (Restated)	Gross profit margin (%)
SaaS and Extended Services	<b>206,991</b>	<b>78.2%</b>	106,347	71.6%
Transaction Fees	<b>3,344</b>	<b>3.4%</b>	(1,857)	-2.4%
Others	<b>4,766</b>	<b>44.4%</b>	16,969	69.4%
Total	<b>215,101</b>	<b>57.6%</b>	121,459	48.4%

#### SaaS and Extended Services

The gross profit of SaaS and extended services for the period was approximately RMB206,991,000 (Three months ended 31 March 2019: approximately RMB106,347,000 (Restated)), representing an increase of 94.6% compared with the same period in 2019. The gross profit margin increased from 71.6% in 2019 to 78.2% in 2020. The increase in gross profit and gross profit margin of SaaS and extended services was mainly due to the substantial increase in SaaS income as well as the lower growth rate of staff costs than the growth rate of income.

#### Transaction Fees

The gross profit of transaction fees for the period was approximately RMB3,344,000 (Three months ended 31 March 2019: gross loss of approximately RMB1,857,000 (Restated)), and the gross profit margin increased from -2.4% in 2019 to 3.4% in 2020, which was mainly due to the optimization of the cost structure.

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## Others

Other gross profit for the period was approximately RMB4,766,000 (Three months ended 31 March 2019: approximately RMB16,969,000 (Restated)). The decrease in gross profit was due to the decrease in the proportion of marketing services business that has high gross profit.

### *Expenses and Others*

The Group recorded a 60.5% increase compared with the same period in 2019 in selling and distribution expenses to approximately RMB160,695,000 (Three months ended 31 March 2019: approximately RMB100,131,000 (Restated)). The increase was mainly due to the increase in sales personnel which led to the increase in sales staff costs, and an increase in channel commission expenses.

The Group recorded a 13.7% decrease compared with the same period in 2019 in administrative expenses to approximately RMB50,888,000 (Three months ended 31 March 2019: approximately RMB58,934,000 (Restated)). It was mainly due to the decrease in rental costs by changing our principal rental location in the PRC.

The Group recorded approximately RMB99,794,000 (Three months ended 31 March 2019: approximately RMB75,486,000 (Restated)) of other operating expenses for the period, representing an increase of 32.2% compared with the same period in 2019 which was primarily attributable to the increase in staff cost of research and development.

The Group recorded a 58.6% decrease compared with the same period in 2019 in equity-settled share-based payment to approximately RMB17,328,000 (Three months ended 31 March 2019: approximately RMB41,900,000 (Restated)).

The Group recorded an investment and other income of approximately RMB17,975,000 for the period (Three months ended 31 March 2019: approximately RMB3,568,000 (Restated)), which was primarily attributable to the increase in VAT super-credit and interest income.

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### *Dividends*

No dividends have been paid or proposed during the period ended 31 March 2020, nor has any dividend been proposed since the end of the reporting period (Three months ended 31 March 2019: Nil).

### *Pledge of Assets*

As at 31 March 2020, the Group had no pledge of assets.

### *Financial Resources and Liquidity*

As at 31 March 2020, the Company had cash and cash equivalents of approximately RMB713,773,000 (As at 31 December 2019: approximately RMB746,194,000).

As at 31 March 2020, the Company had no bank borrowings (As at 31 December 2019: Nil).

### *Contingent Liability*

The Group's operations are under regulating authorities' supervision in the PRC and the Group has not received any material penalty notice for the three months ended 31 March 2020 and as at this report date. It should be noted that internal regulatory compliance assessment conducted by the Group had identified instance of non-compliance to administrative measures of relevant authority. The possible consequence could be a fine and/or an order to terminate the relevant operation. After consulting the Group's legal counsel, management assessed that the possible fine, if any, could be in the range of RMB100,000 to RMB500,000. The Group's legal counsel also is of the opinion that the risk of being ordered by the authority to terminate the relevant operation without a grace period is not material. Management has already started to implement remedial measures to improve the relevant operation in order to achieve full compliance within reasonable time and to mitigate the possible impact to the Group. The management is of the opinion that this non-compliance will not lead to serious consequence.

Save as disclosed above, the Group had no other material contingent liabilities as at 31 March 2020.

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### *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. The Group monitors its foreign currency risks and will consider hedging significant currency exposures should the need arises.

As most sales are made in Renminbi, no hedging arrangement is made to offset the exposures to fluctuations in exchange rates.

### *Employees*

As at 31 March 2020, the Group has approximately 3,179 employees (As at 31 December 2019: 2,941). Employees are remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits include performance bonus, share options and share awards etc.. The Directors believe that good quality of its employees is a company asset which affects growth and improves profitability. The Group recognizes the importance of staff training and thus regularly provides internal and external training for its staff to enhance their skills and knowledge.

### **Significant Investment and Acquisition**

As at 31 March 2020, the Group has no plan for material investments or acquisition of capital assets. Nevertheless, the Group is constantly looking for such opportunities enhance the shareholders' value.

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## Event After the Reporting Period

### *Placing of New Shares Under General Mandate*

On 8 April 2020, the Company entered into the Placing Agreement with (1) Jefferies Hong Kong Limited; and (2) GF Securities (Hong Kong) Brokerage Limited, collectively, the “Placing Agents”, pursuant to which the Company has appointed the Placing Agents on a several (but not joint or joint and several) basis as its agents to arrange, on a best effort basis, and facilitate the subscription of up to 1,240,000,000 Placing Shares by the Placees at the Placing Price of HK\$0.64 per Placing Share on the terms and subject to the conditions of the Placing Agreement.

