

CHINA YOUZAN

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Interim Report 2020

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.

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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 six months ended 30 June 2020, the Group recorded a revenue of approximately RMB824,646,000, representing an increase of 62.7% compared to the same period of last year. Of which, the revenue from SaaS and Extended Services was approximately RMB596,928,000, representing an increase of 89.7% compared to the same period of last year, and the revenue from Transaction fees was approximately RMB203,317,000, representing an increase of 41.5% compared to the same period of last year.

For the six months ended 30 June 2020, the Group recorded a gross profit of approximately RMB489,712,000, representing an increase of 90.9% compared to the same period of last year. Of which, the gross profit of SaaS and Extended Services was approximately RMB478,003,000, representing an increase of 113.2% compared to the same period of last year, and the gross loss of Transaction fees was approximately RMB164,000 (Six months ended 30 June 2019: approximately RMB3,828,000 (Restated)).

For the six months ended 30 June 2020, the Group's gross profit margin increased from 50.6% in the same period of last year to 59.4% for the current period. Of which, the gross profit margin of SaaS and Extended Services increased from 71.3% in the same period of last year to 80.1% for the current period, and the gross loss margin of Transaction fees decreased from 2.7% in the same period of last year to 0.1% for the current period.

The Group recorded an operating loss of approximately RMB239,955,000 for the six months ended 30 June 2020, representing a decrease of 32.1% when compared to an operating loss of approximately RMB353,367,000 (Restated) for the same period in last year.

For the three months ended 30 June 2020, the Group made sales of approximately RMB451,230,000, representing an increase of 76.2% compared to the same period of last year. Gross profit margin for the three months ended 30 June 2020 increased from 52.7% in the same period of last year to 60.9% in the current period.

As at 30 June 2020, the Group had a total of approximately RMB1,849,499,000 bank and cash balances and the current ratio was at 1.24 times.

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

FINANCIAL RESULTS

The Board of China Youzan Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and the six months ended 30 June 2020 together with the comparative unaudited figures for the corresponding periods in 2019 (restated) as follows:

Condensed Consolidated Statement of Profit or Loss

	Notes	Three months ended 30 June 2020		Six months ended 30 June 2020	
		(Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)	(Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)
Revenue	4	451,230	256,072	824,646	506,862
Cost of sales		(176,619)	(121,036)	(334,934)	(250,367)
Gross profit		274,611	135,036	489,712	256,495
Investment and other income	5	15,353	13,070	33,328	16,638
Other gains and losses, net		22,188	3,103	22,488	6,900
Selling expenses		(176,256)	(117,292)	(336,951)	(217,423)
Administrative expenses		(68,199)	(57,216)	(119,087)	(116,150)
Equity-settled share-based payments		(15,784)	(17,044)	(33,112)	(58,944)
Amortisation of intangible assets		(47,904)	(47,928)	(96,440)	(96,395)
Other operating expenses	6	(100,099)	(69,002)	(199,893)	(144,488)
Loss from operations		(96,090)	(157,273)	(239,955)	(353,367)
Finance costs		(7,995)	(5,798)	(15,987)	(5,798)
Share of (losses)/profits of an associate		(3,104)	1,675	1,934	5,538
Loss before taxation		(107,189)	(161,396)	(254,008)	(353,627)
Income tax credit	8	9,324	26,642	23,859	43,669
Loss for the period	9	(97,865)	(134,754)	(230,149)	(309,958)
Attributable to:					
Owners of the Company		(44,995)	(68,658)	(119,885)	(168,909)
Non-controlling interests		(52,870)	(66,096)	(110,264)	(141,049)
		(97,865)	(134,754)	(230,149)	(309,958)
Loss per share (express in RMB per share)	11				
– basic		(0.0028)	(0.0046)	(0.0076)	(0.0118)
– diluted		N/A	N/A	N/A	N/A

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Three months ended 30 June		Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)
Loss for the period	(97,865)	(134,754)	(230,149)	(309,958)
Other comprehensive income: <i>Item that may be reclassified to profit or loss:</i>				
Exchange differences on translating foreign operations	5,772	20,694	8,025	18,140
Total comprehensive income for the period, net of tax	(92,093)	(114,060)	(222,124)	(291,818)
Attributable to:				
Owners of the Company	(40,556)	(47,964)	(106,225)	(150,769)
Non-controlling Interests	(51,537)	(66,096)	(115,899)	(141,049)
	(92,093)	(114,060)	(222,124)	(291,818)

Condensed Consolidated Statement of Financial Position

		As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
Non-current assets			
Property, plant and equipment	12	58,357	60,812
Long term deposits		13,027	17,490
Right-of-use assets	13	183,972	205,146
Goodwill	21(a)	1,964,438	1,963,409
Intangible assets		1,536,346	1,632,166
Investments in associates		4,353	4,956
Capitalised contract costs		14,559	9,790
Loan to an employee		2,650	2,650
Deferred tax assets		183,761	167,491
Financial assets at FVTOCI		132,170	97,457
		4,093,633	4,161,367
Current assets			
Inventories		1,702	1,517
Trade receivables	14	4,684	345
Prepayments, deposits and other receivables		912,500	923,581
Capitalised contract costs		141,339	118,793
Indemnification assets		-	5,814
Loan to a related company		3,101	3,000
Amounts due from non-controlling shareholders of subsidiaries		2,674	260
Amounts due from related companies		1,981	1,434
Restricted bank balances	15	35,579	4,573
Balances with central bank		4,205,256	4,531,982
Bank and cash balances	16	1,849,499	746,194
		7,158,315	6,337,493
Current liabilities			
Trade payables	17	2,731	4,013
Accruals and other payables		416,472	383,591
Amount due to a director		3	-
Contract liabilities		556,628	406,706
Lease liabilities		27,852	31,477
Other loan		-	201,337
Settlement obligations		4,779,358	5,069,559
Current tax liabilities		4,481	4,456
Withholding tax payables		-	5,814
		5,787,525	6,106,953

