

CHINA YOUZAN

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First Quarterly Report 2021

A Better Business with Youzan



中國有贊有限公司
CHINA YOUZAN LIMITED

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

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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 three months ended 31 March 2021, the Group recorded a revenue of approximately RMB417,274,000, representing an increase of 11.9% compared to the same period of last year. Of which, the revenue from sale of subscription solutions was approximately RMB257,012,000, representing an increase of 20.7% compared to the same period of last year, and the revenue from merchant solutions was approximately RMB156,711,000, representing a decrease of 0.2% compared to the same period of last year.

For the three months ended 31 March 2021, the Group recorded a gross profit of approximately RMB245,121,000, representing an increase of 15.7% compared to the same period of last year. Of which, the gross profit of sale of subscription solutions was approximately RMB189,632,000, representing an increase of 21.1% compared to the same period of last year, and the gross profit of merchant solutions was approximately RMB54,965,000, representing an increase of 0.9% compared to the same period of last year.

For the three months ended 31 March 2021, the Group's gross profit margin increased from 56.8% in the same period of last year to 58.7% for the current period. Of which, the gross profit margin of subscription solutions increased from 73.6% in the same period of last year to 73.8% for the current period, and the gross profit margin of merchant solutions increased from 34.7% in the same period of last year to 35.1% for the current period.

The Group recorded an operating loss of approximately RMB194,821,000 for the three months ended 31 March 2021, representing an increase of 35.4% when compared to an operating loss of approximately RMB143,865,000 for the same period of last year.

The board of directors (the "Board") does not recommend the payment of any interim dividend for the three months ended 31 March 2021.

FINANCIAL RESULTS

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 2021 (the “reporting period”) together with the comparative unaudited figures for the corresponding periods in 2020 (Re-presented) as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the three months ended 31 March	
		2021	2020
	<i>Notes</i>	(Unaudited) RMB'000	(Unaudited) RMB'000 (Re-presented)
Revenue	2	417,274	373,013
Cost of sales		(172,153)	(161,079)
Gross profit		245,121	211,934
Investment and other income	3	20,767	18,308
Other gains and losses, net		(153)	52
Selling expenses		(209,995)	(161,719)
Administrative expenses		(70,599)	(45,134)
Equity-settled share-based payment		(12,888)	(17,328)
Amortisation of intangible assets		(30,458)	(48,536)
Other operating expenses	4	(136,616)	(101,442)
Loss from operations		(194,821)	(143,865)
Finance costs		(5,625)	(7,992)
Share of (losses)/profits of associates		(149)	5,038
Loss before taxation		(200,595)	(146,819)
Income tax credit	5	32,419	14,535
Loss for the period	6	(168,176)	(132,284)
Attributable to:			
Owners of the Company		(91,129)	(74,890)
Non-controlling interests		(77,047)	(57,394)
		(168,176)	(132,284)
Loss per share (express in RMB per share)	7		
Basic		(0.0053)	(0.0049)
Diluted		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the three months ended 31 March	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Loss for the period	(168,176)	(132,284)
Other comprehensive income:		
<i>Item that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	1,582	2,253
Total comprehensive income for the period, net of tax	(166,594)	(130,031)
Attributable to:		
Owners of the Company	(88,280)	(65,669)
Non-controlling interests	(78,314)	(64,362)
	(166,594)	(130,031)

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 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.

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 period, unless exchange rates fluctuated significantly during the period, 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).

The Financial Information should be read in conjunction with the 2020 annual financial statements. The accounting policies (including the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty) and methods of computation used in the preparation of the Financial Information are consistent with those used in the annual financial statements for the year ended 31 December 2020.

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	
2021	2020
(Unaudited)	(Unaudited)
RMB'000	RMB'000
	(Re-presented)

Revenue from contracts with customers within the scope of HKFRS 15

Subscription Solutions	257,012	212,902
Merchant Solutions (Note (i))	156,711	156,952
Others	3,551	3,159
	417,274	373,013

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		Others		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000 (Re-presented)	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000 (Re-presented)
Primary geographical markets												
- PRC except Hong Kong	-	198	68,472	57,009	-	-	352,784	325,629	1,920	-	423,176	382,836
Segment revenue	-	198	68,472	57,009	-	-	352,784	325,629	1,920	-	423,176	382,836
Intersegment revenue												
- PRC except Hong Kong	-	-	(5,290)	(9,823)	-	-	(612)	-	-	-	(5,902)	(9,823)
Revenue from external customers	-	198	63,182	47,186	-	-	352,172	325,629	1,920	-	417,274	373,013
Timing of revenue recognition												
Products transferred at a point in time	-	198	14	6	-	-	64,943	54,809	-	-	64,957	55,013
Products and services transferred over time	-	-	63,168	47,180	-	-	287,229	270,820	1,920	-	352,317	318,000
Total	-	198	63,182	47,186	-	-	352,172	325,629	1,920	-	417,274	373,013

Note:

- (i) Merchant Solutions include transaction fee of approximately RMB21,603,000 (Three months ended 31 March 2020: RMB50,666,000) generated from 杭州有贊科技有限公司 (“Hangzhou Youzan”), a subsidiary of the Group, for the three months ended 31 March 2021. Hangzhou Youzan ceased its transaction service in February 2021 and no transaction fee income would be generated afterwards.
- (ii) For the three months ended 31 March 2020, revenue was disaggregated into three types: (i) SaaS and Extended Services, (ii) transaction fees and (iii) others. The directors of the Company consider the new presentation for the three months ended 31 March 2021 is more relevant and appropriate for the Group’s current development of business. As a result, the corresponding figures are re-presented.

