

CHINA YOUZAN

08083.HK

Third 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”)

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.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange of Hong Kong Limited take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 2021, the Group recorded a revenue of approximately RMB1,176,489,000, representing a decrease of 9.9% compared to the same period of last year (Re-presented). Of which, the revenue from subscription solutions was approximately RMB737,292,000, representing a decrease of 2.8% compared to the same period of last year (Re-presented), and the revenue from merchant solutions was approximately RMB427,420,000, representing a decrease of 20.0% compared to the same period of last year (Re-presented).

For the nine months ended 30 September 2021, the Group recorded a gross profit of approximately RMB716,095,000, representing a decrease of 7.3% compared to the same period of last year (Re-presented). Of which, the gross profit of subscription solutions was approximately RMB538,382,000, representing a decrease of 6.0% compared to the same period of last year (Re-presented), and the gross profit of merchant solutions was approximately RMB174,745,000, representing a decrease of 11.0% compared to the same period of last year (Re-presented).

For the nine months ended 30 September 2021, the Group's gross profit margin increased from 59.2% (Re-presented) in the same period of last year to 60.9% for the current period. Of which, the gross profit margin of subscription solutions decreased from 75.5% (Re-presented) in the same period of last year to 73.0% for the current period, and the gross profit margin of merchant solutions increased from 36.8% (Re-presented) in the same period of last year to 40.9% for the current period.

The Group recorded an operating loss of approximately RMB759,120,000 for the nine months ended 30 September 2021, representing an increase of 113.0% when compared to an operating loss of approximately RMB356,350,000 for the same period in last year.

For the three months ended 30 September 2021, the Group made revenue of approximately RMB373,090,000, representing a decrease of 22.5% compared to the same period of last year (Re-presented). Gross profit margin for the three months ended 30 September 2021 increased from 60.4% (Re-presented) in the same period of last year to 61.3% in the current period.

The board of directors (the "Board") does not recommend the payment of interim dividend for the nine months ended 30 September 2021.

FINANCIAL RESULTS

The Board of the Company announces the unaudited consolidated results of the Group for the three months and the nine months ended 30 September 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

| | Notes | Three months ended 30 September | | Nine months ended 30 September | |
|--|-------|------------------------------------|--|-----------------------------------|--|
| | | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 (Re-presented) | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 (Re-presented) |
| Revenue | 3 | 373,090 | 481,510 | 1,176,489 | 1,305,467 |
| Cost of sales | | (144,397) | (190,691) | (460,394) | (533,170) |
| Gross profit | | 228,693 | 290,819 | 716,095 | 772,297 |
| Investment and other income | 4 | 12,454 | 20,169 | 49,271 | 59,403 |
| Other gains and losses, net | | (1,345) | (7,818) | (4,025) | 8,381 |
| Selling expenses | | (248,773) | (199,211) | (687,322) | (539,186) |
| Administrative expenses | | (87,864) | (50,602) | (236,850) | (155,248) |
| Equity-settled share-based payments | | (6,824) | (15,527) | (31,911) | (48,639) |
| Amortisation of intangible assets | | (31,499) | (48,756) | (93,164) | (145,196) |
| Other operating expenses | 5 | (174,443) | (105,469) | (471,214) | (308,162) |
| Loss from operations | | (309,601) | (116,395) | (759,120) | (356,350) |
| Finance costs | | (5,591) | (6,064) | (16,826) | (22,051) |
| Share of (losses)/profits of associates | | (56) | 289 | 60 | 2,223 |
| Fair value change in financial assets at fair value through profit or loss (“FVTPL”) | | 12,370 | - | 16,075 | - |
| Loss before taxation | | (302,878) | (122,170) | (759,811) | (376,178) |
| Income tax credit | 6 | 2,993 | 12,295 | 89,873 | 36,154 |
| Loss for the period | 7 | (299,885) | (109,875) | (669,938) | (340,024) |
| Attributable to: | | | | | |
| Owners of the Company | | (157,193) | (58,661) | (355,939) | (178,546) |
| Non-controlling interests | | (142,692) | (51,214) | (313,999) | (161,478) |
| | | (299,885) | (109,875) | (669,938) | (340,024) |
| Loss per share (express in RMB per share) | 8 | | | | |
| - basic | | (0.0092) | (0.0034) | (0.0208) | (0.0110) |
| - diluted | | N/A | N/A | N/A | N/A |