	<i>Note</i>	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
Net current assets		1,370,790	230,540
Total assets less current liabilities		5,464,423	4,391,907
Non-current liabilities			
Contract liabilities		52,070	47,567
Lease liabilities		171,259	184,148
Deferred tax liabilities		253,556	261,145
		476,885	492,860
NET ASSETS		4,987,538	3,899,047
Capital and reserves			
Equity attributable to owners of the Company			
Share capital	<i>18</i>	144,738	128,665
Reserves		4,450,648	3,529,803
		4,595,386	3,658,468
Non-controlling interests		392,152	240,579
TOTAL EQUITY		4,987,538	3,899,047

Condensed Consolidated Statement of Changes in Equity

	As at 1 January 2020 (Audited) RMB'000	Movements (Unaudited) RMB'000	As at 30 June 2020 (Unaudited) RMB'000
Share capital	128,665	16,073	144,738
Share premium account	5,025,838	1,042,780	6,068,618
Share option reserve	64,334	(41,449)	22,885
Shares held for Share Award Scheme	(136,589)	30,838	(105,751)
Share Award Scheme reserve	78,335	(18,062)	60,273
Warrant reserve	774	(774)	-
Capital reserve	(59,517)	(48,048)	(107,565)
Statutory reserve	8,060	-	8,060
Exchange reserve	74,027	13,660	87,687
Financial assets at FVTOCI reserve	(56,304)	950	(55,354)
Subsidiary's treasury share reserve	(7)	-	(7)
Accumulated losses	(1,469,148)	(59,050)	(1,528,198)
Total attributable to owners of the Company	3,658,468	936,918	4,595,386
Non-controlling interests	240,579	151,573	392,152
Total equity	3,899,047	1,088,491	4,987,538
	As at 1 January 2019 (Audited) RMB'000	Movements (Unaudited) RMB'000 (Restated)	As at 30 June 2019 (Unaudited) RMB'000 (Restated)
Share capital	111,350	17,315	128,665
Share premium account	4,128,847	898,950	5,027,797
Share option reserve	87,577	(1,959)	85,618
Shares held for Share Award Scheme	(181,450)	(77,193)	(258,643)
Share Award Scheme reserve	131,386	-	131,386
Warrant reserve	774	-	774
Capital reserve	(57,399)	-	(57,399)
Statutory reserve	8,060	-	8,060
Exchange reserve	36,801	18,140	54,941
Financial assets at FVTOCI reserve	(27,449)	65	(27,384)
Subsidiary's treasury share reserves	-	-	-
Accumulated losses	(910,058)	(168,909)	(1,078,967)
Total attributable to owners of the Company	3,328,439	686,409	4,014,848
Non-controlling interests	556,027	(141,049)	414,978
Total equity	3,884,466	545,360	4,429,826

Condensed Consolidated Statement of Cash Flows

	For the six months ended 30 June	
	2020	2019
	(Unaudited) RMB'000	(Unaudited) RMB'000 (Restated)
Net cash generated from/(used in) operating activities	83,754	(305,677)
Net cash used in investing activities	(32,273)	(15,546)
Net cash generated from financing activities	1,043,782	763,689
Net increase in cash and cash equivalents	1,095,263	442,466
Effect of foreign exchange rate changes	8,042	18,064
Cash and cash equivalents at beginning of period	746,194	400,170
Cash and cash equivalents at the end of period	1,849,499	860,700

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

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

For the purpose of presenting the condensed consolidated financial statement of the Group in RMB, the assets and liabilities for the condensed consolidated statement of financial position are translated into RMB at the closing rate at the respective reporting dates. Income and expenses for the condensed consolidated statement of profit or loss and other comprehensive income are translated at the average exchange rates for the 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 financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited.

The condensed financial statements should be read in conjunction with the 2019 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed financial statement are consistent with those used in the annual financial statements for the year ended 31 December 2019.

2. Adoption of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”)

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 2020. HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The accounting policies applied in these condensed financial statements are the same as those applied in the Group’s consolidated financial statements as at and for the year ended 31 December 2019. A number of new or amended standards are effective from 1 January 2020 but then do not have a material effect on the Group’s condensed financial statements.

3. Fair value measurements

The carrying amounts of the Group’s financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group’s policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

**(a) Disclosures of level in fair value hierarchy:
At 30 June 2020**

	Fair value measurements using:			Total
	Level 1	Level 2	Level 3	30 June
	(Unaudited)	(Unaudited)	(Unaudited)	2020
	RMB'000	RMB'000	RMB'000	(Unaudited)
				RMB'000
Recurring fair value measurements:				
Financial assets				
Financial assets at FVTOCI				
– unlisted equity securities	–	–	132,170	132,170

At 31 December 2019

	Fair value measurements using:			Total
	Level 1	Level 2	Level 3	31 December
	(Audited)	(Audited)	(Audited)	2019
	RMB'000	RMB'000	RMB'000	(Audited)
				RMB'000
Recurring fair value measurements:				
Financial assets				
Financial assets at FVTOCI				
– unlisted equity securities	–	–	97,457	97,457

(b) Reconciliation of assets measured at fair value based on Level 3:

	Financial assets at FVTOCI – unlisted equity securities RMB'000
At 31 December 2019 and 1 January 2020 (Audited)	97,457
Transfer to be investment in a subsidiary (<i>note 21(a)</i>)	(696)
Acquisition during the period	35,459
Disposal during the period	(50)
	<hr/>
At 30 June 2020 (Unaudited)	132,170

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 30 June 2020:

The Group's financial controller is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurement. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group had engaged external valuation experts on 31 December 2019 with the recognised professional qualifications and recent experience to perform valuation.