3. Investment and other income

	For the three months ended 31 March 2021 (Unaudited) RMB’000	2020 (Unaudited) RMB’000 (Re-presented)
Interest income on:		
Bank deposits	4,432	1,434
Central bank	3,274	5,627
Loan to other	275	32
Financial assets at FVTPL	1,209	972
Total interest income	9,190	8,065
Government grants		
– equity specific financial support	650	2,610
VAT super-credit	7,814	6,441
Others	3,113	1,192
	20,767	18,308

4. Other operating expenses

For the three months ended 31 March 2021, other operating expenses amounted to approximately RMB136,616,000 (Three months ended 31 March 2020: approximately RMB101,442,000 (Re-presented)), which included research and development expenditures amounting to approximately RMB134,742,000 (Three months ended 31 March 2020: RMB100,917,000 (Re-presented)).

5. Income tax credit

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

	For the three months ended 31 March	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax – the PRC		
Provision for the period	16	–
Deferred tax	(32,435)	(14,535)
	(32,419)	(14,535)

PRC Enterprises Income Tax ("EIT") has been provided at a rate of 25% for the period (Three months ended 31 March 2020: 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 2020: Nil).

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 a High and New Technology Enterprise (高新技術企業) on 30 November 2018 and were entitled to enjoy an income tax concession at preferential rate of 15% effective from 1 January 2018 for three years. 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 2018. The abovesaid subsidiary is applying renewal and management estimated the possibility of successful renewal is high. After renewal, the abovesaid subsidiary will be entitled to enjoy an income tax concession at preferential rate of 15% effective from 1 January 2021 for three years.

One of the Group's subsidiary operating in Beijing, the PRC, was recognised as a High and New Technology Enterprise (高新技術企業) on 21 October 2020 and were entitled to enjoy an income tax concession at preferential rate of 15% effective from 1 January 2020. 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 2020.

6. Loss for the period

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

	For the three months ended 31 March	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Re-presented)
Amortisation of intangible assets	30,458	48,536
Amortisation of capitalised contract costs	61,682	48,112
Cost of inventories sold	1,466	984
Depreciation of property, plant and equipment	5,194	4,602
Depreciation of right-of-use assets	12,431	10,721
Gain on disposals of property, plant and equipment	(40)	(17)
Written off of trade receivables	-	217
Operating lease charges	1,666	1,802
Research and development expenditure (included in other operating expenses and equity-settled share-based payments)	138,401	105,918

7. Loss per share

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

	For the three months ended 31 March	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000

Loss

Loss attributable to owners of the Company,
used in the basic and diluted loss per share
calculation

(91,129)	(74,890)
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	For the three months ended 31 March	
	2021	2020
	(Unaudited)	(Unaudited)
	'000	'000

Number of shares

Weighted average number of ordinary shares
used in basic loss per share calculation

17,099,712	15,192,515
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Effect of dilutive potential ordinary shares
arising from share options

214,670	N/A
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Weighted average number of ordinary shares
used in diluted loss per share calculation

17,314,382	N/A
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For the three months ended 31 March 2021, 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 ended 31 March 2020, 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 period ended 31 March 2021 (Three months ended 31 March 2020: Nil).

9. Share capital

As at 31 March 2021, the number of issued shares of the Company was 17,260,003,617 shares.

As at the date of this report, the number of issued shares of the Company was 17,260,003,617 shares.

10. Condensed consolidated statement of changes in equity

	As at 1 January 2021 (Audited) RMB'000	Movements (Unaudited) RMB'000	As at 31 March 2021 (Unaudited) RMB'000
Share capital	144,981	55	145,036
Share premium account	6,093,115	5,309	6,098,424
Share option reserve	33,492	3,079	36,571
Shares held for Share Award Scheme	(75,524)	7,525	(67,999)
Share Award Scheme reserve	50,067	970	51,037
Capital reserve	(620,234)	–	(620,234)
Statutory reserve	8,060	–	8,060
Exchange reserve	(15,710)	2,849	(12,861)
General reserve	–	291	291
Financial assets at FVTOCI reserve	(57,812)	–	(57,812)
Subsidiary's treasury share reserve	(7)	–	(7)
Accumulated losses	(1,701,633)	(91,048)	(1,792,681)
Total attributable to owners of the Company	3,858,795	(70,970)	3,787,825
Non-controlling interests	771,304	(77,425)	693,879
Total equity	4,630,099	(148,395)	4,481,704

	As at 1 January 2020 (Audited) RMB'000	Movements (Unaudited) RMB'000	As at 31 March 2020 (Unaudited) RMB'000
Share capital	128,665	–	128,665
Share premium account	5,025,838	–	5,025,838
Share option reserve	64,334	10,303	74,637
Shares held for Share Award Scheme	(136,589)	19,819	(116,770)
Share Award Scheme reserve	78,335	(12,794)	65,541
Warrant reserve	774	–	774
Capital reserve	(59,517)	–	(59,517)
Statutory reserve	8,060	–	8,060
Exchange reserve	74,027	9,221	83,248
Financial assets at FVTOCI reserve	(56,304)	–	(56,304)
Subsidiary's treasury share reserve	(7)	–	(7)
Accumulated losses	(1,469,148)	(74,890)	(1,544,038)
Total attributable to owners of the Company	3,658,468	(48,341)	3,610,127
Non-controlling interests	240,579	(64,362)	176,217
Total equity	3,899,047	(112,703)	3,786,344

11. Convertible bonds

As at 31 March 2021 and as at the date of this report, there were no outstanding convertible bonds.

