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China Youzan Limited

中國有贊有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

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.

This announcement, 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 announcement 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 announcement or any statement herein misleading.

HIGHLIGHTS

For the six months ended 30 June 2021, the Group recorded a revenue of approximately RMB803,399,000, representing a decrease of 2.5% compared to the same period of last year (Re-presented). Of which, the revenue from subscription solutions was approximately RMB507,808,000, representing an increase of 6.8% compared to the same period of last year (Re-presented), and the revenue from merchant solutions was approximately RMB289,258,000, representing a decrease of 15.2% compared to the same period of last year (Re-presented).

For the six months ended 30 June 2021, the Group recorded a gross profit of approximately RMB487,402,000, representing an increase of 1.2% compared to the same period of last year (Re-presented). Of which, the gross profit of subscription solutions was approximately RMB380,673,000, representing an increase of 6.3% compared to the same period of last year (Re-presented), and the gross profit of merchant solutions was approximately RMB106,273,000, representing a decrease of 12.4% compared to the same period of last year (Re-presented).

For the six months ended 30 June 2021, the Group's gross profit margin increased from 58.4% (Re-presented) in the same period of last year to 60.7% for the current period. Of which, the gross profit margin of subscription solutions decreased from 75.3% in the same period of last year (Re-presented) to 75.0% for the current period, and the gross profit margin of merchant solutions increased from 35.6% in the same period of last year (Re-presented) to 36.7% for the current period.

The Group recorded an operating loss of approximately RMB449,519,000 for the six months ended 30 June 2021, representing an increase in loss of 87.3% when compared to an operating loss of approximately RMB239,955,000 for the same period in last year.

For the three months ended 30 June 2021, the Group recorded a revenue of approximately RMB386,125,000, representing a decrease of 14.4% compared to the same period of last year. For the three months ended 30 June 2021, gross profit margin increased from 59.8% in the same period of last year to 62.7% in the current period.

As at 30 June 2021, the Group had a total of approximately RMB1,125,095,000 cash and cash equivalents and the current ratio was at 1.08 times.

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

FINANCIAL RESULTS

The Board of the Company announces the unaudited consolidated results of the Group for the three months and the six months ended 30 June 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 June		Six months ended 30 June	
		2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000 (Re-presented)	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000 (Re-presented)
Revenue	4	386,125	450,944	803,399	823,957
Cost of sales		(143,844)	(181,400)	(315,997)	(342,479)
Gross profit		242,281	269,544	487,402	481,478
Investment and other income	5	16,050	20,926	36,817	39,234
Other gains and losses, net		(2,527)	16,147	(2,680)	16,199
Selling expenses		(228,554)	(178,256)	(438,549)	(339,975)
Administrative expenses		(78,387)	(59,512)	(148,986)	(104,646)
Equity-settled share-based payments		(12,199)	(15,784)	(25,087)	(33,112)
Amortisation of intangible assets		(31,207)	(47,904)	(61,665)	(96,440)
Other operating expenses	6	(160,155)	(101,251)	(296,771)	(202,693)
Loss from operations		(254,698)	(96,090)	(449,519)	(239,955)
Finance costs		(5,610)	(7,995)	(11,235)	(15,987)
Share of profits/(losses) of associates		265	(3,104)	116	1,934
Fair value change in financial assets at fair value through profit or loss (“FVTPL”)		3,705	–	3,705	–
Loss before taxation		(256,338)	(107,189)	(456,933)	(254,008)
Income tax credit	8	54,461	9,324	86,880	23,859
Loss for the period	9	(201,877)	(97,865)	(370,053)	(230,149)

