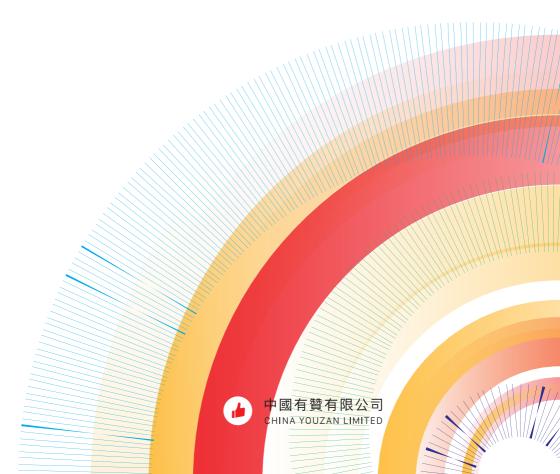
CHINA YOUZAN

08083.HK

Third Quarterly Report 2020

A Better Business with Youzan



CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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

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

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This report, for which the directors (the "Directors") of China Youzan Limited (the "Company", together with its subsidiaries, the "Group", "Youzan" 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

For the nine months ended 30 September 2020, the Group recorded a revenue of approximately RMB1,306,609,000, representing an increase of 65.4% compared to the same period of last year. Of which, the revenue from SaaS and Extended Services was approximately RMB951,838,000, representing an increase of 90.1% compared to the same period of last year, and the revenue from Transaction fees was approximately RMB307,075,000, representing an increase of 38.5% compared to the same period of last year.

For the nine months ended 30 September 2020, the Group recorded a gross profit of approximately RMB788,322,000, representing an increase of 102.0% compared to the same period of last year. Of which, the gross profit of SaaS and Extended Services was approximately RMB764,325,000, representing an increase of 117.7% compared to the same period of last year, and the gross loss of Transaction fees was approximately RMB2,632,000 (Nine months ended 30 September 2019: approximately RMB9,945,000 (Restated)).

For the nine months ended 30 September 2020, the Group's gross profit margin increased from 49.4% in the same period of last year to 60.3% for the current period. Of which, the gross profit margin of SaaS and Extended Services increased from 70.1% in the same period of last year to 80.3% for the current period, and the gross loss margin of Transaction fees decreased from 4.5% in the same period of last year to 0.9% for the current period.

The Group recorded an operating loss of approximately RMB356,350,000 for the nine months ended 30 September 2020, representing a decrease of 34.8% when compared to an operating loss of approximately RMB546,284,000 (Restated) for the same period in last year.

For the three months ended 30 September 2020, the Group made sales of approximately RMB481,963,000, representing an increase of 70.2% compared to the same period of last year. Gross profit margin for the three months ended 30 September 2020 increased from 47.2% in the same period of last year to 62.0% in the current period.

As at 30 September 2020, the Group had a total of approximately RMB1,835,101,000 bank and cash balances and the current ratio was at 1.19 times.

The board of directors (the "Board") does not recommend the payment of interim dividend for the nine months ended 30 September 2020.

FINANCIAL RESULTS

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 the nine months ended 30 September 2020 together with the comparative unaudited figures for the corresponding periods in 2019 (restated) as follows:

Condensed Consolidated Statement of Profit or Loss

		Three m ended 30 Se		Nine mo	
	Notes	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)
Revenue Cost of sales	2	481,963 (183,353)	283,244 (149,478)	1,306,609 (518,287)	790,106 (399,845)
Gross profit Investment and other income Other gains and losses, net Selling expenses Administrative expenses Equity-settled share-based payments Amortisation of intangible assets Other operating expenses	3	298,610 19,683 (7,633) (197,002) (63,612) (15,527) (48,756) (102,158)	133,766 16,230 2,611 (139,552) (60,013) (14,181) (48,217) (83,561)	788,322 53,011 14,855 (533,953) (182,699) (48,639) (145,196) (302,051)	390,261 32,868 9,511 (356,975) (176,163) (73,125) (144,612) (228,049)
Loss from operations Finance costs Share of profits of associates		(116,395) (6,064) 289	(192,917) (4,390) 1,207	(356,350) (22,051) 2,223	(546,284) (10,188) 6,745
Loss before taxation Income tax credit	5	(122,170) 12,295	(196,100) 20,281	(376,178) 36,154	(549,727) 63,950
Loss for the period	6	(109,875)	(175,819)	(340,024)	(485,777)
Attributable to: Owners of the Company Non-controlling interests		(58,661) (51,214)	(93,019) (82,800)	(178,546) (161,478)	(261,928) (223,849)
		(109,875)	(175,819)	(340,024)	(485,777)
Loss per share (express in RMB per share) – basic – diluted	7	(0.0034) N/A	(0.0061) N/A	(0.0110) N/A	(0.0180) N/A

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Three m ended 30 Si 2020 (Unaudited) RMB'000		Nine m ended 30 S 2020 (Unaudited) RMB'000	
Loss for the period	(109,875)	(175,819)	(340,024)	(485,777)
Other comprehensive income: Item that may not be reclassified to profit or loss Fair value change of equity instruments at fair value through other comprehensive income (FVTOCI)	11,347	-	11,347	
Item that may be reclassified to profit or loss: Exchange differences on translating foreign operations	(50,063)	10,966	(42,038)	29,106
Total comprehensive income for the period, net of tax	(148,591)	(164,853)	(370,715)	(456,671)
Attributable to: Owners of the Company Non-controlling Interests	(111,633) (36,958)	(82,053) (82,800)	(217,858) (152,857)	(232,822) (223,849)
	(148,591)	(164,853)	(370,715)	(456,671)

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 ended 30 S		For the nin ended 30 S	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)
Revenue from contracts with customers within the scope of HKFRS 15				
SaaS and Extended Services Transaction fees Others	354,910 103,758 23,295	186,165 78,054 19,025	951,838 307,075 47,696	500,809 221,735 67,562
	481,963	283,244	1,306,609	790,106

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:

			Third party payment	payment								
	General trading	trading	services	seo	Onecomm	mm	Merchant services	services	Others		Total	
For the nine months ended 30 September	2020	2019	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	(Unaudited) RMB'000	(Unaudited) RMB'000 (Restated)
Primary geographical markets - PRC except Hong Kong	888	3,543	201,718	207,371	286	429	1,131,286	670,017	2	'	1,334,181	881,360
Segment revenue	888	3,543	201,718	207,371	286	429	1,131,286	670,017	2	1	1,334,181	881,360
Intersegment revenue - PRC except Hong Kong	'	1	(27,572)	(91,254)	'	1	1	1	1	1	(27,572)	(91,254)
Revenue from external customers	688	3,543	174,146	116,117	286	429	1,131,286	670,017	2	1	1,306,609	790,106
Timing of revenue recognition Products transferred at a point in time Products and services transferred over time	688	3,543	510 173,636	2,577 113,540	- 286	429	216,533 914,753	138,245 531,772	- 2	1 1	217,934 1,088,675	144,794 645,312
Total	888	3,543	174,146	116,117	286	429	1,131,286	670,017	2	1	1,306,609	790,106