12. Warrants

As at 31 March 2021 and as at the date of this report, there were no outstanding Warrant Shares.

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 three months ended 31 March	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Technology services fee paid to a related company	–	(189)
Dividend income from an associate	725	2,538
Loans to a related company during the period		
– Principal borrowed during the period	–	(500)
– Repayment during the period	–	800
Revenue from a related company	1,162	1,274
Commission paid to an associate	(741)	–
Administrative expenses paid to a non-controlling interest of a subsidiary	(629)	–

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

	For the three months ended 31 March	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Salaries, bonus and allowances	4,720	5,342
Equity-settled share-based payments	2,966	8,920
Retirement benefit scheme contributions	96	72
	7,782	14,334

14. Comparative figures

Certain comparative figures have been re-presented to conform to the current period's presentation. The new classification of the accounting items are considered to provide a more appropriate presentation of the state of affairs of the Group and provide more relevant information to reflect the Group's nature of income and expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

Youzan provides merchants with powerful social network-based 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 in all aspects.

We offer a wide variety of cloud-based commerce services to merchants through our subscription solutions, a suite of SaaS products such as Youzan WeiMall, Youzan Retail, Youzan Chain, Youzan Beauty, and Youzan Education. In addition, leveraging our Youzan Cloud platform and our PaaS capabilities, we also provide customised services for merchants and offer applications by third-party developers on our Youzan App Market.

We also provide merchants with merchant solutions, a series of value-added services to address merchants' online and/or offline operation needs, including payment services, merchandise sourcing and distribution, consumer protection and online traffic monetisation. Merchant solutions mainly include Youzan Distribution, Youzan Guarantee and Youzanke.

In the first quarter of 2021, Youzan launched the “Youzan WeCom Assistant” (有贊企業微信助手) to empower merchants with private domain traffic to drive growth. Youzan WeCom Assistant is a powerful tool that empowers merchants in customer acquisition, activation and operation. Merchants can accumulate customer assets in WeCom and drive activity and conversion rate of its customers.

The Gross Merchandise Volume (“GMV”) generated by merchants through Youzan’s solutions reached RMB23.6 billion in the first quarter of 2021, representing an increase by 13% as compared to the GMV in the same period of 2020.

As of 31 March 2021, the number of paying merchants was 95,692, increased by 5% as compared with the number as of 31 March 2020. The number of new paying merchants was 7,961 in the first quarter of 2021.

As of 31 March 2021, we have 3,676 employees, with 42% of sales, 35% of product and technology, 16% of service and operation and 7% of management and support.

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 achieve success in commerce. To help the merchants achieve success is to help them improve business efficiency and expand the business scale by providing better solutions to satisfy their business needs. We plan to implement the following strategies to strengthen our leadership in the cloud-based commerce services industry:

Grow our merchants' sales

We believe that our business value is commensurate with the continued success attained by our merchants and therefore our first growth strategy is to keep helping grow our merchants' sales. The more sales a merchant generates with our products and services, the greater the financial return we would receive in exchange for the value we created for them. We will further review and monitor our merchants' needs, and endeavour to provide them with the most effective and efficient solutions that are tailor-made for their needs. Furthermore, we will further enhance and optimise our service capabilities helping merchants use our products efficiently as well as providing them with constructive advice for their business operations.

Grow our merchant base and broaden sales network

We will further increase the size of our merchant base. We believe that we are well-positioned to capitalise the continued growth of the decentralised e-commerce market in China. Merchants of all sizes demand user-friendly and efficient management tools to digitalise their business operations, manage their online customer traffic, as well as integrate their online/offline operations. We will continue to design and launch new solutions and optimise our existing offerings to capitalise these industry trends. In addition, we will further expand our sales network of direct sale team and channel partners, improve our sales and marketing efficiency and increase penetration in more regions with sales potential so that we can achieve further growth.

Continuous innovation and expansion of our solution offerings

Leveraging our in-depth industry know-how and proprietary technologies, we will continue to develop new products and services catering to our merchants' evolving needs and pursue cross-sell and up-sell opportunities. As for our subscription solutions, we plan to invest in continuous innovation of our SaaS products and related services helping them better manage their own customer traffic and achieve more efficient digitalised operations. As for our merchant solutions, we will further enhance our understanding of demands of merchants of all sizes in different verticals and provide them with services that align with their business process to meet their ever-increasing operational needs. Furthermore, in light of the emergence and rapid development of live-streaming e-commerce and other potential popular online sales and marketing channel, we will strive to connect our merchants to more online platforms with high customer traffic so as to increase their business opportunities.