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value	
					30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Unlisted equity securities classified as financial assets at FVTOCI	Applicable market multiples	Lack of marketability discount	21%	Decrease	132,170	97,457

There was no change in the valuation techniques used.

4. 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 June		For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)
Revenue from contracts with customers within the scope of HKFRS 15				
SaaS and Extended Services	332,097	166,143	596,928	314,644
Transaction fees	105,469	65,846	203,317	143,681
Others	13,664	24,083	24,401	48,537
	451,230	256,072	824,646	506,862

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 six months ended 30 June	General trading		Third party payment services		Onecomm		Merchant services		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	(Unaudited) RMB'000 (Restated)	(Unaudited) RMB'000 (Restated)	(Unaudited) RMB'000 (Restated)	(Unaudited) RMB'000 (Restated)	(Unaudited) RMB'000 (Restated)	(Unaudited) RMB'000 (Restated)	(Unaudited) RMB'000 (Restated)	(Unaudited) RMB'000 (Restated)	(Unaudited) RMB'000 (Restated)	(Unaudited) RMB'000 (Restated)
Primary geographical markets										
– PRC except Hong Kong	690	3,303	127,877	142,116	286	429	713,115	436,968	841,968	582,816
Segment revenue	690	3,303	127,877	142,116	286	429	713,115	436,968	841,968	582,816
Intersegment revenue										
– PRC except Hong Kong	–	–	(17,322)	(75,954)	–	–	–	–	(17,322)	(75,954)
Revenue from external customers	690	3,303	110,555	66,162	286	429	713,115	436,968	824,646	506,862
Timing of revenue recognition										
Products transferred at a point in time	690	3,303	500	2,493	–	429	130,200	89,715	131,390	95,940
Products and services transferred over time	–	–	110,055	63,669	286	–	582,915	347,253	693,256	410,922
Total	690	3,303	110,555	66,162	286	429	713,115	436,968	824,646	506,862

	Third party payment												
	General trading			services			Onecomm			Merchant services			Total
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000	2019 (Unaudited) RMB'000	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000	2019 (Unaudited) RMB'000	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
For the three months ended 30 June													
Primary geographical markets													
– PRC except Hong Kong	492	317	62,784	286	429	387,083	227,779	290,709					
Segment revenue	492	317	62,784	286	429	387,083	227,779	290,709					
Intersegment revenue													
– PRC except Hong Kong	–	–	(34,637)	–	–	–	–	(7,499)					(34,637)
Revenue from external customers	492	317	63,369	286	429	387,083	227,779	256,072					
Timing of revenue recognition													
Products transferred at a point in time	492	317	494	–	429	83,037	48,707	50,465					
Products and services transferred over time	–	–	62,875	286	–	304,046	178,472	205,607					
Total	492	317	63,369	286	429	387,083	227,779	256,072					

(b) *Transaction price allocated to the remaining performance obligation for contracts with customers*

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 30 June 2020 and the expected timing of recognising revenue as follows:

	SaaS At 30 June 2020 (Unaudited) RMB'000	SaaS At 31 December 2019 (Audited) RMB'000
Within 1 year	556,628	406,706
More than 1 year but not more than 2 years	44,766	38,370
More than 2 years	7,304	9,197
	608,698	454,273

5. Investment and other income

	For the three months ended 30 June		For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)
Interest income	6,814	5,785	14,879	8,880
Government grants	3,025	2,984	5,635	2,984
VAT super-credit	2,792	1,546	9,233	1,546
Others	2,722	2,755	3,581	3,228
	15,353	13,070	33,328	16,638

6. Other operating expenses

	For the three months ended 30 June		For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)
Research and development expenditures	99,516	68,625	198,536	143,722
Others	583	377	1,357	766
	100,099	69,002	199,893	144,488

7. Segment information

The Group has four operating segments as follows:

General trading	–	trading of watches and other goods
Third party payment services	–	provision of third party payment services and related consultancy services in the People's Republic of China (the "PRC")
Onecomm	–	provision of third party payment management services and sales of integrated smart point of sales ("POS") devices
Merchant services	–	provision of e-commerce platform with a variety of SaaS products and comprehensive services in the PRC through Qima Holdings Limited and its subsidiaries ("Youzan Group"), which owns Youzan WeiMall, Youzan Retail, Youzan Beauty and other SaaS products

Information about operating segment profit or loss and assets:

	General trading (Unaudited) RMB'000	Third party payment services (Unaudited) RMB'000	Onecomm (Unaudited) RMB'000	Merchant services (Unaudited) RMB'000	Total (Unaudited) RMB'000
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**For the six months ended
30 June 2020:**

Revenue from external customers	690	110,555	286	713,115	824,646
Intersegment revenue	–	17,322	–	–	17,322
Segment (loss)/profit	(560)	11,831	323	(222,804)	(211,210)

As at 30 June 2020

Segment assets	922	4,479,457	56	3,175,750	7,656,185
Investments in associates	–	–	–	4,353	4,353

	General trading (Unaudited) RMB'000 (Restated)	Third party payment services (Unaudited) RMB'000 (Restated)	Onecomm (Unaudited) RMB'000 (Restated)	Merchant services (Unaudited) RMB'000 (Restated)	Total (Unaudited) RMB'000 (Restated)
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**For the six months ended
30 June 2019:**

Revenue from external customers	3,303	66,162	429	436,968	506,862
Intersegment revenue	–	75,954	–	–	75,954
Segment profit/(loss)	116	(6,291)	(3,530)	(270,009)	(279,714)

As at 31 December 2019

Segment assets	992	4,796,011	290	3,152,248	7,949,541
Investments in associates	–	–	–	4,956	4,956

Reconciliations of segment revenue and profit or loss:

	For the six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
<hr/>		
Revenue		
Total revenue of reportable segments	841,968	582,816
Elimination of intersegment revenue	(17,322)	(75,954)
	<hr/>	
Consolidated revenue	824,646	506,862
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Profit or loss		
Total loss of reportable segments	(211,210)	(279,714)
Equity-settled share-based payments	(33,112)	(58,944)
Unallocated amounts:		
Corporate income and expenses, net	(9,686)	(14,969)
	<hr/>	
Consolidated loss before income tax	(254,008)	(353,627)
	<hr/>	

8. Income tax credit

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

	For the three months ended 30 June		For the six months ended 30 June	
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)		(Restated)
Current tax – the PRC				
Provision for the period	–	–	–	–
Deferred tax	9,324	26,642	23,859	43,669
	9,324	26,642	23,859	43,669

No provision for PRC Enterprises Income Tax has been made since the Group has sufficient tax losses brought forward to set off against assessable profit for the three months and six months ended 30 June 2020 and 2019.

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

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

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

9. Loss for the period

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

	For the three months ended 30 June		For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)
Amortisation of intangible assets	47,904	47,928	96,440	96,395
Amortisation of capitalised contract costs	55,112	40,134	103,224	71,726
Allowance for inventories	60	–	60	–
Allowance for trade receivables	–	486	448	486
Reversal of allowance for prepayments, deposit and other receivables, net	(14,500)	(2,555)	(14,669)	(3,353)
Cost of inventories sold	2,811	1,812	3,795	5,922
Depreciation of property, plant and equipment	4,793	4,158	9,395	8,356
Depreciation of right-of- use assets (included in selling expenses and administrative expenses)	10,466	23,579	21,187	27,140
(Gain)/loss on disposals of property, plant and equipment	(14)	26	(31)	63
Research and development expenditures (included in other operating expenses)	99,516	68,625	198,536	143,722

10. Interim dividend

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

11. Loss per share

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

For the three months ended 30 June 2020 (Unaudited) RMB'000		2019 (Unaudited) RMB'000 (Restated)	For the six months ended 30 June 2020 (Unaudited) RMB'000		2019 (Unaudited) RMB'000 (Restated)
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Loss

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

(44,995)	(68,658)	(119,885)	(168,909)
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For the three months ended 30 June 2020 (Unaudited) '000		2019 (Unaudited) '000	For the six months ended 30 June 2020 (Unaudited) '000		2019 (Unaudited) '000
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Number of shares

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

16,310,027	14,871,119	15,751,271	14,278,799
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Effect of dilutive potential
ordinary shares arising
from share options

13,077	N/A	N/A	N/A
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Weighted average number
of ordinary shares used
in diluted loss per share
calculation

16,323,104	N/A	N/A	N/A
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For the three months ended 30 June 2020, there is no dilutive effect on the loss per share as the exercise of the Company's outstanding share options would result in the decrease in the loss per share.

For the six months ended 30 June 2020, there is no dilutive potential ordinary share arising from share options as the exercise prices of the options exceed the average market price of the Company's ordinary share during the period.

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

12. Property, plant and equipment

During the six months ended 30 June 2020, the Group acquired property, plant and equipment of approximately RMB7,415,000 (year ended 31 December 2019: approximately RMB42,801,000).

13. Right-of-use assets

During the six months ended 30 June 2020, there was no new lease agreement entered.

14. Trade receivables

The aging analysis of trade receivable as at the balance sheet date, based on the date of invoice is as follow:

	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
0 to 90 days	4,684	345

15. Restricted bank balances

As at 30 June 2020, the Group had bank balances of approximately RMB32,776,000 (as at 31 December 2019: approximately RMB266,000) frozen by a PRC District People's Procuratorate to facilitate legal investigation unrelated to the Group's operations.

As at 30 June 2020, the Group had bank balances of approximately RMB2,803,000 (as at 31 December 2019: approximately RMB4,307,000) pledged as security of banking facilities.

All restricted bank balances were denominated in RMB.

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

16. Bank and cash balances

As at 30 June 2020, bank balances of approximately RMB66,165,000 (as at 31 December 2019: approximately RMB108,741,000) were exclusively designated for the purpose of fulfilling the Group's settlement obligations.

As at 30 June 2020, approximately RMB966,604,000 fixed bank deposits were included in bank and cash balances (as at 31 December 2019: Nil). Approximately RMB239,957,000 fixed bank deposits were denominated in US Dollars ("USD") and approximately RMB726,647,000 fixed bank deposits were denominated in HK\$.

As at 30 June 2020, approximately RMB1,498,646,000 bank and cash balances of the Group were deposited with banks in the PRC (as at 31 December 2019: approximately RMB735,794,000), among which approximately RMB384,656,000 were denominated in RMB (as at 31 December 2019: approximately RMB735,794,000), approximately RMB727,750,000 were denominated in HK\$ (as at 31 December 2019: Nil), and approximately RMB386,240,000 were denominated in USD (as at 31 December 2019: Nil). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

17. Trade payables

The ageing analysis of the trade payables as at the balance sheet date, based on the date of invoice, as follows:

	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
Current to 90 days	119	–
91 to 180 days	–	–
181 to 365 days	–	–
Over 365 days	2,612	4,013
	2,731	4,013

18. Share capital

The number of issued shares of the Company was 17,225,807,617 shares as at 30 June 2020.

The number of issued shares of the Company was 17,233,703,617 shares as at the date of this report.

19. Convertible bonds

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

20. Warrants

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

21. Notes to the condensed consolidated statement of cash flows

(a) Acquisition of a subsidiary

On 1 January 2020, the Group has further acquired 42.63% equity interest of 株式会社 Youzan Japan ("Youzan Japan"), a company incorporated in Japan with cash consideration of RMB6,215,000. Upon completion, the Group owned Youzan Japan 52.63% equity interest and obtained the control of Youzan Japan. Youzan Japan is principally engaged in providing operation services for merchants and integrated new retail solutions for beauty industries, including personal care, hairdressing, manicure and health management in Japan. The acquisition is for the purpose of diversifying the Group's revenue base overseas.