			Third party payment	payment								
For the three months ended 30 September	General trading 2020 (Unaudited) (Unau RMB'000 RMI	rading 2019 (Unaudited) RMB'000 (Restated)	services 2020 (Unaudited) (U RMB'000	ces 2019 (Unaudited) RMB'000 (Restated)	Onecomm 2020 (Unaudited) (Ur RMB'000 F	mm 2019 (Unaudited) RMB'000 (Restated)	Merchant services 2020 (Unaudited) (Unaudi	2019 (Unaudited) RMB'000 (Restated)	Others 2020 (Unaudited) (L RMB'000	ars 2019 (Unaudited) RMB'000	Total 2020 (Unaudited) (RMB'000	2019 (Unaudited) RMB'000 (Restated)
Primary geographical markets - PRC except Hong Kong	199	240	73,841	65,255	'	1	418,171	233,049	2	1	492,213	298,544
Segment revenue	199	240	73,841	65,255	'	1	418,171	233,049	2	1	492,213	298,544
Intersegment revenue - PRC except Hong Kong	1	'	(10,250)	(15,300)	ı	1	ı	'		'	(10,250)	(15,300)
Revenue from external customers	199	240	63,591	49,955	'	ı	418,171	233,049	2	1	481,963	283,244
Timing of revenue recognition Products transferred at a point in time Products and services transferred over time	199	240	10 63,581	84 49,871	1 1	1 1	86,333 331,838	48,530 184,519	- 2	1 1	86,544 395,419	48,854 234,390
Total	199	240	63,591	49,955	1	1	418,171	233,049	2	1	481,963	283,244

3. Investment and other income

	For the three ended 30 S		For the nin ended 30 S	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)
Interest income	10,587	11,447	25,466	20,327
Government grants VAT super-credit Others	5,660 3,047 389	2,502 1,780 501	11,295 12,280 3,970	5,486 3,326 3,729
	19,683	16,230	53,011	32,868

4. Other operating expenses

	For the three ended 30 S		For the nin ended 30 S	
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		(Restated)
Research and development				
expenditures	101,930	82,872	300,466	226,594
Others	228	689	1,585	1,455
	102,158	83.561	302.051	228.049
	102,130	03,501	302,031	220,043

5. Income tax credit

Income tax credit/(expense) has been recognised in profit or loss as follows:

	For the thre ended 30 S		For the nin ended 30 S	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)	2020 (Unaudited) RMB′000	2019 (Unaudited) RMB'000 (Restated)
Current tax - The PRC provision - Oversea company over	(605)	(2)	(605)	(2)
provision in prior years	1,369	_	1,369	
Deferred tax	764 11,531	(2) 20,283	764 35,390	(2) 63,952
_	12,295	20,281	36,154	63,950

PRC Enterprises Income Tax has been provided at a rate of 25% for the three months and nine months ended 30 September 2020 and 2019.

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the three months and nine months ended 30 September 2020 and 2019.

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 for the period

Loss for the period was determined after charging/(crediting):

	For the thre ended 30 S		For the nin ended 30 S	
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		(Restated)
Amortisation of				
intangible assets	48,756	48,217	145,196	144,612
Amortisation of capitalised	40,730	40,217	143,130	144,012
contract costs	56,936	42,832	160,160	114,558
(Reversal of)/allowance for	30,550	42,002	100,100	114,000
inventories, net	(60)	337	_	337
Allowance for trade	(,			
receivables	207	_	655	486
Reversal of allowance for				
prepayments, deposit and				
other receivables, net	(40)	(1,077)	(14,709)	(4,430)
Cost of inventories sold	1,890	1,017	5,685	6,939
Depreciation of property,				
plant and equipment	4,407	4,711	13,802	13,067
Depreciation of right-of-				
use assets (included in				
selling expenses and				
administrative expenses)	14,257	11,259	35,444	38,399
(Gain)/loss on disposals				
of property, plant and				
equipment	(118)	201	(149)	264
Research and development				
expenditures (included in				
other operating expenses)	101,930	82,872	300,466	226,594

7. Loss per share

The calculation of basic and diluted loss per share is based on the following:

	For the thre ended 30 S 2020		For the nin ended 30 S 2020	
	(Unaudited) RMB'000	(Unaudited) RMB'000 (Restated)	(Unaudited) RMB'000	(Unaudited) RMB'000 (Restated)
Loss				
Loss attributable to owners of the Company, used in the basic and diluted loss				
per share calculation	(58,661)	(93,019)	(178,546)	(261,928)
	For the thre ended 30 S 2020 (Unaudited)		For the nin ended 30 S 2020 (Unaudited)	
	′000	′000	′000	′000
Number of shares				
Weighted average number of ordinary shares used in basic loss per share calculation	17,032,456	15,128,034	16,181,450	14,583,666
Effect of dilutive potential ordinary shares arising from share options	142,863	N/A	54,586	N/A
·	<u> </u>	<u>·</u>	<u> </u>	<u>-</u>
Weighted average number of ordinary shares used in diluted loss per share				
calculation	17,175,319	N/A	16,236,036	N/A

For the three months and nine months ended 30 September 2020, there is no dilutive effect on the loss per share as the exercise of the Company's outstanding share options would result in the decrease in the loss per share.

For the three months and nine months ended 30 September 2019, there was no dilutive potential ordinary share arising from share options as the exercise price of the options exceeds the average market prices of the Company's ordinary share during the periods.

8. Interim dividend

The Board does not recommend the payment of an interim dividend for the three months and the nine months ended 30 September 2020 (three months and nine months ended 30 September 2019: Nil).

9. Share capital

The number of issued shares of the Company was 17,244,203,617 shares as at 30 September 2020.

The number of issued shares of the Company was 17,247,103,617 shares as at the date of this report.

10. Condensed Consolidated Statement of Changes in Equity

	As at 1 January 2020 (Audited) RMB'000	Movements (Unaudited) RMB'000	As at 30 September 2020 (Unaudited) RMB'000
Share capital	128,665	16,238	144,903
Share premium account	5,025,838	1,060,600	6,086,438
Share option reserve	64,334	(40,849)	23,485
Shares held for Share Award Scheme	(136,589)	48,148	(88,441)
Share Award Scheme reserve	78,335	(24,639)	53,696
Warrant reserve	774	(774)	-
Capital reserve	(59,517)	(560,717)	(620,234)
Statutory reserve	8,060	_	8,060
Exchange reserve	74,027	(45,201)	28,826
Financial asset at FVTOCI reserve	(56,304)	(1,322)	(57,626)
Subsidiary's treasury share reserve	(7)	_	(7)
Accumulated losses	(1,469,148)	(109,746)	(1,578,894)
Total attributable to owners of			
the Company	3,658,468	341,738	4,000,206
Non-controlling interests	240,579	627,531	868,110
Total equity	3,899,047	969,269	4,868,316

	As at 1 January 2019 (Audited) RMB'000	Movements (Unaudited) RMB'000 (Restated)	As at 30 September 2019 (Unaudited) RMB'000 (Restated)
Share capital Share premium account Share Option Reserve Shares held for share award scheme Share Award Scheme reserve Warrant reserve Capital reserve Statutory reserve Exchange reserve Financial asses at FVTOCI reserve Subsidiary's treasury share reserves Accumulated losses	111,350 4,128,847 87,577 (181,450) 131,386 774 (57,399) 8,060 36,801 (27,449) — (910,058)	17,315 898,950 (1,959) (62,996) — — — — 29,106 — — (261,928)	128,665 5,027,797 85,618 (244,446) 131,386 774 (57,399) 8,060 65,907 (27,449) –
Total attributable to owners of the Company Non-controlling interests Total equity	3,328,439 556,027 3,884,466	618,488 (215,335) 403,153	3,946,927 340,692 4,287,619

11. Convertible bonds

As at 30 September 2020 and the date of this report, there were no outstanding convertible bonds.

12. Warrants

As at 30 September 2020 and the date of this report, there were no outstanding warrants. All warrants were exercised during the three months ended 30 June 2020 and nine months ended 30 September 2020 (as at 31 December 2019: 520,000,000 shares outstanding).