Continue to expand our ecosystem and enhance our capabilities to serve large-scale merchants

We will continue to grow and develop our ecosystem by joining forces with our partners to foster the ability to serve large-scale merchants by offering personalised and customised solutions:

- *Youzan Cloud platform.* We will further enhance and optimise our PaaS capabilities. By enhancing and optimising our Youzan Cloud platform, we are able to make our Youzan App Market available to more third-party developers who are capable to develop and offer more quality applications to enrich our offerings on Youzan App Market. In addition, we will increase our investment in Youzan Cloud platform to strengthen our cloud offerings such as E-commerce Cloud, Retail Cloud, and Marketing Cloud.
- *Youzan Service Market.* We will further expand the number of third-party service providers clustered around Youzan Service Market. We plan to attract more quality third-party service providers to Youzan Service Market to enrich service offerings for merchants. We will also deepen our relationships with third-party service providers by offering better incentives for quality services, efficient match with particular merchant with service needs, as well as introduction of other business opportunities.

Continue to build for the long-term

We are committed to creating long-term value for our merchants and help them to achieve long-term success. As an innovator and pioneer offering state-of-the-art cloud-based commerce services solutions, we seek opportunities for strategic partnership with other market players that can create synergies with us, and opportunities for making selective investments or acquisitions to constantly enhance our competence. We believe the strategic partnership or investments could further strengthen our market leadership for the long run and create greater long-term value for our merchants.

Financial Review

Revenue

The Group's revenue in the reporting period was approximately RMB417,274,000 (Three months ended 31 March 2020: approximately RMB373,013,000 (Represented)), representing an increase of about 11.9% compared with the same period in 2020, which was mainly attributable to the substantial increase in revenue from subscription solutions.

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		
	2021	2020	Changes
	(Unaudited)	(Unaudited)	
	RMB'000	RMB'000	%
		(Re-presented)	
Subscription solutions	257,012	212,902	20.7%
Merchant solutions	156,711	156,952	(0.2)%
Others	3,551	3,159	12.4%
Total	417,274	373,013	11.9%

Subscription Solutions

Revenue from subscription solutions primarily include subscription fees for SaaS products and a per-transaction cloud service fee for each extra order beyond a pre-specified order number threshold that consumers made to such merchants through SaaS products. Revenue generated from subscription solutions was approximately RMB257,012,000 in the reporting period (Three months ended 31 March 2020: approximately RMB212,902,000 (Re-presented)), representing an increase of 20.7%, which was mainly attributable to the increase in the number of paying merchants from 91,209 as of 31 March 2020 to 95,692 as of 31 March 2021 who purchased SaaS products, and the increase in average revenue per merchant of subscription solutions.

Merchant Solutions

The Group offers merchant solutions which comprise comprehensive value-added services addressing merchant needs that arise in daily operations. Revenue from merchant solutions mainly include transaction service fee charged for transaction service, service fees charged for Youzan Distribution, Youzan Guarantee, as well as Youzanke. Transaction service fee and service fees for Youzan Distribution, Youzan Guarantee and Youzanke are determined with reference to the GMV generated by merchants through solutions.

Revenue from merchant solutions was approximately RMB156,711,000 in the reporting period (Three months ended 31 March 2020: approximately RMB156,952,000 (Re-presented)), representing a decrease of 0.2%, which was primarily due to the decrease in revenue generated from transaction services and partially offset by the growth of other service fees.

Others

Revenue from other businesses was approximately RMB3,551,000 in the reporting period (Three months ended 31 March 2020: approximately RMB3,159,000 (Re-presented)), representing an increase of 12.4%, mainly due to the increase in the revenue from providing catering services.

Cost of Sales

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

	For the three months ended 31 March				Changes %
	2021		2020		
	RMB'000	Percentage (%)	RMB'000 (Re-presented)	Percentage (%)	
Staff costs	44,578	25.9%	35,957	22.3%	24.0%
Server and SMS costs	27,147	15.7%	24,642	15.3%	10.2%
Transaction costs	78,160	45.3%	93,094	57.8%	(16.0)%
Costs of goods sold	1,466	0.9%	984	0.6%	49.0%
Depreciation of right-of-use-assets	1,996	1.2%	1,448	0.9%	37.8%
Technology services expenses	3,202	1.8%	1,367	0.8%	134.2%
Contracted customer services expenses	2,359	1.4%	977	0.6%	141.5%
Taxes and surcharges	2,001	1.2%	605	0.4%	230.7%
Insurance premium costs	6,819	4.0%	–	–	N/A
Others	4,425	2.6%	2,005	1.3%	120.7%
Total	172,153	100%	161,079	100%	6.9%

The Group's costs of sales in the reporting period were approximately RMB172,153,000 (Three months ended 31 March 2020: approximately RMB161,079,000 (Re-presented)), representing an increase of 6.9%, which was mainly because: (i) staff costs increased by 24.0% from approximately RMB35,957,000 in the same period of last year to RMB44,578,000 in the reporting period due to business expansion, (ii) server and SMS costs increased by 10.2% from approximately RMB24,642,000 in the same period of last year to approximately RMB27,147,000 in the reporting period, primarily attributable to the increase in server usage as a results of business expansion, (iii) transaction costs decreased by 16.0% from approximately RMB93,094,000 in the same period of last year to approximately RMB78,160,000 in the reporting period, mainly because the revenue generated from transaction services decreased, and (iv) insurance premium costs increased by RMB6,819,000 since the Group started to purchase freight insurance from insurance institutions and provide to merchants who registered with Youzan Guarantee from December 2020.