The fair value of the identifiable assets and liabilities of Youzan Japan acquired as at the date of completion, is as follows:

	(Unaudited) RMB'000
Net assets acquired:	
Trade receivables	4,961
Prepayment, deposits and other receivables	1,477
Bank and cash balances	10,328
Trade payables	(1,834)
Accruals and other payables	(934)
Borrowings	(2,136)
Current tax liabilities	(685)
	<hr/> 11,177
Non-controlling interests	(5,295)
Goodwill	1,029
	<hr/> 6,911
Satisfied by:	
Carrying amount of pre-existing interest	696
Cash consideration previously paid as deposit	6,215
	<hr/> 6,911
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	10,328
	<hr/>

(b) Acquisition of interest in a subsidiary without change of control

On 7 August 2019, the Company and Baidu Affiliate entered into Subscription Agreements with Qima Holdings Ltd., a non-wholly owned subsidiary of the Company, in relation to the subscription of approximately 26 million new shares and 18 million new shares of Qima Holdings Ltd., respectively, with respective cash consideration of approximately US\$45 million (approximately RMB321 million) and US\$30 million (approximately RMB214 million). Upon completion on 27 May 2020, the Company's equity interest in Youzan Group was increased from 50.47% to 50.76%.

22. Contingent liabilities

- (a) The Group's operations are under regulating authorities' supervision in the PRC and the Group has not received any material penalty notice during the period. It should be noted that internal regulatory compliance assessment conducted by the Group had identified instance of non-compliance to administrative measures of relevant authority. The possible consequence could be a fine and/or an order to terminate the relevant operation. After consulting the Group's legal counsel, management assessed that the possible fine, if any, could be in the range of RMB100,000 to RMB500,000. The management is of the opinion that this non-compliance will not lead to serious consequence.
- (b) During the reporting period, a subsidiary of the Group had legal disputes with certain consumers in respect of the E-commerce business. Management assessed that the possible maximum compensation, if any, could be RMB8,000,000.

Save as disclosed above, the Group had no other material contingent liabilities as at 30 June 2020.

23. Capital commitments

Capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
Equity investment in a company	5,998	5,600
Property, plant and equipment	279	574

24. 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 30 June		For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)
Service income from a related company	1,067	–	2,341	–
Dividend income from an associate	–	–	2,537	2,900
Loan interest income from a related company	33	–	65	–
Administrative expenses paid to a non-controlling interest	(787)	–	(787)	–

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

	For the three months ended 30 June		For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000 (Restated)
Short-term benefits	5,340	5,247	10,757	13,304
Share-based payments	8,355	3,898	17,275	9,585
	13,695	9,145	28,032	22,889

25. Comparative figures

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

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

In the first half of 2020, the coronavirus pandemic had an impact on the operation of offline retail channels and accelerated the process of digital transformation of merchants. By providing SaaS systems and integrated new retail solutions, Youzan helped merchants establish and improve online business capabilities, realized direct online connections with consumers, guided consumers to complete transactions in online stores, and helped merchants continue to communicate with consumers through multi-channel interaction to improve consumer retention and repurchase. In addition, Youzan provided merchants with online and offline integrated digital solutions to help merchants realize terminal store digitization, shopping guide digitization, marketing digitization, membership digitization, and build live streaming shelves to improve operating efficiency and increase sales, and realized a comprehensive digital upgrading.

As at 30 June 2020, the number of paying merchants was 99,889, increased by 47.3% compared with the number of 67,835 as at 30 June 2019. The number of new paying merchants was 32,359 in the first half of 2020, increased by 57.6% compared with the number of 20,530 in the same period in 2019.

The Gross Merchandise Volume (“GMV”)¹ reached RMB46.2 billion in the first half of 2020 with Youzan’s SaaS products. The number increased by 110.0% compared to the GMV of RMB22.0 billion in the same period in 2019.

Future Business Strategies

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

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

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

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

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

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

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

Financial Review

Revenue

The Group's revenue for the period was approximately RMB824,646,000 (Six months ended 30 June 2019: approximately RMB506,862,000 (Restated)), representing an increase of about 62.7% compared with the same period in 2019, which was mainly attributable to the substantial increase in revenue from SaaS and Extended Services.

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

	For the six months ended 30 June		
	2020	2019	Changes
	(Unaudited)	(Unaudited)	
	RMB'000	RMB'000	%
		(Restated)	
SaaS and Extended Services	596,928	314,644	89.7%
Transaction fees	203,317	143,681	41.5%
Others	24,401	48,537	-49.7%
Total	824,646	506,862	62.7%

SaaS and Extended Services

SaaS and Extended Services income was approximately RMB596,928,000 for the period (Six months ended 30 June 2019: approximately RMB314,644,000 (Restated)), representing an increase of 89.7% compared with the same period in 2019. SaaS income was approximately RMB474,957,000 (Six months ended 30 June 2019: approximately RMB246,469,000 (Restated)), representing an increase of 92.7% compared with the same period in 2019 which was mainly attributable to the increase in the number of paying merchants from 67,835 as at 30 June 2019 to 99,889 as at 30 June 2020, and the increase in charging merchants with “Cloud Service Fee” since second half of 2019 which led to an increase in average revenue per merchant. Extended Services income was approximately RMB121,971,000 (Six months ended 30 June 2019: approximately RMB68,175,000 (Restated)), representing an increase of 78.9% compared with the same period in 2019 which was primarily attributable to the increase in GMV and the increased number of merchants using Extended Services.