13. Related party transactions

(a) In addition to those related party transactions and balances disclosed elsewhere in the condensed consolidated financial statements, the Group had the following material transactions with its related parties during the period:

	For the thre ended 30 S 2020 (Unaudited) RMB'000		For the nin ended 30 S 2020 (Unaudited) RMB'000	
Service income from a related company Dividend income from	2,504	-	4,845	-
an associate Loan interest income from a related	1,088	1,450	3,625	4,350
company Administrative expenses paid to a non-controlling	33	-	98	-
interest Loan to related	(513)	_	(1,300)	-
companies Amounts due from	(3,634)	-	(3,634)	=
related companies	854	-	854	_

(b) The remuneration of directors and other members of senior management during the period was as follows:

	For the three months ended 30 September		For the nin ended 30 S	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)
Salaries, bonus and allowances Equity-settled share-	4,903	5,380	15,538	18,444
based payments Retirement benefit	3,894	2,966	21,169	12,551
scheme contributions	63	114	185	354
_	8,860	8,460	36,892	31,349

14. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

Youzan provides powerful SaaS systems with omni-channel operations and integrated new retail solutions, applying PaaS cloud service 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, expand internet customer base, improve business efficiency, and help his/her business comprehensively succeed.

Youzan adheres to the strategy of helping merchants to do business in multichannels. We connected with Alipay mini program and QQ mini program successively in September 2020 and also connected with Xiaohongshu (小紅書) in October 2020. Youzan has been connected with more than ten online traffic channels. Through Youzan, merchants manage storefronts, products, orders, inventories, membership and funds of multiple traffic channels (including offline stores) and can also use rich marketing tools of Youzan to acquire new customers and activate existing customers to achieve optimized operation and increase sales.

The distribution platform, "Youzanke" (有贊客), that is launched in 2020 connects merchants with content creators on platforms such as WeChat, Kuaishou (快手) and Weibo to realize the promotion and sales of products on traffic platforms. Content creators on major platforms, as traffic providers, can select products for recommendation through Youzanke to realize traffic monetization. Since launching Youzanke, the number of merchants and traffic providers on the platform continued to rise and the transaction volume has increased significantly.

Youzan Chain (有贊連鎖) has been upgraded this year, which makes it more suitable for the offline multi-level sales structure of merchants operating under the chain model, and better enables chain enterprises to conduct digital transformation. Many chain merchants are attracted to use and subscribe Youzan Chain, and some Youzan merchants have even switched to subscribe for Youzan Chain.

As of 30 September 2020, the number of paying merchants was 97,875, increased by 29% when compared with the number of 76,124 as at 30 September 2019. The number of new paying merchants was 45,328 in the first three quarters of 2020, increased by 22% when compared with the number of 37,180 in the same period in 2019.

The Gross Merchandise Volume ("GMV")¹ has reached RMB72.3 billion in the first three quarters of 2020 with Youzan's SaaS products. The number increased by 90% when compared to the GMV of RMB38.0 billion in the same period in 2019.

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.

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 systems, 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.

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 platforms 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 modulizes 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 digitization 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 RMB1,306,609,000 (Nine months ended 30 September 2019: approximately RMB790,106,000 (Restated)), representing an increase of about 65.4% 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.

	(Unaudited) (Unaudited) RMB'000 RMB'000 (Restated) d Extended Services 951,838 500,809 90.1 on fees 307,075 221,735 38.5			
	2020	2019	Changes	
	(Unaudited)	(Unaudited)		
	RMB'000	RMB'000	%	
		(Restated)		
SaaS and Extended Services	951.838	500.809	90.1%	
Transaction fees	•	•	38.5%	
Others	47,696	67,562	-29.4%	
Total	1,306,609	790,106	65.4%	