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|------------------------------------|--|-----------------------------------|--|
| | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 (Re-presented) | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 (Re-presented) |
| Loss for the period | (299,885) | (109,875) | (669,938) | (340,024) |
| Other comprehensive income: | | | | |
| <i>Item that may not be reclassified to profit or loss</i> | | | | |
| Fair value change of equity instruments at fair value through other comprehensive income ("FVTOCI") | (3,925) | 11,347 | - | 11,347 |
| <i>Item that may be reclassified to profit or loss:</i> | | | | |
| Exchange differences on translating foreign operations | (502) | (50,063) | (7,679) | (42,038) |
| Other comprehensive income for the period, net of tax | (4,427) | (38,716) | (7,679) | (30,691) |
| Total comprehensive income for the period, net of tax | (304,312) | (148,591) | (677,617) | (370,715) |
| Attributable to: | | | | |
| Owners of the Company | (162,219) | (111,633) | (363,037) | (217,858) |
| Non-controlling Interests | (142,093) | (36,958) | (314,580) | (152,857) |
| | (304,312) | (148,591) | (677,617) | (370,715) |

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 unaudited condensed financial information of the Group are presented in Renminbi ("RMB") which is the Group's presentation currency. The functional currency of the Company is Hong Kong Dollars ("HK\$"). 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 unaudited condensed financial information for the nine months ended 30 September 2021 ("Financial Information") has been prepared by the directors of the Company (the "Director") in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

The amounts included in the Financial Information have been computed in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") applicable to the periods. However, it does not contain sufficient information to constitute an interim financial report as defined in HKFRSs.

These 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. Adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

The accounting policies applied in the financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2020. In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2021 but they do not have a material effect on the Group's financial statements.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted. The Group has not early adopted any of the forthcoming new or amended standards in preparing these Financial Information.

3. 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 30 September 2021 (Unaudited) RMB'000 | | For the nine months ended 30 September 2021 (Unaudited) RMB'000 | |
|---|--|--|---|--|
| | | 2020 (Unaudited) RMB'000 (Re-presented) | | 2020 (Unaudited) RMB'000 (Re-presented) |
| Revenue from contracts with customers within the scope of HKFRS 15 | | | | |
| Subscription solutions | 229,484 | 283,331 | 737,292 | 758,709 |
| Merchant solutions (<i>note (i)</i>) | 138,162 | 193,133 | 427,420 | 534,054 |
| Others | 5,444 | 5,046 | 11,777 | 12,704 |
| | 373,090 | 481,510 | 1,176,489 | 1,305,467 |

- (i) Merchant solutions include transaction fee of approximately nil and RMB21,603,000 (Three months ended 30 September 2020: RMB40,172,000 and nine months ended 30 September 2020: RMB133,432,000) generated from 杭州有贊科技有限公司 (“Hangzhou Youzan”), a subsidiary of the Group, for the three months ended 30 September 2021 and nine months ended 30 September 2021 respectively. Hangzhou Youzan ceased its transaction service in February 2021 and no transaction fee income would be generated afterwards.
- (ii) For the three months ended 30 September 2020 and nine months ended 30 September 2020, revenue were 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 30 September 2021 and nine months ended 30 September 2021 are more relevant and appropriate for the Group’s current development of business. As a result, the corresponding figures are re-presented.

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 | | | | | | | | | | Total |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|------------------|
| | General trading | | Third party payment services | | Onecomm | | Merchant services | | Others | | |
| | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 | |
| For the nine months ended 30 September | | | | | | | | | | | |
| Primary geographical markets | | | | | | | | | | | |
| - PRC except Hong Kong | 3,558 | 889 | 207,760 | 201,718 | - | 286 | 967,526 | 1,130,144 | 5,272 | 2 | 1,184,116 |
| - Japan | - | - | - | - | - | - | 748 | - | - | - | 748 |
| - Canada | - | - | - | - | - | - | 426 | - | - | - | 426 |
| Segment revenue | 3,558 | 889 | 207,760 | 201,718 | - | 286 | 968,700 | 1,130,144 | 5,272 | 2 | 1,185,290 |
| Intersegment revenue | - | - | (7,044) | (27,572) | - | - | (1,757) | - | - | - | (8,801) |
| Revenue from external customers | 3,558 | 889 | 200,716 | 174,146 | - | 286 | 966,943 | 1,130,144 | 5,272 | 2 | 1,176,489 |
| Timing of revenue recognition | | | | | | | | | | | |
| Products transferred at a point in time | 3,558 | 889 | 48 | 510 | - | - | 192,952 | 213,442 | - | - | 196,558 |
| Products and services transferred over time | - | - | 200,668 | 173,636 | - | 286 | 773,991 | 916,702 | 5,272 | 2 | 979,931 |
| Total | 3,558 | 889 | 200,716 | 174,146 | - | 286 | 966,943 | 1,130,144 | 5,272 | 2 | 1,176,489 |

Third party payment

| | General trading | | Third party payment services | | Onecomm | | Merchant services | | Others | | Total | |
|--|-----------------|-------------|------------------------------|-------------|-------------|-------------|-------------------|-------------|-------------|-------------|-------------|----------------|
| | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 | 2021 | 2020 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | (Re-presented) |