	For the six months ended 30 June				Changes
	2020		2019		
	(Unaudited)		(Unaudited)		
	RMB'000	Percentage (%)	RMB'000 (Restated)	Percentage (%)	
SaaS	474,957	79.6%	246,469	78.3%	92.7%
Extended Services	121,971	20.4%	68,175	21.7%	78.9%
Total	596,928	100.0%	314,644	100.0%	89.7%

Transaction fees

Transaction fees income was approximately RMB203,317,000 for the period (Six months ended 30 June 2019: approximately RMB143,681,000 (Restated)), representing an increase of 41.5% compared with the same period in 2019 which was benefited from the increase in GMV generated by merchants using SaaS systems, and was partially offset by the decrease in the original third-party payment business.

Others

Other income was approximately RMB24,401,000 for the period (Six months ended 30 June 2019: approximately RMB48,537,000 (Restated)), representing a decrease of 49.7% compared with the same period in 2019. The decrease in other income was mainly due to the contraction of income from marketing services.

Cost

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

	For the six months ended 30 June				Changes %
	2020		2019		
	(Unaudited)		(Unaudited)		
	RMB'000	Percentage (%)	RMB'000 (Restated)	Percentage (%)	
Staff costs	71,289	21.3%	66,127	26.4%	7.8%
Server costs	44,329	13.2%	25,329	10.1%	75.0%
Message costs	4,951	1.5%	6,372	2.5%	-22.3%
Transaction costs	201,119	60.1%	142,649	57.0%	41.0%
Costs of goods sold	3,795	1.1%	5,922	2.4%	-35.9%
Others	9,451	2.8%	3,968	1.6%	138.2%
Total	334,934	100.0%	250,367	100.0%	33.8%

The Group's costs for the period were approximately RMB334,934,000 (Six months ended 30 June 2019: approximately RMB250,367,000 (Restated)), representing an increase of 33.8% compared with the same period in 2019 which was mainly attributable to the increase in server costs and transaction costs resulted from business expansion. Server costs increased by 75.0% from approximately RMB25,329,000 (Restated) for the same period in 2019 to approximately RMB44,329,000 in current period, primarily attributable to the increase in server usage as a results of business expansion. Transaction costs increased by 41.0% from approximately RMB142,649,000 (Restated) for the same period in 2019 to approximately RMB201,119,000 in current period, mainly due to the increase in GMV generated by merchants using SaaS systems, and was partially offset by the decrease in the original third-party payment business. Staff costs increased by 7.8% from approximately RMB66,127,000 (Restated) for the same period in 2019 to approximately RMB71,289,000 in current period, mainly resulted from business expansion. Message costs decreased by 22.3% from approximately RMB6,372,000 (Restated) for the same period in 2019 to approximately RMB4,951,000 in current period, which was mainly due to by optimizing the content and structure of message, the usage of message sending is reduced when the business volume expands. Costs of goods sold decreased by 35.9% from approximately RMB5,922,000 (Restated) for the same period in 2019 to approximately RMB3,795,000 in current period, mainly because the Group continued to strategically downsize its general trading business.

Gross Profit and Gross Profit Margin

The Group recorded a gross profit for the period of approximately RMB489,712,000 (Six months ended 30 June 2019: approximately RMB256,495,000 (Restated)), representing an increase of 90.9% compared with the same period in 2019. During the reporting period, the Group's gross profit margin increased from 50.6% for the same period in 2019 to 59.4% in current period. The increase in gross profit and gross profit margin was mainly due to the increase in the proportion of SaaS and Extended Services business that have high gross profit margin.

	For the six months ended 30 June 2020 (Unaudited)		2019 (Unaudited)	
	RMB'000	Gross profit margin (%)	RMB'000 (Restated)	Gross profit margin (%)
SaaS and Extended Services	478,003	80.1%	224,256	71.3%
Transaction fees	(164)	-0.1%	(3,828)	-2.7%
Others	11,873	48.7%	36,067	74.3%
Total	489,712	59.4%	256,495	50.6%

SaaS and Extended Services

The gross profit of SaaS and Extended Services for the period was approximately RMB478,003,000 (Six months ended 30 June 2019: approximately RMB224,256,000 (Restated)), representing an increase of 113.2% compared with the same period in 2019. The gross profit margin increased from 71.3% for the same period in 2019 to 80.1% in current period. The increase in gross profit and gross profit margin of SaaS and Extended Services was mainly due to the substantial increase in income as well as the staff costs remained relatively stable.

Transaction fees

The gross loss of Transaction fees for the period was approximately RMB164,000 (Six months ended 30 June 2019: approximately RMB3,828,000 (Restated)), and the gross loss margin decreased from 2.7% for the same period in 2019 to 0.1% in current period, which was mainly due to the optimization of the cost structure by controlling staff costs and enhancing the proportion of offline payment business.

Others

Other gross profit for the period was approximately RMB11,873,000 (Six months ended 30 June 2019: approximately RMB36,067,000 (Restated)). The decrease in gross profit was due to the decrease in the proportion of marketing services business that has high gross profit.

Expenses and Others

The Group recorded a 55.0% increase compared with the same period in 2019 in selling expenses to approximately RMB336,951,000 (Six months ended 30 June 2019: approximately RMB217,423,000 (Restated)). The increase was mainly due to the increase in sales personnel which led to the increase in sales staff costs, and an increase in channel commission expenses.

The Group recorded a 2.5% increase compared with the same period in 2019 in administrative expenses to approximately RMB119,087,000 (Six months ended 30 June 2019: approximately RMB116,150,000 (Restated)). It remained relatively stable.

The Group recorded approximately RMB199,893,000 (Six months ended 30 June 2019: approximately RMB144,488,000 (Restated)) of other operating expenses for the period, representing an increase of 38.3% compared with the same period in 2019 which was primarily attributable to the increase in staff cost of research and development.