SaaS and Extended Services

SaaS and Extended Services income was approximately RMB951,838,000 for the period (Nine months ended 30 September 2019: approximately RMB500,809,000 (Restated)), representing an increase of 90.1% compared with the same period in 2019. SaaS income was approximately RMB758,363,000 (Nine months ended 30 September 2019: approximately RMB394,705,000 (Restated)), representing an increase of 92.1% compared with the same period in 2019 which was mainly attributable to the increase in the number of paying merchants from 76,124 as at 30 September 2019 to 97,875 as at 30 September 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 RMB193,475,000 (Nine months ended 30 September 2019: approximately RMB106,104,000 (Restated)), representing an increase of 82.3% 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 nine months ended 30 September						
	202	2020		9	Changes		
	(Unaud	ited)	(Unauc	lited)			
		Percentage		Percentage			
	RMB'000	(%)	RMB'000	(%)	%		
			(Restated)				
SaaS	758,363	79.7%	394,705	78.8%	92.1%		
Extended Services	193,475	20.3%	106,104	21.2%	82.3%		
Total	951,838	100.0%	500,809	100.0%	90.1%		

Transaction fees

Transaction fees income was approximately RMB307,075,000 for the period (Nine months ended 30 September 2019: approximately RMB221,735,000 (Restated)), representing an increase of 38.5% 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 RMB47,696,000 for the period (Nine months ended 30 September 2019: approximately RMB67,562,000 (Restated)), representing a decrease of 29.4% 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 nine months ended 30 September				
	20	20	201	9	Changes
	(Unau	dited)	(Unauc		
		Percentage		Percentage	
	RMB'000	(%)	RMB'000	(%)	%
			(Restated)		
Staff costs	115,815	22.3%	105,380	26.4%	9.9%
Server costs	69,043	13.3%	43,041	10.8%	60.4%
Message costs	7,378	1.4%	11,155	2.8%	-33.9%
Transaction costs	303,946	58.6%	225,538	56.4%	34.8%
Costs of goods sold	5,685	1.1%	6,939	1.7%	-18.1%
Others	16,420	3.3%	7,792	1.9%	110.7%
Total	518,287	100.0%	399,845	100.0%	29.6%

The Group's costs for the period were approximately RMB518,287,000 (Nine months ended 30 September 2019: approximately RMB399,845,000 (Restated)), representing an increase of 29.6% 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 60.4% from approximately RMB43,041,000 (Restated) for the same period in 2019 to approximately RMB69,043,000 in current period, primarily attributable to the increase in server usage as a results of business expansion. Transaction costs increased by 34.8% from approximately RMB225,538,000 (Restated) for the same period in 2019 to approximately RMB303,946,000 in current period, 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 9.9% from approximately RMB105,380,000 (Restated) for the same period in 2019 to approximately RMB115,815,000 in current period, mainly resulted from business expansion. Message costs decreased by 33.9% from approximately RMB11,155,000 (Restated) for the same period in 2019 to approximately RMB7,378,000 in current period, 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.

Gross Profit and Gross Profit Margin

The Group recorded a gross profit for the period of approximately RMB788,322,000 (Nine months ended 30 September 2019: approximately RMB390,261,000 (Restated)), representing an increase of 102.0% compared with the same period in 2019. During the reporting period, the Group's gross profit margin increased from 49.4% for the same period in 2019 to 60.3% 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 n 202	ember 9		
	(Unaud	ited)	(Unaudi	ited)
		Gross profit margin		Gross profit margin
	RMB'000	(%)	RMB'000 (Restated)	(%)
SaaS and Extended				
Services	764,325	80.3%	351,089	70.1%
Transaction fees	(2,632)	-0.9%	(9,945)	-4.5%
Others	26,629	55.8%	49,117	72.7%
Total	788,322	60.3%	390,261	49.4%

SaaS and Extended Services

The gross profit of SaaS and Extended Services for the period was approximately RMB764,325,000 (Nine months ended 30 September 2019: approximately RMB351,089,000 (Restated)), representing an increase of 117.7% compared with the same period in 2019. The gross profit margin increased from 70.1% for the same period in 2019 to 80.3% in current period. The increase in gross profit and gross profit margin of SaaS and Extended Services was mainly due to the substantial increase in income as well as the staff costs remained relatively stable.