For the three months ended 30 September

Primary geographical markets

| | | | | | | | | | | | | |
|------------------------|-------|-----|--------|--------|---|---|---------|---------|-------|---|---------|---------|
| - PRC except Hong Kong | 3,558 | 199 | 69,279 | 73,841 | - | - | 298,119 | 417,718 | 1,501 | 2 | 372,457 | 491,760 |
| - Japan | - | - | - | - | - | - | 748 | - | - | - | 748 | - |
| - Canada | - | - | - | - | - | - | 426 | - | - | - | 426 | - |

Segment revenue

| | | | | | | | | | | | | |
|--|-------|-----|--------|--------|---|---|---------|---------|-------|---|---------|---------|
| | 3,558 | 199 | 69,279 | 73,841 | - | - | 299,293 | 417,718 | 1,501 | 2 | 373,631 | 491,760 |
|--|-------|-----|--------|--------|---|---|---------|---------|-------|---|---------|---------|

Intersegment revenue

| | | | | | | | | | | | | |
|------------------------|---|---|---|----------|---|---|-------|---|---|---|-------|----------|
| - PRC except Hong Kong | - | - | - | (10,250) | - | - | (541) | - | - | - | (541) | (10,250) |
|------------------------|---|---|---|----------|---|---|-------|---|---|---|-------|----------|

Revenue from external customers

| | | | | | | | | | | | | |
|--|-------|-----|--------|--------|---|---|---------|---------|-------|---|---------|---------|
| | 3,558 | 199 | 69,279 | 63,591 | - | - | 298,752 | 417,718 | 1,501 | 2 | 373,090 | 481,510 |
|--|-------|-----|--------|--------|---|---|---------|---------|-------|---|---------|---------|

Timing of revenue recognition

| | | | | | | | | | | | | |
|---|-------|-----|--------|--------|---|---|---------|---------|-------|---|---------|---------|
| Products transferred at a point in time | 3,558 | 199 | 17 | 10 | - | - | 63,304 | 85,226 | - | - | 66,879 | 85,435 |
| Products and services transferred over time | - | - | 69,262 | 63,581 | - | - | 235,448 | 332,492 | 1,501 | 2 | 306,211 | 396,075 |

Total

| | | | | | | | | | | | | |
|--|-------|-----|--------|--------|---|---|---------|---------|-------|---|---------|---------|
| | 3,558 | 199 | 69,279 | 63,591 | - | - | 298,752 | 417,718 | 1,501 | 2 | 373,090 | 481,510 |
|--|-------|-----|--------|--------|---|---|---------|---------|-------|---|---------|---------|

4. Investment and other income

| | For the three months ended 30 September | | For the nine months ended 30 September | |
|---------------------------|--|--|---|--|
| | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 (Re-presented) | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 (Re-presented) |
| Interest income on: | | | | |
| Bank deposits | 3,329 | 5,543 | 11,955 | 9,222 |
| Central Bank | 3,294 | 3,768 | 9,629 | 13,019 |
| Loan to other | – | 33 | – | 98 |
| Financial assets at FVTPL | 396 | 1,257 | 3,540 | 3,141 |
| Total interest income | 7,019 | 10,601 | 25,124 | 25,480 |
| Government grants | 1,511 | 5,576 | 4,811 | 11,211 |
| VAT super-credit | 1,515 | 3,047 | 10,909 | 12,280 |
| Compensation income | – | – | – | 5,327 |
| Others | 2,409 | 945 | 8,427 | 5,105 |
| | 12,454 | 20,169 | 49,271 | 59,403 |

5. Other operating expenses

| | For the three months ended 30 September | | For the nine months ended 30 September | |
|--|--|--|---|--|
| | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 (Re-presented) | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 (Re-presented) |
| Research and development expenditures | 174,431 | 105,401 | 471,135 | 307,409 |
| Others | 12 | 68 | 79 | 753 |
| | 174,443 | 105,469 | 471,214 | 308,162 |

6. Income tax credit

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

| | For the three months ended 30 September | | For the nine months ended 30 September | |
|--|--|--------------------------------|---|--------------------------------|
| | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 |
| Current tax | | | | |
| – The PRC provision | 224 | 605 | 242 | 605 |
| – Oversea company over provision in prior years | – | (1,369) | – | (1,369) |
| | 224 | (764) | 242 | (764) |
| Deferred tax | (3,217) | (11,531) | (90,115) | (35,390) |
| | (2,993) | (12,295) | (89,873) | (36,154) |

PRC Enterprises Income Tax (“EIT”) has been provided at a rate of 25% for the three months and nine months ended 30 September 2021 (Three months and nine months ended 30 September 2020: 25%).