	Three months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Notes	RMB'000	RMB'000	RMB'000	RMB'000
		(Re-presented)		(Re-presented)
Attributable to:				
Owners of the Company	(107,617)	(44,995)	(198,746)	(119,885)
Non-controlling interests	(94,260)	(52,870)	(171,307)	(110,264)
	<u>(201,877)</u>	<u>(97,865)</u>	<u>(370,053)</u>	<u>(230,149)</u>
Loss per share (express in RMB per share) 11				
– basic	(0.0063)	(0.0028)	(0.0116)	(0.0076)
– diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Three months		Six months	
	ended 30 June		ended 30 June	
	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loss for the period	<u>(201,877)</u>	<u>(97,865)</u>	<u>(370,053)</u>	<u>(230,149)</u>
Other comprehensive income:				
<i>Item that will not be reclassified to profit or loss:</i>				
Fair value changes of equity instruments at fair value through other comprehensive income ("FVTOCI")	3,925	–	3,925	–
<i>Item that may be reclassified to profit or loss:</i>				
Exchange differences on translating foreign operations	<u>(8,759)</u>	<u>5,772</u>	<u>(7,177)</u>	<u>8,025</u>
Other comprehensive income for the period, net of tax	<u>(4,834)</u>	<u>5,772</u>	<u>(3,252)</u>	<u>8,025</u>
Total comprehensive income for the period, net of tax	<u><u>(206,711)</u></u>	<u><u>(92,093)</u></u>	<u><u>(373,305)</u></u>	<u><u>(222,124)</u></u>
Attributable to:				
Owners of the Company	(112,538)	(40,556)	(200,818)	(106,225)
Non-controlling Interests	<u>(94,173)</u>	<u>(51,537)</u>	<u>(172,487)</u>	<u>(115,899)</u>
	<u><u>(206,711)</u></u>	<u><u>(92,093)</u></u>	<u><u>(373,305)</u></u>	<u><u>(222,124)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2021 (Unaudited) <i>RMB'000</i>	As at 31 December 2020 (Audited) <i>RMB'000</i>
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	<i>12</i>	68,436	64,705
Right-of-use assets	<i>13</i>	231,303	240,853
Long term deposits		4,795	3,209
Goodwill		1,963,409	1,963,409
Intangible assets		1,378,245	1,439,645
Investments in associates		5,286	3,170
Capitalised contract costs		28,349	24,464
Loans to employees		3,150	2,650
Deferred tax assets		272,054	195,705
Financial assets at FVTOCI		128,498	117,024
Financial assets at FVTPL		253,247	–
Earnest money paid for potential investments		52,000	50,000
		4,388,772	4,104,834
Current assets			
Inventories		1,828	1,384
Trade receivables	<i>14</i>	2,635	1,821
Prepayments, deposits and other receivables		409,810	806,109
Capitalised contract costs		157,137	170,796
Amount due from a non-controlling shareholder of subsidiaries		260	260
Amount due from a related company		463	452
Current tax assets		174	772
Time deposits		120,000	–
Restricted bank balances	<i>15</i>	4,603	58,414
Balances with central bank		3,852,443	5,340,582
Bank and cash balances	<i>16</i>	1,004,252	1,727,056
		5,553,605	8,107,646