Gross Profit and Gross Profit Margin

The Group recorded a gross profit for the reporting period of approximately RMB245,121,000 (Three months ended 31 March 2020: approximately RMB211,934,000 (Re-presented)), representing an increase of 15.7%. The Group's gross profit margin increased from 56.8% (Re-presented) in the same period of 2020 to 58.7% in the reporting period. The increase in gross profit and gross profit margin was mainly due to the increase in total revenue and the proportion of subscription solutions that have high gross profit margin. Revenue generated from subscription solutions as a percentage of total revenue increased from 57.1% in the three months ended 31 March 2020 to 61.6% in the three months ended 31 March 2021.

	For the three months ended 31 March			
	2021		2020	
	RMB'000	Gross profit margin (%)	RMB'000 (Re-presented)	Gross profit margin (%)
Subscription Solutions	189,632	73.8%	156,633	73.6%
Merchant Solutions	54,965	35.1%	54,500	34.7%
Others	524	14.8%	801	25.4%
Total	245,121	58.7%	211,934	56.8%

Subscription Solutions

The gross profit of subscription solutions for the reporting period was approximately RMB189,632,000 (Three months ended 31 March 2020: approximately RMB156,633,000 (Re-presented)), representing an increase of 21.1%. The gross profit margin increased from 73.6% (Re-presented) in the three months ended 31 March 2020 to 73.8% in the three months ended 31 March 2021. The increase in gross profit and gross profit margin of subscription solutions was mainly due to the increase in average revenue per merchant of subscription solutions, and the increase in the revenue of subscription solutions whilst the relevant major costs did not increase to the similar extent.

Merchant Solutions

The gross profit of merchant solutions for the reporting period was approximately RMB54,965,000 (Three months ended 31 March 2020: approximately RMB54,500,000 (Re-presented)), representing an increase of 0.9%. The gross profit margin increased from 34.7% (Re-presented) in the three months ended 31 March 2020 to 35.1% in the three months ended 31 March 2021.

Others

Other gross profit for the reporting period was approximately RMB524,000 (Three months ended 31 March 2020: approximately RMB801,000 (Re-presented)).

Expenses and Others

The Group recorded a 29.9% increase compared with the same period in 2020 in selling expenses to approximately RMB209,995,000 (Three months ended 31 March 2020: approximately RMB161,719,000 (Re-presented)). 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 56.4% increase compared with the same period in 2020 in administrative expenses to approximately RMB70,599,000 (Three months ended 31 March 2020: approximately RMB45,134,000 (Re-presented)). It was mainly due to the increase in staff costs because of business expansion and the increase in legal and professional fees for the listing application of Youzan Technology Inc..

The Group recorded a 34.7% increase compared with the same period in 2020 in other operating expenses to approximately RMB136,616,000 (Three months ended 31 March 2020: approximately RMB101,442,000 (Re-presented)). It was mainly due to the increase in research and development expenditure since the Group continue to invest significant resources in research and development to enhance technology capabilities.

The Group recorded a 25.6% decrease compared with the same period in 2020 in equity-settled share-based payment to approximately RMB12,888,000 (Three months ended 31 March 2020: approximately RMB17,328,000).

The Group recorded a 13.4% increase compared with the same period in 2020 in investment and other income to approximately RMB20,767,000 (Three months ended 31 March 2020: approximately RMB18,308,000 (Re-presented)), which was primarily attributable to the increase in VAT super-credit and interest income.

Dividends

No dividends have been paid or proposed during the period ended 31 March 2021, nor has any dividend been proposed since the end of the reporting period (Three months ended 31 March 2020: Nil).

Pledge of Assets

As at 31 March 2021, the Group had no pledge of assets.

Financial Resources and Liquidity

As at 31 March 2021, the Company had cash and cash equivalents of approximately RMB1,158,975,000 (As at 31 December 2020: approximately RMB1,751,530,000).

As at 31 March 2021, the Company had no bank borrowings (As at 31 December 2020: Nil).

Contingent Liability

- (a) The Group provided transaction services to facilitate the transactions process between merchants and consumers. In connection with provision of such service, Hangzhou Youzan entered into a payment service agreement with Beijing Gaohuitong (a subsidiary of the Group), pursuant to which Beijing Gaohuitong, a licensed payment company, provided settlement service to the Group's merchants.

After consulting the Group's legal counsel, transaction service in the past provided by Hangzhou Youzan ("Past Transaction Service") might be deemed as having engaged in payment activities without licence by the relevant authority in China under Administrative Measures for the Payment Services Provided by Non-Financial Institutions (《非金融機構支付服務管理辦法》) and may give rise to the risk of being required to terminate such practice according to the relevant PRC regulations. Furthermore, according to Measures for Banning Illegal Financial Institutions and Illegal Financial Business Activities (《非法金融機構和非法金融業務活動取締辦法》) that remain in force up to 31 March 2021 and the date of this report, confiscation of illegal gains and administrative fine in the range of one time to five times of any illegal gains from such operation (in case of no illegal gains, administrative fine of RMB100,000 to RMB500,000) could be imposed by the relevant regulatory authorities.