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 2021 (Three months and nine months ended 30 September 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.

7. Loss for the period

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

| | For the three months ended 30 September | | For the nine months ended 30 September | |
|--|--|--|---|--|
| | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 (Re-presented) | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 (Re-presented) |
| Amortisation of intangible assets | 31,499 | 48,756 | 93,164 | 145,196 |
| Amortisation of capitalised contract costs | 60,239 | 56,936 | 181,812 | 160,160 |
| Allowance for inventories, net | - | (60) | - | - |
| Allowance for trade receivables | 486 | - | 707 | - |
| Allowance/(reversal of allowance) for prepayments, deposit and other receivables, net | - | - | 517 | (19,007) |
| Cost of goods sold | 1,967 | 1,890 | 5,004 | 5,685 |
| Depreciation of property, plant and equipment | 5,235 | 4,407 | 15,715 | 13,802 |
| Depreciation of right-of-use assets | 13,846 | 14,257 | 39,342 | 35,444 |
| Net (gain)/loss on disposals of property, plant and equipment | (11) | (119) | (55) | (53) |
| Operating lease charges | 3,159 | 1,863 | 8,307 | 5,705 |
| Research and development expenditures (included in other operating expenses and equity-settled share-based payments) | 176,141 | 109,749 | 480,078 | 320,892 |

8. Loss per share

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

| | For the three months ended 30 September | | For the nine months ended 30 September | |
|--|--|-------------|---|-------------|
| | 2021 | 2020 | 2021 | 2020 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |

Loss

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

| | | | | |
|--|------------------|----------|------------------|-----------|
| | (157,193) | (58,661) | (355,939) | (178,546) |
|--|------------------|----------|------------------|-----------|

| | For the three months ended 30 September | | For the nine months ended 30 September | |
|--|--|-------------|---|-------------|
| | 2021 | 2020 | 2021 | 2020 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | '000 | '000 | '000 | '000 |

Number of shares

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

| | | | | |
|--|-------------------|------------|-------------------|------------|
| | 17,133,497 | 17,032,456 | 17,115,634 | 16,181,450 |
|--|-------------------|------------|-------------------|------------|

Effect of dilutive potential
ordinary shares arising
from share options

| | | | | |
|--|---------------|---------|----------------|--------|
| | 54,901 | 142,863 | 171,260 | 54,586 |
|--|---------------|---------|----------------|--------|

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

| | | | | |
|--|-------------------|------------|-------------------|------------|
| | 17,188,398 | 17,175,319 | 17,286,894 | 16,236,036 |
|--|-------------------|------------|-------------------|------------|

For the three months and nine months ended 30 September 2021 and 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.

9. Interim dividend

The Board does not recommend the payment of an interim dividend for the three months and the nine months ended 30 September 2021 (three months and nine months ended 30 September 2020: Nil).

10. Share capital

The number of issued shares of the Company was 17,260,003,617 shares as at 30 September 2021.

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

11. Condensed Consolidated Statement of Changes in Equity

| | As at 1 January 2021 RMB'000 | Movements (Unaudited) RMB'000 | As at 30 September 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 | 9,828 | 43,320 |
| Shares held for Share Award Scheme | (75,524) | 21,006 | (54,518) |
| Share Award Scheme reserve | 50,067 | (237) | 49,830 |
| Capital reserve | (620,234) | (1,332) | (621,566) |
| Statutory reserve | 8,060 | - | 8,060 |
| General reserve | - | 291 | 291 |
| Exchange reserve | (15,710) | (7,098) | (22,808) |
| Financial assets at FVTOCI reserve | (57,812) | - | (57,812) |
| Subsidiary's treasury share reserve | (7) | - | (7) |
| Accumulated losses | (1,701,633) | (355,858) | (2,057,491) |
| Total attributable to owners of the Company | 3,858,795 | (328,036) | 3,530,759 |
| Non-controlling interests | 771,304 | (308,919) | 462,385 |
| Total equity | 4,630,099 | (636,955) | 3,993,144 |

| | As at 1 January 2020 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 assets 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 |

12. Convertible bonds

As at 30 September 2021 and the date of this report, there were no outstanding convertible bonds.

13. Warrants

As at 30 September 2021 and the date of this report, there were no outstanding warrants.