Transaction fees

The gross loss of Transaction fees for the period was approximately RMB2,632,000 (Nine months ended 30 September 2019: approximately RMB9,945,000 (Restated)), and the gross loss margin decreased from 4.5% for the same period in 2019 to 0.9% in current period, which was mainly due to the optimization of the cost structure by controlling staff costs and enhancing the proportion of offline payment business.

Others

Other gross profit for the period was approximately RMB26,629,000 (Nine months ended 30 September 2019: approximately RMB49,117,000 (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 49.6% increase compared with the same period in 2019 in selling expenses to approximately RMB533,953,000 (Nine months ended 30 September 2019: approximately RMB356,975,000 (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 3.7% increase compared with the same period in 2019 in administrative expenses to approximately RMB182,699,000 (Nine months ended 30 September 2019: approximately RMB176,163,000 (Restated)). It remained relatively stable.

The Group recorded approximately RMB302,051,000 (Nine months ended 30 September 2019: approximately RMB228,049,000 (Restated)) of other operating expenses for the period, representing an increase of 32.5% 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 33.5% decrease compared with the same period in 2019 in equity-settled share-based payment to approximately RMB48,639,000 (Nine months ended 30 September 2019: approximately RMB73,125,000 (Restated)).

The Group recorded a 61.3% increase compared with the same period in 2019 in investment and other income to approximately RMB53,011,000 (Nine months ended 30 September 2019: approximately RMB32,868,000 (Restated)), which was primarily attributable to the increase in VAT super-credit and interest income.

Dividends

No dividends have been paid or proposed for nine months ended 30 September 2020, nor has any dividend been proposed since the end of the reporting period (Nine months ended 30 September 2019: Nil).

Pledge of Assets

As at 30 September 2020, the Group had no pledge of assets.

Financial Resources and Liquidity

As at 30 September 2020, the Company had bank and cash balances of approximately RMB1,835,101,000 (As at 31 December 2019: approximately RMB746,194,000).

As at 30 September 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 during the period. 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 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 30 September 2020.

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 30 September 2020, the Group has approximately 3,509 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

Connected Transaction: Subscription of Shares in a Non-wholly Owned Subsidiary On 16 September 2020, the Company entered into the Subscription Agreement with Qima Holdings Ltd., a non-wholly owned subsidiary of the Company, in relation to the subscription of approximately 35 million Qima Shares for the consideration of US\$160 million payable in cash upon Completion, representing 2.31% of the total issued Qima Shares as enlarged by the issue and allotment of the Subscription Shares.

As at the date of this report, the Subscription has been completed. The Company holds approximately 51.90% of the total issued shares of Qima Holdings Ltd., which remains as a non-wholly owned subsidiary of the Company.

Details please refer to the announcements of the Company dated 16 September 2020, 22 September 2020 and 4 October 2020 (the "Announcements") regarding the transactions in relation to the Subscription Agreement. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as defined in the Announcements.

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

Long position in Shares

Directors	Interest in shares	Interest in underlying shares	Total interest in shares	% Shareholding
Mr. Guan Guisen (Note 1)	411,592,000	-	411,592,000	2.39%
Mr. Cao Chunmeng	53,420,000	-	53,420,000	0.31%
Mr. Yan Xiaotian	21,640,000	-	21,640,000	0.13%
Dr. Fong Chi Wah	1,000,000	-	1,000,000	0.01%
Mr. Gu Jiawang	1,000,000	-	1,000,000	0.01%
Mr. Zhu Ning	1,440,601,703 (Note 2) 363,170,101 (Note 3)	100,000,000 (Note 5)	1,903,771,804	11.04%
Mr. Yu Tao	363,170,101 (Note 3)	15,000,000 (Note 6)	378,170,101	2.19%
Mr. Cui Yusong	241,885,127 (<i>Note 4</i>) 363,170,101 (<i>Note 3</i>)	20,000,000 (Note 6)	625,055,228	3.62%
Ms. Ying Hangyan	852,000 363,170,101 (Note 3)	15,000,000 (Note 6)	379,022,101	2.20%