Up to 31 March 2021 and the date of this report, Hangzhou Youzan had not been determined by the relevant regulatory authorities as engaging in payment activities without licence. In February 2021, Hangzhou Youzan has ceased providing transaction service. After consulting the Group legal counsel, the Directors are of the view that, based on that Hangzhou Youzan ceased providing transaction service, (i) the likelihood that current business operations of Hangzhou Youzan would be penalised for having engaged in unlicensed payment activities is low, and (ii) the likelihood that Hangzhou Youzan would be retrospectively penalised for having engaged in unlicensed payment activities is low. As a result, the Directors are of the opinion that material financial impact to the Group as a result of the Past Transaction Service is not probable.

- (b) On 22 April 2020, Hangzhou Youzan and its merchant had a legal dispute with a third party for trademark infringement. The third party sued for infringement of their registered trademark and claimed the merchant and Hangzhou Youzan for damage of RMB2,000,000. Management and the Group's legal department assessed the likelihood of the claim are low and the maximum compensation, if any, could be RMB2,000,000.
- (c) On 12 October 2020, Hangzhou Youzan and 2 merchants had a legal dispute with a third party for product design infringement. The third party sued for infringement of product design used by the merchants and claimed the merchants and Hangzhou Youzan for damages of RMB2,000,000. Management and the Group's legal department assessed the likelihood of the claim as low and the maximum compensation, if any, could be RMB2,000,000.

Save as disclosed above, the Group had no other material contingent liabilities as at 31 March 2021.

Foreign Exchange Exposure

Since the Group's operations are mainly located in the PRC, its transactions, monetary assets and liabilities are primarily denominated in Renminbi. 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 2021, the Group has approximately 3,676 employees (As at 31 December 2020: 3,603). 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

- (a) On 19 January 2021, 杭州有贊科技有限公司 (“Hangzhou Youzan”) entered into capital injection agreement and shareholders’ agreement with Shanghai Burgeon Software Technology Co. Ltd. and its existing shareholders to confirm the acquisition of 15% new shares. RMB50 million earnest money paid became part of the consideration and the remaining balance of approximately RMB162 million was settled by Hangzhou Youzan on 22 January 2021.
- (b) On 6 January 2021, Hangzhou Youzan acquired in aggregate of 4.66% equity interests of Company A from its existing shareholders with at a total consideration of RMB7,922,000.

On the same day, Hangzhou Youzan entered into an investment agreement with all existing shareholders of Company A. According to which Hangzhou Youzan intends to inject RMB16,800,000 to Company A for additional issue registered capital, provided that Company A achieves either quarterly, half-yearly or yearly sales targets in 2021 as specified in the investment agreement, so that after completion of the potential investment, Hangzhou Youzan’s holding of equity interests of Company A will reach 10%. Hangzhou Youzan can choose not to proceed with the potential investment in Company A if the performance targets cannot be met.

Hangzhou Youzan paid Company A RMB2,000,000 in January 2021 as earnest money for the potential investment, such amount together with interests calculated at bank deposit rate is refundable when Hangzhou Youzan choose not to proceed with the potential investment on grounds that the performance targets not being met.

- (c) On 26 February 2021, the Company and BetaCafe Holdings Limited (the “offeror”) issued a joint announcement for the (i) proposed distribution (“Distribution”) of the shares of Youzan Technology Inc. held by the Company to all shareholders of the Company (such shares are proposed to be listed on the Main Board of the Stock Exchange by way of introduction); and (ii) the taking private of the Company after completion of the Distribution by way of a scheme of arrangement under section 99 of the Companies Act. Details are set forth in the joint announcement (“joint announcement”) dated 26 February 2021.
- (d) On 24 March 2021, Qima Investment Limited, a subsidiary of the Group, signed a supplemental contract with all existing shareholders of 株式會社Youzan Japan (“Youzan Japan”), a non-wholly owned subsidiary of the Group, for further acquisition of 2,739 new shares of Youzan Japan by a consideration of approximately RMB8,000,000. The abovesaid acquisition is not yet completed up to the date of this report. Upon completion, Qima Investment Limited’s equity interest in Youzan Japan will be increased from 52.63% to 66.65%.
- (e) On 29 March 2021, a subsidiary of the Group, entered into an agreement with Company B to acquire certain preferred shares and a warrant of Company B by consideration of US\$3,200,000.

Event After the Reporting Period

On 1 April 2021, the Company (i) proposed adoption by Youzan Technology of the Youzan Technology Share Incentive Plans and (ii) proposed disclosable transactions and connected transactions and Special Deal Arrangements.

On 16 April 2021, the Company and the offeror issued a joint announcement for (i) pre-conditional take private proposal for China Youzan Limited by the offeror by way of scheme of arrangement under section 99 of the Companies Act; (ii) proposed distribution in specie of Youzan Technology shares and fulfillment of scheme pre-condition relating to the optionholder irrevocable undertakings.

On 19 April 2021, the Company issued an announcement related to (i) despatch of circular and (ii) the first SGM and closure of register of members of China Youzan.

On 20 April 2021, the Company issued and despatched the circular (the “circular”) in relation to (i) Rollover Arrangement, the Special Deal Arrangements and the Connected Transactions; (ii) proposed adoption by Youzan Technology of the Youzan Technology Share Incentive Plans.

On 6 May 2021, the Company and the offeror issued a joint announcement for (i) poll results of the first SGM; (ii) fulfillment of scheme pre-conditions relating to the approval of the Roller Arrangement and the Youzan Technology Share Incentive Plans and (iii) fulfillment of certain effectiveness conditions relating to the Youzan Technology Share Incentive Plans.