The Group recorded a 43.8% decrease compared with the same period in 2019 in equity-settled share-based payment to approximately RMB33,112,000 (Six months ended 30 June 2019: approximately RMB58,944,000 (Restated)).

The Group recorded an investment and other income of approximately RMB33,328,000 for the period (Six months ended 30 June 2019: approximately RMB16,638,000 (Restated)), which was primarily attributable to the increase in VAT super-credit and interest income.

Dividends

No dividends have been paid or proposed for the three months and six months ended 30 June 2020, nor has any dividend been proposed since the end of the reporting period (Three months and six months ended 30 June 2019: Nil).

Pledge of Assets

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

Financial Resources and Liquidity

As at 30 June 2020, the Company had bank and cash balances of approximately RMB1,849,499,000 (As at 31 December 2019: approximately RMB746,194,000).

As at 30 June 2020, the Company had no bank borrowings (As at 31 December 2019: Nil).

Contingent Liability

- (a) The Group's operations are under regulating authorities' supervision in the PRC and the Group has not received any material penalty notice during the period. It should be noted that internal regulatory compliance assessment conducted by the Group had identified instance of non-compliance to administrative measures of relevant authority. The possible consequence could be a fine and/or an order to terminate the relevant operation. After consulting the Group's legal counsel, management assessed that the possible fine, if any, could be in the range of RMB100,000 to RMB500,000. The management is of the opinion that this non-compliance will not lead to serious consequence.
- (b) During the reporting period, a subsidiary of the Group had legal disputes with certain consumers in respect of the E-commerce business. Management assessed that the possible maximum compensation, if any, could be RMB8,000,000.

Save as disclosed above, the Group had no other material contingent liabilities as at 30 June 2020.

Foreign Exchange Exposure

Since the Group's operations are mainly located in the PRC and its transactions, monetary assets and liabilities are primarily denominated in Renminbi, there is minimal exposure to foreign currency risks. The Group monitors its foreign currency risks and will consider hedging significant currency exposures should the need arise.

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

Employees

As at 30 June 2020, the Group has approximately 3,423 employees (As at 31 December 2019: 2,941). Employees are remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits include performance bonus, share options and share awards etc.. The Directors believe that good quality of its employees is a company asset which affects growth and improves profitability. The Group recognizes the importance of staff training and thus regularly provides internal and external training for its staff to enhance their skills and knowledge.

Significant Investment and Acquisition

Exercise of Warrants by Baidu Affiliate

The Board announced that, on 27 May 2020, the Qima Warrants was exercised in full by a Baidu Affiliate at a cash consideration of US\$29,999,823. Following the exercise of the Qima Warrants, such Baidu Affiliate holds approximately 1.20% of the total issued shares of Qima.

Details please refer to the announcements of the Company dated 7 August 2019, 14 August 2019, 16 August 2019 and 27 May 2020 (the "Announcements") regarding the transactions in relation to the Subscription Agreement. Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as defined in the Announcements.

Connected Transaction in Relation to the Shares Purchase Agreement

Shares Purchase Agreement

On 5 June 2020, the Company, GuangFriends Limited ("GuangFriends") and Guang Holdings Limited ("Guang Holdings") entered into the Shares Purchase Agreement. Subject to the terms and conditions of the Shares Purchase Agreement, among other matters, Guang Holdings agrees to issue and allot to each of the Company and GuangFriends, and each of the Company and GuangFriends agrees to purchase from Guang Holdings, 10,000,000 new Class A Shares in Guang Holdings being 10% shareholding in Guang Holdings (on an enlarged basis upon Closing) representing 2.94% of the voting power at any general meetings of Guang Holdings at the Purchase Price of US\$5,000,000.

Upon Closing, Guang Holdings will not become a subsidiary of the Company.

Completion of Investment in Aiguang Platform

The Closing took place on 8 June 2020. Following the Closing, the Company holds 10% shareholding in Guang Holdings (which has effective control over and enjoys the entire economic interests and benefits generated by the Hangzhou Aiguang Network Information Service Co. Ltd., together with its subsidiary operating Aiguang Platform through VIE Structure), representing 2.94% of the voting power at any general meetings of Guang Holdings.

The further round of equity financing in Guang Holdings was completed on 23 June 2020. On the closing of the Equity Financing, the Company holds 9.0% shareholding in Guang Holdings.

Details please refer to the announcements of the Company dated 5 June 2020, 8 June 2020 and 23 June 2020.

DIRECTORS' INTEREST IN SHARES

As at the date of this report, the interests or short positions of the Directors in the Shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange, were as follows:

Long position in Shares

Directors	Interest in shares	Long Position in Shares		% Shareholding
		Interest in underlying shares	Total interest in shares	
Mr. Guan Guisen <i>(Note 1)</i>	411,592,000	–	411,592,000	2.39%
Mr. Cao Chunmeng	57,420,000	–	57,420,000	0.33%
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 2)</i> 363,170,101 <i>(Note 3)</i>	100,000,000 <i>(Note 5)</i>	1,903,771,804	11.05%
Mr. Yu Tao	363,170,101 <i>(Note 3)</i>	20,000,000 <i>(Note 6)</i>	383,170,101	2.22%
Mr. Cui Yusong	241,885,127 <i>(Note 4)</i>	20,000,000 <i>(Note 6)</i>	261,885,127	1.52%
Ms. Ying Hangyan	363,170,101 <i>(Note 3)</i>	20,000,000 <i>(Note 6)</i>	383,170,101	2.22%

Note 1: The shares are held by Mighty Advantage Enterprises Limited (“Mighty Advantage”). Mighty Advantage is incorporated in the British Virgin Islands and is 100% beneficially owned by Mr. Guan Guisen.

Note 2: The shares are held by Whitecrow Investment Ltd. (“Whitecrow”). Whitecrow is a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mr. Zhu Ning.