14. Related party transactions

- (a) In addition to those related party transactions and balances disclosed elsewhere in the Financial Information, the Group had the following material transactions with its related parties during the period:

| | For the three months ended 30 September | | For the nine months ended 30 September | |
|---|--|--------------------------------|---|--------------------------------|
| | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 |
| Advertising service income received from a related company (exclude VAT) | 472 | 2,585 | 472 | 2,783 |
| Dividend income from an associate | - | 1,088 | 725 | 3,625 |
| Technology service fee paid to a related company | - | (999) | - | (1,188) |
| Administrative expenses paid to a non-controlling interest | (444) | (513) | (1,525) | (1,300) |
| Loans to a related company during the period | | | | |
| – Principal borrowed during the period | - | - | - | (500) |
| – Repayment during the period | - | - | - | 800 |
| Revenue from a related company | 1,134 | 2,564 | 3,318 | 4,905 |
| Commission paid to associates | (1,057) | (524) | (4,401) | (1,598) |

- (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 nine months ended 30 September | |
|---|--|--|---|--|
| | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 (Re-presented) | 2021 (Unaudited) RMB'000 | 2020 (Unaudited) RMB'000 (Re-presented) |
| Salaries, bonus and allowances | 4,821 | 5,106 | 13,970 | 15,424 |
| Equity-settled share-based payments | 1,826 | 3,894 | 7,763 | 20,834 |
| Retirement benefit scheme contributions | 86 | 86 | 268 | 182 |
| | 6,733 | 9,086 | 22,001 | 36,440 |

15. Comparative figures

Certain comparative figures have been represented 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 Financial Information. 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 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.

Since this year, we have launched some new SaaS products, including WowShop, Youzan WeCom Assistant, Youzan Salespeople Assistant and Youzan CRM, to cater to our merchants' evolving needs and grow our merchant base.

WowShop is a digital marketing tool for small businesses in all industries, focusing on merchants with physical stores in lower-tier cities. It helps merchants with marketing, customer management and store operation to achieve business growth.

Youzan WeCom Assistant is a private domain traffic operation solution applied to WeCom, empowering merchants in customer acquisition, activation and operation. Merchants can accumulate customer assets in WeCom and drive activeness and conversion rate of customers.

Youzan Salespeople Assistant is a solution empowering salespeople of merchants. It helps salespeople build up customer base and increase sales efficiency to achieve sales growth for both salespeople and merchants.

Youzan CRM is a customer management solution which helps merchants integrate and process data from omni-channel marketing, private domain operation as well as multi-platform business and build up a customer operation system.

Our business covers five core segments: social e-commerce, new retail, beauty industry, education, and global markets. We continuously upgrade solutions that match the needs of merchants. We continue to grow and develop our ecosystem by joining forces with our partners from strategic investments and cooperation to foster the ability to serve large-scale merchants by offering personalised and customised comprehensive solutions.

The Gross Merchandise Volume (“GMV”) generated by merchants through Youzan’s solutions reached RMB71.8 billion in the first three quarters of 2021. As of 30 September 2021, the number of paying merchants was 90,282, increased by 3% compared to the number of paying merchants as of 30 June 2021. In the third quarter of 2021, the number of new paying merchants was 13,690, increased by 6% compared to the number of new paying merchants in the same period of 2020. The number of new paying merchants was 32,744 in the first three quarters of 2021.

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 for the period was approximately RMB1,176,489,000 (Nine months ended 30 September 2020: approximately RMB1,305,467,000 (Re-presented)), representing a decrease of about 9.9% compared with the same period in 2020, which was mainly attributable to the decrease in revenue from merchant solutions.

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

| | For the nine months ended 30 September | | |
|------------------------|---|----------------|---------|
| | 2021 | 2020 | Changes |
| | (Unaudited) | (Unaudited) | |
| | RMB'000 | RMB'000 | % |
| | | (Re-presented) | |
| Subscription solutions | 737,292 | 758,709 | (2.8) |
| Merchant solutions | 427,420 | 534,054 | (20.0) |
| Others | 11,777 | 12,704 | (7.3) |
| Total | 1,176,489 | 1,305,467 | (9.9) |

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 decreased by 2.8% from approximately RMB758,709,000 (Re-presented) for the nine months ended 30 September 2020 to RMB737,292,000 for the reporting period, mainly attributable to the decrease in cloud service fees. Apart from cloud service fees, revenue from other subscription solutions increased by 11.1%.

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 RMB427,420,000 in the reporting period (Nine months ended 30 September 2020: approximately RMB534,054,000 (Re-presented)), representing a decrease of 20.0%, which was primarily due to the decrease in revenue generated from transaction services since Hangzhou Youzan ceased its transaction service in February 2021.

Others

Revenue from other businesses was approximately RMB11,777,000 in the reporting period (Nine months ended 30 September 2020: approximately RMB12,704,000 (Re-presented)), representing a decrease of 7.3%, mainly due to the decrease in the revenue from providing catering services which were ceased since May 2021.