Unless otherwise defined, capitalised terms used have the same meanings as defined in the joint announcement and the circular.

Details of the transactions please refer to the Company’s announcements dated 26 February, 2021, 19 March 2021, 1 April 2021, 16 April 2021, 19 April 2021 and 6 May 2021; and the Company’s circular dated 20 April 2021.

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, Note 2)</i>	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 <i>(Note 3)</i> 363,170,101 <i>(Note 4)</i>	100,000,000 <i>(Note 6)</i>	1,903,771,804	11.03%
Mr. Yu Tao	–	15,000,000 <i>(Note 7)</i>	15,000,000	0.09%
Mr. Cui Yusong	241,885,127 <i>(Note 5)</i>	20,000,000 <i>(Note 7)</i>	261,885,127	1.52%
Ms. Ying Hangyan	852,000	15,000,000 <i>(Note 7)</i>	15,852,000	0.09%

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: Mr. Guan Guisen resigned as a Director with effect from 17 February 2021.

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. As at 31 December 2020, Youzan Teamwork was owned as to 8% by Mr. Zhu Ning, and 18% by Whitecrow.

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 30 June 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 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 Substantial Shareholders	Capacity	Long Position in Shares	
		Number of interest in shares	% Shareholding
Whitecrow Investment Ltd. <i>(Note 1)</i>	Beneficial owner	1,440,601,703	8.35%
Poyang Lake Investment Limited <i>(Note 2)</i>	Beneficial owner	1,036,766,038	6.01%
Tencent Holdings Limited <i>(Note 2)</i>	Interests of controlled corporation	1,036,766,038	6.01%
Ward Ferry Management (BVI) Limited	Investment manager	1,066,552,000	6.18%
UBS Group AG	Interests of controlled corporation	1,374,847,484	7.97%

Note 1: Whitecrow is a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mr. Zhu Ning.

Note 2: Poyang Lake Investment Limited is a wholly-owned subsidiary of Tencent Holdings Limited (Stock Exchange Stock Code: 700), which is deemed to be interested in the Shares held by Poyang Lake Investment Limited for the purpose of the SFO.

SHARE OPTION SCHEME AND SHARE AWARD SCHEME

Share Options Scheme

The Company had one share option scheme adopted on 12 June 2019 (the "Share Option Scheme 2019").

Set out below are the details of movements in the outstanding options granted under the Share Option Scheme 2019 during the period ended 31 March 2021:

Share Option Scheme 2019

	Position held within the Company	Date of grant	As at 1.1.2021	Grant during the period	Lapsed during the period	Cancelled during the period	Exercise during the period	As at 31.3.2021	Exercise price HK\$	Exercisable from (Note 1)	Exercisable until (Note 1)	Percentage out of total number of issued Shares as at the date of this report approximately (%)	
Name of Selected Directors													
	Mr. Zhu Ning	Executive Director and chief executive officer	9.9.2019	100,000,000	-	-	-	-	100,000,000	HK\$1.00	1 July 2020	30 June 2024	0.58
	Mr. Cui Yusong	Executive Director	9.9.2019	20,000,000	-	-	-	-	20,000,000	HK\$0.90	1 July 2020	30 June 2024	0.12
	Mr. Yu Tao	Executive Director	9.9.2019	15,000,000	-	-	-	-	15,000,000	HK\$0.90	1 July 2020	30 June 2024	0.09
	Ms. Ying Hangyan	Executive Director	9.9.2019	15,000,000	-	-	-	-	15,000,000	HK\$0.90	1 July 2020	30 June 2024	0.09
	Subtotal		9.9.2019	150,000,000	-	-	-	-	150,000,000				0.87
	Other employees (include 2 senior management of the Group)		9.9.2019	150,154,000	-	(750,000)	-	(6,600,000)	142,804,000	HK\$0.75	1 July 2020	30 June 2024	0.83
	Total			300,154,000	-	(750,000)	-	(6,600,000)	292,804,000				1.70

Note 1: Vesting schedule

1 July 2020	25%
1 July 2021	25%
1 July 2022	25%
1 July 2023	25%

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.

The Board can make award of Shares of the Company to Selected Participants, but must not make any further award of unvested Shares which would result in the number of Shares awarded by the Board under the Share Award Scheme representing 10% or more of the issued Shares from time to time without Shareholders’ approval. The maximum number of Shares which may be subject to an award or awards to a selected participant in any 12-month period shall not in aggregate exceed 1% of the issued Shares.

No award shall be made by the Board and no instructions to acquire Shares shall be given by the Board to the Trustee under the Share Award Scheme where any director is in possession of unpublished price-sensitive information in relation to the Group or where dealings by directors are prohibited under any code or requirement of the GEM Listing Rules and all applicable laws from time to time.