		As at 30 June 2021 (Unaudited) <i>RMB'000</i>	As at 31 December 2020 (Audited) <i>RMB'000</i>
	<i>Note</i>		
Current liabilities			
Trade payables	17	2,800	4,396
Accruals and other payables		491,673	620,918
Amounts due to non-controlling shareholders of subsidiaries		291	256
Contract liabilities		618,050	611,236
Lease liabilities		29,940	19,170
Settlement obligations		3,998,366	5,802,001
Current tax liabilities		869	869
		<u>5,141,989</u>	<u>7,058,846</u>
Net current assets		<u>411,616</u>	<u>1,048,800</u>
Total assets less current liabilities		<u>4,800,388</u>	<u>5,153,634</u>
Non-current liabilities			
Contract liabilities		55,870	56,371
Lease liabilities		222,413	223,091
Deferred tax liabilities		233,524	244,073
		<u>511,807</u>	<u>523,535</u>
NET ASSETS		<u><u>4,288,581</u></u>	<u><u>4,630,099</u></u>
Capital and reserves			
Equity attributable to owners of the Company			
Share capital	18	145,036	144,981
Reserves		3,541,118	3,713,814
		<u>3,686,154</u>	<u>3,858,795</u>
Non-controlling interests		<u>602,427</u>	<u>771,304</u>
TOTAL EQUITY		<u><u>4,288,581</u></u>	<u><u>4,630,099</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	As at 1 January 2021 <i>RMB'000</i>	Movements (Unaudited) <i>RMB'000</i>	As at 30 June 2021 (Unaudited) <i>RMB'000</i>
Share capital	144,981	55	145,036
Share premium account	6,093,115	5,309	6,098,424
Share option reserve	33,492	7,476	40,968
Shares held for Share Award Scheme	(75,524)	12,052	(63,472)
Share Award Scheme reserve	50,067	4,245	54,312
Capital reserve	(620,234)	(1,332)	(621,566)
Statutory reserve	8,060	–	8,060
Exchange reserve	(15,710)	(4,109)	(19,819)
General reserve	–	291	291
Financial assets at FVTOCI reserve	(57,812)	2,037	(55,775)
Subsidiary's treasury share reserve	(7)	–	(7)
Accumulated losses	(1,701,633)	(198,665)	(1,900,298)
Total attributable to owners of the Company	<u>3,858,795</u>	<u>(172,641)</u>	<u>3,686,154</u>
Non-controlling interests	<u>771,304</u>	<u>(168,877)</u>	<u>602,427</u>
Total equity	<u><u>4,630,099</u></u>	<u><u>(341,518)</u></u>	<u><u>4,288,581</u></u>
	As at 1 January 2020 <i>RMB'000</i>	Movements (Unaudited) <i>RMB'000</i>	As at 30 June 2020 (Unaudited) <i>RMB'000</i>
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 reserves	(7)	–	(7)
Accumulated losses	(1,469,148)	(59,050)	(1,528,198)
Total attributable to owners of the Company	<u>3,658,468</u>	<u>936,918</u>	<u>4,595,386</u>
Non-controlling interests	<u>240,579</u>	<u>151,573</u>	<u>392,152</u>
Total equity	<u><u>3,899,047</u></u>	<u><u>1,088,491</u></u>	<u><u>4,987,538</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash (used in)/generated from operating activities	(355,011)	83,754
Net cash used in investing activities	(267,086)	(32,273)
Net cash generated from financing activities	<u>2,293</u>	<u>1,043,782</u>
Net (decrease)/increase in cash and cash equivalents	(619,804)	1,095,263
Effect of foreign exchange rate changes	(6,631)	8,042
Cash and cash equivalents at beginning of period	<u>1,751,530</u>	<u>746,194</u>
Cash and cash equivalents at the end of period	<u><u>1,125,095</u></u>	<u><u>1,849,499</u></u>

1. General information and basis of presentation

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

The functional currency of the Company is Hong Kong Dollars ("HK\$") and accordingly, the condensed consolidated financial statements of the Group was presented in Renminbi ("RMB"). The directors of the Company considered presenting the Group's condensed consolidated financial results and financial position in RMB can reflect more closely of the Group's business operations and its business environment.

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

These condensed consolidated financial statements have been prepared in accordance with 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 consolidated financial statements 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 these 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 condensed consolidated interim 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 2021

	Fair value measurements using:			Total
	Level 1	Level 2	Level 3	30 June
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurements:				
Financial assets				
Financial assets at FVTOCI				
– unlisted equity securities	–	–	128,498	128,498
Financial assets at FVTPL				
– unlisted equity securities	–	–	10,733	10,733
Financial assets at FVTPL				
– preferred shares	–	–	242,514	242,514
	–	–	381,745	381,745

At 31 December 2020

	Fair value measurements using:			Total
	Level 1	Level 2	Level 3	31 December
	(Audited)	(Audited)	(Audited)	2020
	RMB'000	RMB'000	RMB'000	(Audited)
				RMB'000

Recurring fair value measurements:

Financial assets

Financial assets at FVTOCI

– unlisted equity securities

–	–	117,024	117,024
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(b) Reconciliation of assets measured at fair value based on Level 3:

	Financial assets at FVTPL – unlisted equity securities (Unaudited) RMB'000	Financial assets at FVTPL – preferred shares (Unaudited) RMB'000	Financial assets at FVTOCI – unlisted equity securities (Unaudited) RMB'000	Total (Unaudited) RMB'000
At 31 December 2020 (Audited) and 1 January 2021	–	–	117,024	117,024
Acquisition and capital contribution				
– cash consideration paid for the period	10,620	178,750	7,922	197,292
– earnest money paid in the year ended 31 December 2020 and recognised as investment during the period	–	50,000	–	50,000
– payable for the period	–	10,345	–	10,345
Fair value change during the period	113	3,592	3,925	7,630
Exchange difference	–	(173)	(373)	(546)
At 30 June 2021 (Unaudited)	<u>10,733</u>	<u>242,514</u>	<u>128,498</u>	<u>381,745</u>

(c) **Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 30 June 2021:**

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 an external valuation expert on 31 December 2020 with the recognised professional qualifications and recent experience to perform valuation.