Cost of Sales

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

| | For the nine months ended 30 September | | | | Changes |
|---------------------------------------|--|----------------|------------------------|----------------|---------|
| | 2021 | | 2020 | | |
| | (Unaudited) | | (Unaudited) | | |
| | RMB'000 | Percentage (%) | RMB'000 (Re-presented) | Percentage (%) | % |
| Staff costs | 133,940 | 29.1 | 116,898 | 21.9 | 14.6 |
| Server and SMS costs | 84,395 | 18.3 | 76,280 | 14.3 | 10.6 |
| Transaction costs | 180,940 | 39.3 | 303,946 | 57.0 | (40.5) |
| Costs of goods sold | 5,004 | 1.1 | 5,685 | 1.1 | (12.0) |
| Depreciation of right-of-use assets | 5,465 | 1.2 | 4,798 | 0.9 | 13.9 |
| Technology services expenses | 4,757 | 1.0 | 7,231 | 1.4 | (34.2) |
| Contracted customer services expenses | 5,890 | 1.3 | 6,426 | 1.2 | (8.3) |
| Taxes and surcharges | 5,681 | 1.2 | 4,545 | 0.9 | 25.0 |
| Insurance premium costs | 17,727 | 3.9 | – | – | N/A |
| Others | 16,595 | 3.6 | 7,361 | 1.3 | 125.4 |
| Total | 460,394 | 100.0 | 533,170 | 100.0 | (13.6) |

The Group's costs of sales in the reporting period were approximately RMB460,394,000 (Nine months ended 30 September 2020: approximately RMB533,170,000 (Re-presented)), representing a decrease of 13.6%, which was mainly because transaction costs decreased by 40.5% from approximately RMB303,946,000 in the same period of last year to approximately RMB180,940,000 in the reporting period, due to Hangzhou Youzan ceased its transaction service in February 2021. Meanwhile the decrease of costs of sales was partially offset by the following factors: (i) staff costs increased by 14.6% from approximately RMB116,898,000 in the same period of last year to RMB133,940,000 in the reporting period due to the increase of personnel caused by business expansion, (ii) insurance premium costs increased by RMB17,727,000 since the Group started to purchase freight insurance from insurance institutions and provide to merchants who registered with Youzan Guarantee from December 2020, and (iii) server and SMS costs increased by 10.6% from approximately RMB76,280,000 in the same period of last year to approximately RMB84,395,000 in the reporting period, primarily attributable to the increase in server usage as a results of business expansion.

Gross Profit and Gross Profit Margin

The Group recorded a gross profit for the reporting period of approximately RMB716,095,000 (Nine months ended 30 September 2020: approximately RMB772,297,000 (Re-presented)), representing a decrease of 7.3%, due to the decrease of gross profit from subscription solutions as well as the decrease of gross profit from merchant solutions.

The Group's gross profit margin increased from 59.2% (Re-presented) in the same period of 2020 to 60.9% in the reporting period, primarily due to the increase of gross margin of merchant solutions.

| | For the nine months ended 30 September 2021 (Unaudited) | | 2020 (Unaudited) | |
|------------------------|--|-------------------------|---------------------------|-------------------------|
| | RMB'000 | Gross profit margin (%) | RMB'000 (Re-presented) | Gross profit margin (%) |
| Subscription solutions | 538,382 | 73.0 | 572,845 | 75.5 |
| Merchant solutions | 174,745 | 40.9 | 196,393 | 36.8 |
| Others | 2,968 | 25.2 | 3,059 | 24.1 |
| Total | 716,095 | 60.9 | 772,297 | 59.2 |

Subscription Solutions

The gross profit of subscription solutions for the reporting period was approximately RMB538,382,000 (Nine months ended 30 September 2020: approximately RMB572,845,000 (Re-presented)), representing a decrease of 6.0%. The decrease in gross profit was mainly due to the decrease in the revenue of cloud service fees. Apart from cloud service fees, the gross profit from other subscription solutions increased by 12.9%.

The gross profit margin decreased from 75.5% (Re-presented) in the nine months ended 30 September 2020 to 73.0% for the reporting period, primarily due to the increase in the cost of sales of subscription solutions whilst the relevant revenue did not increase to the similar extent.

Merchant Solutions

The gross profit of merchant solutions for the reporting period was approximately RMB174,745,000 (Nine months ended 30 September 2020: approximately RMB196,393,000 (Re-presented)), representing a decrease of 11.0%, which was mainly due to the increase in insurance premium costs since the Group started to purchase freight insurance from insurance institutions and provide to merchants who registered with Youzan Guarantee from December 2020.

The gross profit margin increased from 36.8% (Re-presented) in the nine months ended 30 September 2020 to 40.9% in the nine months ended 30 September 2021, mainly due to the increase in the gross margin of transaction services benefited by cost structure optimization, partially offset by the decrease in the gross margin of Youzan Guarantee since the revenue generated by provision of service under Youzan Guarantee decreased whilst the insurance premium costs increased.