### *Completion of the Placing*

On 17 April 2020, the conditions set out in the Placing Agreement have been fulfilled and the Placing was completed in accordance with the terms and conditions of the Placing Agreement. A total of 1,240,000,000 Placing Shares have been successfully placed by the Placing Agents to not fewer than six (6) Placees at the Placing Price of HK\$0.64 per Placing Share pursuant to the Placing Agreement. The net proceeds from the Placing received by the Company, after deducting all related costs, fees, expenses and commission, amount to approximately HK\$783.8 million. The Company intends to apply the net proceeds from the Placing as to (i) approximately HK\$705.4 million for system upgrade, product development and marketing expenses; and (ii) the remaining approximately HK\$78.4 million as general working capital of the Group.

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, the Placees and whose ultimate beneficial owners are independent of and not connected with the Company and the connected persons of the Company.

Details of the transaction please refer to the Company’s announcement dated 8 April 2020 and 17 April 2020 respectively.

## 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	2.46%
Mr. Cao Chunmeng	67,420,000	36,000,000 <i>(Note 2)</i>	103,420,000	0.62%
Mr. Yan Xiaotian	21,640,000	25,000,000 <i>(Note 2)</i>	46,640,000	0.28%
Dr. Fong Chi Wah	1,000,000	3,000,000 <i>(Note 2)</i>	4,000,000	0.02%
Mr. Gu Jiawang	1,000,000	3,000,000 <i>(Note 2)</i>	4,000,000	0.02%
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	11.40%
Mr. Yu Tao	363,170,101 <i>(Note 4)</i>	20,000,000 <i>(Note 7)</i>	383,170,101	2.29%
Mr. Cui Yusong	241,885,127 <i>(Note 5)</i>	20,000,000 <i>(Note 7)</i>	261,885,127	1.57%
Ms. Ying Hangyan	363,170,101 <i>(Note 4)</i>	20,000,000 <i>(Note 7)</i>	383,170,101	2.29%

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*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, and was approved at the extraordinary general meeting on 14 October 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, and was approved at the extraordinary general meeting on 14 October 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 Directors	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>	1,903,771,804	11.40%
	363,170,101 <i>(Note 2)</i>			
Poyang Lake Investment Limited <i>(Note 4)</i>	1,036,766,038	-	1,036,766,038	6.21%

*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 is 100% beneficially owned by Mr. Zhu Ning.

*Note 2:* The shares are held by Youzan Teamwork Inc. (“Youzan Teamwork”). Youzan Teamwork Inc. is incorporated in the British Virgin Islands and is owned as to 40% by Mr. Zhu Ning.

*Note 3:* The Company granted the share options under New Share Option Scheme on 9 September 2019, and was approved at the extraordinary general meeting on 14 October 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).



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## SHARE OPTION AND SHARE AWARD SCHEME

### Share Options

On 9 September 2019 (the “Date of Grant”), the Company has conditionally granted the Directors’ Share Options (the portion of the share options to be granted to the Selected Directors) to Selected Directors (including Mr. Zhu Ning, Mr. Cui Yusong, Mr. Yu Tao and Ms. Ying Hangyan) and the Employees’ Share Options (HK\$0.01 each in the share capital of the Company) to Selected Employees (the 30 employees of the Group selected for the purpose of the grant of the employees’ share options) to subscribe for a total of 340,000,000 Shares, subject to acceptance of the Grantees and shareholders’ approval (if required), under the Share Option Scheme adopted by the Company on 12 June 2019. 331,000,000 shares options were accepted by the Grantees (including 4 directors and 28 employees).

On 14 October 2019, granting Share Options (to be granted according to the terms of the share option scheme) to Selected Directors has been approved at the Special General Meeting. As at 31 December 2019, 331,000,000 Share Options have not been exercisable.

For details of the above Share Option Scheme and the poll results in respect of each of the resolutions, please refer to the announcements of the Company dated 21 May 2019, 12 June 2019, 9 September 2019, 25 September 2019 and 14 October 2019 respectively.

### Grant of share options

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, subject to acceptance of the Grantees and shareholders’ approval (if required), under the Share Option Scheme adopted by the Company on 12 June 2019. A total of 331,000,000 share option were granted to, and accepted by, the guarantees. For details, Please refer to Note 49(a) of the consolidated financial statements in the Company’s Annual Report for the year ended 31 December 2019.

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## SHARE AWARD SCHEME

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

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

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

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

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

## COMPETING INTERESTS

The Directors are not aware of, as at 31 March 2020, 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.

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

During the three months period ended 31 March 2020, there were no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a Code of Practice for Securities Transactions by Directors and Designated Employees on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all Directors who have confirmed their compliance with required standard set out in the Securities Code during the three months ended 31 March 2020.

## **BOARD PRACTICES AND PROCEDURES**

The Company has complied throughout the three months period ended 31 March 2020 the board practices and procedures as set out in Chapter 5 of the GEM Listing Rules.

## **CORPORATE GOVERNANCE AND COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

As at 31 March 2020, the Company has been in compliance with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules.

## **AUDIT COMMITTEE**

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

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

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The Committee is of the opinion that the preparation of the unaudited results for the three months period ended 31 March 2020 has complied with applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosures had been made. The Committee has reviewed the Company's unaudited results for the three months period ended 31 March 2020 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, 11 May 2020

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](http://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](http://www.chinayouzan.com).*