Level 3 fair value measurements – Unlisted equity securities classified as financial assets at FVTOCI

Description	Valuation technique	Unobservable inputs	Parameters	Effect on fair value for increase of inputs	Fair value	
					As at 30 June 2021 (Unaudited) RMB'000	As at 31 December 2020 (Audited) RMB'000
Haier Consumer Finance Co., Ltd.	Market multiples with an adjustment of discount for lack of marketability	Lack of marketability discount ("DLOM")	25.08%	Decrease	74,670	74,670
Guang Holdings Limited	Guideline transaction method	Volatility	60.07%	Increase	41,981	42,354
Hangzhou All-In Technology Co., Ltd	Market multiples with an adjustment of DLOM	Enterprise value to sales multiple ("EV/S")	10.50x	Increase	11,847	N/A
		DLOM	17.33%	Decrease		

Level 3 fair value measurements – Financial assets at FVTPL

Description	Valuation technique	Unobservable inputs	Parameters	Effect on fair value for increase of inputs	Fair value	
					As at 30 June 2021 (Unaudited) RMB'000	As at 31 December 2020 (Audited) RMB'000
Unlisted equity securities:						
Zhengzhou Xindajiean Information Technology Co., Ltd.	Market multiples with an adjustment of	EV/S	8.75x	Increase	10,733	N/A
	DLOM	DLOM	27.83%	Decrease		
Preferred Shares:						
Shanghai Burgeon Software Technology Co., Ltd.	Market multiples with an adjustment of	EV/S	5.10x	Increase	215,760	N/A
	DLOM	DLOM	19.29%	Decrease		
Techsun Inc.	Market multiples with an adjustment of	EV/S	7.66x	Increase	26,754	N/A
	DLOM	DLOM	16.70%	Decrease		

4. Revenue

(a) 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		For the six months	
	ended 30 June		ended 30 June	
	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Re-presented)		(Re-presented)
Revenue from contracts with customers within the scope of HKFRS 15				
Subscription solutions	250,796	262,476	507,808	475,378
Merchant solutions (<i>note (i)</i>)	132,547	183,969	289,258	340,921
Others	2,782	4,499	6,333	7,658
	386,125	450,944	803,399	823,957

- (i) Merchant solutions include transaction fee of approximately nil and RMB21,603,000 (Three months ended 30 June 2020: RMB42,594,000 and six months ended 30 June 2020: RMB93,260,000) 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 June 2021 and six months ended 30 June 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 June 2020 and six months ended 30 June 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 June 2021 and six months ended 30 June 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:

For the six months ended 30 June	Third party payment											
	General trading		services		Onecomm		Merchant services		Others		Total	
	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	2021 (Unaudited) RMB '000	2020 (Unaudited) RMB '000
Primary geographical markets												
– PRC except Hong Kong	–	690	138,481	127,877	–	286	669,407	712,426	3,771	N/A	811,659	841,279
Segment revenue	–	690	138,481	127,877	–	286	669,407	712,426	3,771	N/A	811,659	841,279
Intersegment revenue												
– PRC except Hong Kong	–	–	(7,044)	(17,322)	–	–	(1,216)	–	–	N/A	(8,260)	(17,322)
Revenue from external customers	–	690	131,437	110,555	–	286	668,191	712,426	3,771	N/A	803,399	823,957
Timing of revenue recognition												
Products transferred at a point in time	–	690	31	500	–	–	129,648	128,216	–	N/A	129,679	129,406
Products and services transferred over time	–	–	131,406	110,055	–	286	538,543	584,210	3,771	N/A	673,720	694,551
Total	–	690	131,437	110,555	–	286	668,191	712,426	3,771	N/A	803,399	823,957

For the three months ended 30 June	Third party payment															
	General trading				Third party payment services				Merchants							
	2021		2020		2021		2020		2021		2020		2021		2020	
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
Primary geographical markets																
– PRC except Hong Kong																
Segment revenue	–	492	70,009	70,868	–	286	316,623	386,797	1,851	N/A	388,483	458,443	–	492	70,009	70,868
– PRC except Hong Kong																
Revenue from external customers	–	492	(1,754)	(7,499)	–	286	(604)	–	–	N/A	(2,358)	(7,499)	–	492	68,255	63,369
Timing of revenue recognition																
Products transferred at a point in time																
Products and services transferred over time																
Total	–	492	68,255	63,369	–	286	316,019	386,797	1,851	N/A	386,125	450,944	–	492	68,238	62,875
	–	492	64,705	73,407	–	286	251,314	313,390	1,851	N/A	321,403	376,551	–	492	64,722	74,393
	–	492	68,255	63,369	–	286	316,019	386,797	1,851	N/A	386,125	450,944	–	492	64,722	74,393