Others

Other gross profit for the reporting period was approximately RMB2,968,000 (Nine months ended 30 September 2020: approximately RMB3,059,000 (Re-presented)).

Expenses and Others

The Group recorded a 27.5% increase compared with the same period in 2020 in selling expenses to approximately RMB687,322,000 (Nine months ended 30 September 2020: approximately RMB539,186,000 (Re-presented)). It was mainly due to the increase in sales personnel which led to the increase in sales staff costs and the increase in channel commission expenses.

The Group recorded a 52.6% increase compared with the same period in 2020 in administrative expenses to approximately RMB236,850,000 (Nine months ended 30 September 2020: approximately RMB155,248,000 (Re-presented)). It was mainly due to the increase in management and support personnel which led to the increase in administrative staff costs and the increase in legal and professional fees for the listing application of Youzan Technology Inc..

The Group recorded a 52.9% increase compared with the same period in 2020 in other operating expenses to approximately RMB471,214,000 (Nine months ended 30 September 2020: approximately RMB308,162,000 (Re-presented)). It was mainly due to the increase in research and development expenditure since the Group continues to invest significant resources in research and development to enhance technology capabilities.

The Group recorded a 34.4% decrease compared with the same period in 2020 in equity-settled share-based payments to approximately RMB31,911,000 (Nine months ended 30 September 2020: approximately RMB48,639,000).

The Group recorded a 17.1% decrease compared with the same period in 2020 in investment and other income to approximately RMB49,271,000 (Nine months ended 30 September 2020: approximately RMB59,403,000 (Re-presented)). It was mainly due to the receipt of an one-off compensation income of approximately RMB5,327,000 in the same period in 2020 and the decrease in government grants.

The Group recorded other net losses of approximately RMB4,025,000 (Nine months ended 30 September 2020: other net gains of approximately RMB8,381,000 (Re-presented)). It was mainly due to the decrease in reversal of allowance for other receivables from approximately RMB19,007,000 in the same period of 2020 to nil in the reporting period.

The Group recorded a 23.7% decrease compared with the same period in 2020 in finance costs to approximately RMB16,826,000 (Nine months ended 30 September 2020: approximately RMB22,051,000 (Re-presented)), primarily due to the decrease in interest on other loan which were settled in May 2020, partially offset by the increase in the interest expenses of lease liabilities in relation to leases of office premises.

The Group recorded fair value change in financial assets at FVTPL of approximately RMB16,075,000 (Nine months ended 30 September 2020: Nil). Fair value change in financial assets at FVTPL represents fair value changes of entities investments in the nine months ended 30 September 2021.

Dividends

No dividends have been paid or proposed for the three months and nine months ended 30 September 2021, nor has any dividend been proposed since the end of the reporting period (Three months and nine months ended 30 September 2020: Nil).

Pledge of Assets

As at 30 September 2021, the Group had no pledge of assets.

Financial Resources and Liquidity

As at 30 September 2021, the Group had cash and cash equivalents of approximately RMB891,795,000 (As at 31 December 2020: approximately RMB1,751,530,000).

As at 30 September 2021, the Group 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 Commercial Management Co., Ltd. (“Beijing Gaohuitong”) (a subsidiary of the Group), pursuant to which Beijing Gaohuitong, a licensed payment company, provided settlement service to the Group’s merchants.

As advised by the Group’s Legal Advisor, 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 during the reporting period, 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.

During the nine months ended 30 September 2021 and up to 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. The Group’s PRC Legal Advisor is of the view that, based on that Hangzhou Youzan ceased providing transaction service and the consultation with the competent regulatory authority, (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.

After considering the Group’s Legal Advisor’s legal opinion, and given that Hangzhou Youzan has already ceased the transaction service during the period, 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 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. The Directors are of the opinion that it is not probable that an outflow of economic benefits will be required to settle the case, and therefore disclosed as contingent liabilities.

Save as disclosed above, the Group had no other material contingent liabilities as at 30 September 2021.

Goodwill

The management conducted a review of the recoverable amounts of the third party payment services CGU ("CGU A") and the merchant services CGU ("CGU B") to which the goodwill and intangible assets acquired through business combination belonged to as at 30 September 2021 and noticed that the actual performance of CGU B may confront with its operating performance does not meet the expectations, and there is a risk of impairment of goodwill. The management expects to take more time to assess the potential effect, and conduct an impairment test on the relevant goodwill according to the valuation report issued by the valuer, and will determine the quantum of impairment, if any, at the year end.

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. During the nine months ended 30 September 2021, no hedging arrangement was made to offset the exposures to fluctuations in exchange rates. The Group monitors its foreign currency risks and will consider hedging significant currency exposures should the need arises.