Note 3: The shares are held by Youzan Teamwork Inc. (“Youzan Teamwork”). Youzan Teamwork is a company incorporated in the British Virgin Islands with limited liability and is owned as to 8% by Mr. Zhu Ning and 18% by Whitecrow, 8% by V5.Cui Investment Ltd. (100% beneficially owned by Mr. Cui Yusong), 8% by Vulcan Global Holdings Inc. (100% beneficially owned by Mr. Yu Tao) and 10% by Elrino Investment Ltd. (100% beneficially owned by Ms. Ying Hangyan).

Note 4: The shares are held by V5.Cui Investment Ltd. (“V5.Cui”). V5.Cui is a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mr. Cui Yusong.

Note 5: The Company granted the share options under New Share Option Scheme on 9 September 2019, and was approved at the extraordinary general meeting on 14 October 2019. The share options is valid until 30 June 2024 and has an exercise price of HK\$1.00.

Note 6: The Company granted the share options under New Share Option Scheme on 9 September 2019, and was approved at the extraordinary general meeting on 14 October 2019. The share options is valid until 30 June 2024 and has an exercise price of HK\$0.90.

Save as disclosed above, as at the date of this report, none of the Directors of the Company had any interests or short positions in any Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein; or (iii) were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at the date of this report, there was no other person (other than a director or chief executive officer of the Company) who had any interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Long position in Shares

Name of Directors	Interest in shares	Interest in underlying shares	Total interest in shares	% Shareholding
Mr. Zhu Ning	1,440,601,703 <i>(Note 1)</i> 363,170,101 <i>(Note 2)</i>	100,000,000 <i>(Note 3)</i>	1,903,771,804	11.05%
Poyang Lake Investment Limited <i>(Note 4)</i>	1,036,766,038	–	1,036,766,038	6.02%

Note 1: The shares are held by Whitecrow Investment Ltd. (“Whitecrow”). Whitecrow is a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mr. Zhu Ning.

Note 2: The shares are held by Youzan Teamwork Inc. (“Youzan Teamwork”). Youzan Teamwork is a company incorporated in the British Virgin Islands with limited liability and is owned as to 8% by Mr. Zhu Ning and 18% by Whitecrow.

Note 3: The Company granted the share options under New Share Option Scheme on 9 September 2019, and was approved at the extraordinary general meeting on 14 October 2019. The share options is valid until 30 June 2024 and has an exercise price of HK\$1.00.

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

SHARE OPTION AND SHARE AWARD SCHEME Employee Share Options

The Company has set up employee share option schemes.

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

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

Share Option Scheme 2012

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

On 9 September 2019, the Company has conditionally granted (i) the Directors' Share Options to the Selected Directors and (ii) the Employees' Share Options to the Selected Employees to subscribe for a total of 340,000,000 Shares, subject to acceptance of the Grantees and shareholders' approval (if required), under the Share Option Scheme adopted by the Company on 12 June 2019 ("Share Option Scheme 2019"). A total of 331,000,000 share option were granted to, and accepted by, the grantees. For details, Please refer to Note 49(a) of the consolidated financial statements in the Company's Annual Report for the year ended 31 December 2019.

Share Option Scheme 2019

	Position held within the Company	As at 1.1.2020	Grant during the period	Lapsed during the period	Expire during the period	As at 30.6.2020	Exercise after the period	As at the date of this report	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 Wing	Executive Director and chief executive officer	100,000,000	-	-	-	100,000,000	-	100,000,000	HK\$1.00	1 July 2020	30 June 2024	0.88
Mr. Cui Yisong	Executive Director	20,000,000	-	-	-	20,000,000	-	20,000,000	HK\$0.90	1 July 2020	30 June 2024	0.12
Mr. Yu Tao	Executive Director	20,000,000	-	-	-	20,000,000	-	20,000,000	HK\$0.90	1 July 2020	30 June 2024	0.12
Mrs. Ying Hangyan	Executive Director	20,000,000	-	-	-	20,000,000	-	20,000,000	HK\$0.90	1 July 2020	30 June 2024	0.12
Subtotal		160,000,000	-	-	-	160,000,000	-	160,000,000				0.94
Other employees (including 3 senior management of the Group)		171,000,000	-	(1,000,000)	-	170,000,000	(7,886,000)	162,114,000	HK\$0.75	1 July 2020	30 June 2024	0.94
Total		331,000,000	-	(1,000,000)	-	330,000,000	(7,886,000)	322,114,000				1.88
^{*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.

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

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

Details of the share award scheme were set out on the announcement dated 31 May 2018, 7 September 2018, 19 November 2018 and 24 January 2019 respectively.

COMPETING INTERESTS

The Directors are not aware of, as at 30 June 2020, any business or interest of each Director, management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

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

During the three months and six months ended 30 June 2020, there were no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a Code of Practice for Securities Transactions by Directors and Designated Employees on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all Directors who have confirmed their compliance with required standard set out in the Securities Code during the three months and six months ended 30 June 2020.

BOARD PRACTICES AND PROCEDURES

The Company has complied throughout the three months and six months ended 30 June 2020 the board practices and procedures as set out in Chapter 5 of the GEM Listing Rules.

CORPORATE GOVERNANCE AND COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

As at 30 June 2020, the Company has been in compliance with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules.

AUDIT COMMITTEE

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

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

The Committee is of the opinion that the preparation of the unaudited results for the three months and six months ended 30 June 2020 has complied with applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosures had been made. The Committee has reviewed the Company's unaudited results for the three months and six months ended 30 June 2020 and the draft of this report, and has provided advice and comments thereon.

By Order of the Board
China Youzan Limited
Guan Guisen
Chairman

Hong Kong, 10 August 2020

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

Executive Directors

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

Independent Non-executive Directors

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

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