Subject to the relevant Share Award Scheme Rules, (1) the Company can issue and allot Shares to the Trustee from time to time under general mandates granted or to be granted by the Shareholders at general meetings of the Company from time to time (unless such issue and allotment of Shares has otherwise been approved by the Shareholders) for future awards; or (2) in case where the Board have selected certain Eligible Person to be Selected Participant(s), the Company shall, as soon as reasonably practicable after the grant date, for the purposes of satisfying the grant of awards, issue and allot Shares to the Trustee under general mandates granted or to be granted by the Shareholders at general meetings of the Company from time to time (unless such issue and allotment of Shares has otherwise been approved by the Shareholders) and/or transfer to the Trust the necessary funds and instruct the Trustee to either (i) subscribe Shares to be issued by the Company or (ii) acquire Shares through on-market transactions at the prevailing market price. The Trustee must hold the Shares until they are vested in accordance with the Share Award Scheme Rules. When the Selected Participant has satisfied all vesting conditions specified by the Board at the time of making the award and become entitled to the Shares forming the subject of the award, the Trustee will transfer the relevant vested Shares to the Selected Participant.

The Trustee shall not exercise any voting rights and powers in respect of any Shares held under the Trust (including, but not limited to, the Awarded Shares, the Returned Shares, any bonus Shares and scrip Shares).

First Awards

During the year ended 31 December 2018, a total of 551,522,400 Awarded Shares ("First Awards") were granted and out of which, none was granted to the directors of the Company. The fair value of the First Awards granted was calculated based on the market price of the Company's Share at the measurement date that all relevant approvals in connection with the GEM Listing Rules requirements were received. The fair value of awarded shares granted was HK\$0.62 per Awarded Share.

Second Awards

On 19 November 2018, the Board announced the granting of another lot of 314,376,000 Awarded Shares and subsequently reduced to 304,247,200 Awarded Shares ("Second Awards") on 24 January 2019, none was granted to the directors of the Company. The Company received all approvals and allotted Second Awards to Trustee on 1 February 2019, but the grantees acceptance were not received until 15 March 2019. Also on 15 March 2019, the Board adjusted the number of Awards Shares previously announced and granted additional 23,064,800 Awarded Shares to 58 grantees using lapsed shares of First Awards and Second Awards held by Trustee in the Trust Fund. The fair value of the Second Awards granted was calculated based on the market price of the Company's Share at the measurement date that all relevant approvals in connection with the GEM Listing Rules requirements and acceptance from the Eligible participants were received. The fair value of Second Awards shares granted was HK\$0.52 per Awarded Share.

On 5 May 2019, the Board passed a resolution to modify the vesting schedule of 80 grantees of Second Awards, which resulted in immediate and full vesting of 154,897,600 Awarded Shares. Other than that there was no other modification of vesting conditions that will results in the acceleration of vesting.

Third Awards

On 21 August 2019, the Board passed a resolution to grant additional 7,814,400 Awarded Shares (“Third Awards”) by using the lapsed shares of First Awards and Second Awards held by Trustee in the Trust Fund, of which none was granted to the directors of the Company. The fair value of the Third Awards granted was calculated based on the market price of the Company’s Share at the measurement date that all relevant approvals in connection with the GEM Listing Rules requirements and the acceptance of Selected Participants were received. The fair value of Third Awards granted was HK\$0.51 per Awarded Share.

Third Awards granted to Selected Participants are divided into 3 tranches. The first tranche representing 50% of the awards would be vested when the Selected Participant completing 2 years of continuous service to the Group from the date of first day of employment. The second and third tranches each represent 25% of the awards, and would be vested after completing the third year and fourth year of continuous service to the Group, respectively.

Fourth Awards

On 1 July 2020, the Board passed a resolution to grant additional 45,120,000 awarded shares (“Fourth Awards”) by using the lapsed shares of First Awards and Second Awards held by the Trustee in the Trust Fund, of which none was granted to the directors of the Company. The fair value of the Fourth Awards granted was calculated based on the market price of the Company’s share at the measurement date that all relevant approvals in connection with the GEM Listing Rules requirements and the acceptance of selected participants were received. The fair value of Fourth Awards granted was HK\$1.37 per Awarded Share.

Fourth Awards granted to selected participants are divided into 4 tranches. The first tranche representing 25% of the awards would be vested when the Selected Participant completing 1 year of continuous service to the Group from the date of grant. The second, third and fourth tranches each represent 25% of the awards, and would be vested in the second, third and fourth anniversary from the date of grant, respectively.

COMPETING INTERESTS

The Directors are not aware of, as at 31 March 2021, any business or interest of each Director, management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

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

During the three months period ended 31 March 2021, 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 2021.

BOARD PRACTICES AND PROCEDURES

The Company has complied throughout the three months period ended 31 March 2021 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 2021, the Company has been in compliance with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules.

AUDIT COMMITTEE

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

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

The Committee is of the opinion that the preparation of the unaudited results for the three months period ended 31 March 2021 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 2021 and the draft of this report, and has provided advice and comments thereon.

By Order of the Board
China Youzan Limited
Chairman
Zhu Ning

Hong Kong, 10 May 2021

As at the date of this report, the Board comprises the following members:

Executive Directors

Mr. Cao Chunmeng
Mr. Yan Xiaotian
Mr. Zhu Ning
Mr. Cui Yusong
Mr. Yu Tao
Ms. Ying Hangyan

Independent Non-executive Directors

Dr. Fong Chi Wah
Mr. Gu Jiawang
Mr. Xu Yanqing
Mr. Deng Tao

This report will remain on the "Latest Company Announcements" page on the GEM website at www.hkgem.com for at least 7 days from the day of its posting and on the website of the Company at www.chinayouzan.com.