Employees

As at 30 September 2021, the Group has approximately 4,358 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 23 August 2021, Hangzhou Youzan entered into a capital injection agreement and a shareholders' agreement with Shenzhen Xiaoguanjia Education Technology Co., Ltd. and its existing shareholders to confirm the acquisition of 11.1111% new shares. RMB50 million earnest money paid became part of the consideration and the remaining balance of approximately RMB10 million was settled by Hangzhou Youzan on 27 August 2021.
- (b) On 30 August 2021, the Company and BetaCafe Holding Limited (the "Offeror") issued a joint announcement to inform that Youzan Technology has re-filed its application with the Stock Exchange for the listing by way of an offering of new shares, instead of by way of introduction. Details are set forth in the joint announcement dated 30 August 2021.

Event After the Reporting Period

On 20 October 2021, the Company and the offeror issued a joint announcement for update on (i) take private proposal for China Youzan Limited by the offeror by way of scheme of arrangement under section 99 of the Companies Act and (ii) proposed distribution in specie of Youzan Technology shares in relation to (A) further extension of scheme longstop date and (B) further extension of time for dispatch of the scheme document.

On 2 November 2021, the Company announced that 1,500,000 China Youzan Options had lapsed in accordance with the rules of the China Youzan 2019 Option Scheme on 31 October 2021.

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, 6 May 2021, 4 June 2021, 15 June 2021, 15 July 2021, 13 August 2021, 30 August 2021, 30 September 2021, 20 October 2021 and 2 November 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. 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 1)</i> 363,170,101 <i>(Note 2)</i> | 100,000,000 <i>(Note 4)</i> | 1,903,771,804 | 11.03% |
| Mr. Yu Tao | – | 15,000,000 <i>(Note 5)</i> | 15,000,000 | 0.09% |
| Mr. Cui Yusong | 241,885,127 <i>(Note 3)</i> | 20,000,000 <i>(Note 5)</i> | 261,885,127 | 1.52% |
| Ms. Ying Hangyan | 852,000 | 15,000,000 <i>(Note 5)</i> | 15,852,000 | 0.09% |

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. Youzan Teamwork was owned as to 8% by Mr. Zhu Ning, and 18% by Whitecrow.

Note 3: 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 4: 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 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\$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 | 952,708,000 | 5.52% |
| UBS Group AG | Interests of controlled corporation | 1,250,122,482 (L) 237,740,314 (S) | 7.24% 1.38% |
| Kontiki Capital Management (HK) Limited | Investment manager | 864,504,000 | 5.01% |

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 as at this report date:

Share Option Scheme 2019

| Name of Selected Directors | 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 30.9.2021 | Lapsed after the period | As at this report date | Exercise price from HK\$ | Exercisable until | Exercisable from | Exercisable until | Percentage out |
|---|--|---------------|----------------|-------------------------|--------------------------|-----------------------------|----------------------------|-----------------|-------------------------|------------------------|--------------------------|-------------------|------------------|-------------------|----------------|
| | | | | | | | | | | | | | | | (Note 1) |
| Mr. Zhu Ning | Executive Director and chief executive officer | 9.9.2019 | 100,000,000 | - | - | - | - | 100,000,000 | - | 100,000,000 | HK\$1.00 | 1 July 2020 | 30 June 2024 | 30 June 2024 | 0.58 |
| Mr. Cui Yusong | Executive Director | 9.9.2019 | 20,000,000 | - | - | - | - | 20,000,000 | - | 20,000,000 | HK\$0.90 | 1 July 2020 | 30 June 2024 | 30 June 2024 | 0.12 |
| Mr. Yu Tao | Executive Director | 9.9.2019 | 15,000,000 | - | - | - | - | 15,000,000 | - | 15,000,000 | HK\$0.90 | 1 July 2020 | 30 June 2024 | 30 June 2024 | 0.09 |
| Ms. Ying Hangyan | Executive Director | 9.9.2019 | 15,000,000 | - | - | - | - | 15,000,000 | - | 15,000,000 | HK\$0.90 | 1 July 2020 | 30 June 2024 | 30 June 2024 | 0.09 |
| Subtotal | | 9.9.2019 | 150,000,000 | - | - | - | - | 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) | - | (6,800,000) | 142,804,000 | (1,500,000) | 141,304,000 | HK\$0.75 | 1 July 2020 | 30 June 2024 | 30 June 2024 | 0.82 |
| Total | | | 300,154,000 | - | (750,000) | - | (6,800,000) | 292,804,000 | (1,500,000) | 291,304,000 | | | | | 1.69 |

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 30 September 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

As at 30 September 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 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 2021, 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 2021 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 2021.

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 2021 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 2021 and the draft of this report, and has provided advice and comments thereon.

By Order of the Board
China Youzan Limited
Zhu Ning
Chairman

Hong Kong, 9 November 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.