- Note 1: The shares are held by Mighty Advantage Enterprises Limited ("Mighty Advantage"). Mighty Advantage is incorporated in the British Virgin Islands and is 100% beneficially owned by Mr. Guan Guisen.
- Note 2: The shares are held by Whitecrow Investment Ltd. ("Whitecrow"). Whitecrow is a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mr. Zhu Ning.
- Note 3: The shares are held by Youzan Teamwork Inc. ("Youzan Teamwork"). Youzan Teamwork is a company incorporated in the British Virgin Islands with limited liability and is owned as to 8% by Mr. Zhu Ning and 18% by Whitecrow, 8% by V5.Cui Investment Ltd. (100% beneficially owned by Mr. Cui Yusong), 8% by Vulcan Global Holdings Inc. (100% beneficially owned by Mr. Yu Tao) and 8% by Elrino Investment Ltd. (100% beneficially owned by Ms. Ying Hangyan).
- Note 4: 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 5: 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 30 June 2024 and has an exercise price of HK\$1.00.
- 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 30 June 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 (Note 1) 363,170,101 (Note 2)	100,000,000 (Note 3)	1,903,771,804	11.04%
Poyang Lake Investment Limited (Note 4)	1,036,766,038	-	1,036,766,038	6.01%

- 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 is a company incorporated in the British Virgin Islands with limited liability and is owned as to 8% by Mr. Zhu Ning and 18% by Whitecrow.
- 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 30 June 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).

SHARE OPTION AND SHARE AWARD SCHEME **Employee Share Options**

The Company has set up employee share option schemes.

On 11 June 2015, the Company granted certain share options (the "New Share Option") to eligible persons of the Group (the "Grantees") which entitles the Grantees to subscribe for an aggregate of 202,714,000 new ordinary share of HK\$0.01 each in the capital of the Company, subject to the acceptance by the Grantees, under the New Share Option Scheme adopted by the shareholders of the Company on 3 May 2012 ("Share Option Scheme 2012"). The Exercise Price of the Share Option is HK\$1.25 per share.

Details of the options under New Share Option Scheme granted on 11 June 2015 as at the report date were as follows:

Share Option Scheme 2012

Date of grant	Exercise period	Exercise price	At 1 January 2020	Granted during the period	Cancelled/ lapsed during the period	Exercised during the period	At report date
New Share Option Scheme)						
Directors and Chief Executives							
11 June 2015	1 February 2016 to 10 June 2020	HK\$1.25	20,100,000	-	(20,100,000)	-	-
	1 February 2017 to 10 June 2020	HK\$1.25	20,100,000	-	(20,100,000)	-	-
	1 February 2018 to 10 June 2020	HK\$1.25	26,800,000	-	(26,800,000)	-	-
Subtotal			67,000,000	-	(67,000,000)	-	-
Other employees							
11 June 2015	1 February 2016 to 10 June 2020	HK\$1.25	10,710,000	-	(10,710,000)	-	-
	1 February 2017 to 10 June 2020	HK\$1.25	10,710,000	-	(10,710,000)	-	-
	1 February 2018 to 10 June 2020	HK\$1.25	14,280,000	-	(14,280,000)	-	_
Subtotal			35,700,000	-	(35,700,000)	-	
Total share options			102,700,000	-	(102,700,020)	-	-

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 ("Share Option Scheme 2019"). A total of 331,000,000 share option were granted to, and accepted by, the grantees. 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.

Share Option Scheme 2019

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, 19 November 2018 and 24 January 2019 respectively.

COMPETING INTERESTS

The Directors are not aware of, as at 30 September 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.

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

As at 30 September 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 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 2020, 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 months period ended 30 September 2020 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 2020.

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 months period ended 30 September 2020 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 months period ended 30 September 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, 9 November 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 Nina

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.