(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 2021 and the expected timing of recognising revenue as follows:

	Subscription solutions At 30 June 2021 (Unaudited) RMB'000	Subscription solutions At 31 December 2020 (Audited) RMB'000
Within 1 year	618,050	611,236
More than 1 year but not more than 2 years	53,928	53,740
More than 2 years	1,942	2,631
	673,920	667,607

5. **Investment and other income**

	For the three months ended 30 June		For the six months ended 30 June	
	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	4,194	2,245	8,626	3,679
Central Bank	3,061	3,624	6,335	9,251
Loan to other	–	33	–	65
Financial assets at FVTPL	1,935	912	3,144	1,884
Total interest income	9,190	6,814	18,105	14,879
Government grants	2,650	3,025	3,300	5,635
VAT super-credit	1,580	2,792	9,394	9,233
Compensation income	–	5,327	–	5,327
Others	2,630	2,968	6,018	4,160
	16,050	20,926	36,817	39,234

6. Other operating expenses

	For the three months ended 30 June		For the six months ended 30 June	
	2021 (Unaudited) <i>RMB'000</i>	2020 (Unaudited) <i>RMB'000</i> (Re-presented)	2021 (Unaudited) <i>RMB'000</i>	2020 (Unaudited) <i>RMB'000</i> (Re-presented)
Research and development expenditures	160,126	101,091	296,704	202,008
Others	29	160	67	685
	<u>160,155</u>	<u>101,251</u>	<u>296,771</u>	<u>202,693</u>

7. Segment information

The Group has five 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 Sale ("POS") devices
Merchant services	–	provision of e-commerce platform with a variety of SaaS products and comprehensive services in the PRC through Youzan Technology Inc. (Formerly known as Qima Holdings Ltd.) and its subsidiaries ("Youzan Group"), which owns Youzan WeiMall, Youzan Retail, Youzan Beauty and other SaaS products
Others	–	other business

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	Others (Unaudited) RMB'000	Total (Unaudited) RMB'000
For the six months ended 30 June 2021:						
Revenue from external customers	-	131,437	-	668,191	3,771	803,399
Intersegment revenue	-	7,044	-	1,216	-	8,260
Segment profit/(loss)	9	6,273	(4)	(423,397)	(5)	(417,124)
As at 30 June 2021						
Segment assets	3,531	4,099,536	39	2,806,463	23,249	6,932,818
Investments in associates	-	5,286	-	-	-	5,286
For the six months ended 30 June 2020:						
				(Re-presented)		(Re-presented)
Revenue from external customers	690	110,555	286	712,426	N/A	823,957
Intersegment revenue	-	17,322	-	-	N/A	17,322
Segment (loss)/profit	(560)	11,831	323	(222,804)	N/A	(211,210)
As at 31 December 2020	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Segment assets	973	5,667,695	43	3,813,134	29,596	9,511,441
Investments in associates	-	3,170	-	-	-	3,170

Reconciliations of segment revenue and profit or loss:

	For the six months	
	ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		(Re-presented)
Total revenue of reportable segments	811,659	841,279
Elimination of intersegment revenue	(8,260)	(17,322)
Consolidated revenue	<u>803,399</u>	<u>823,957</u>
Profit or loss		
Total loss of reportable segments	(417,124)	(211,210)
Equity-settled share-based payments	(25,087)	(33,112)
Fair value change in financial assets at FVTPL	3,705	–
Unallocated amounts:		
Corporate income and expenses, net	(18,427)	(9,686)
Consolidated loss before income tax	<u>(456,933)</u>	<u>(254,008)</u>

8. Income tax credit

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

	For the three months		For the six months	
	ended 30 June		ended 30 June	
	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Current tax – the PRC				
Provision for the period	2	–	18	–
Deferred tax	(54,463)	(9,324)	(86,898)	(23,859)
	<u>(54,461)</u>	<u>(9,324)</u>	<u>(86,880)</u>	<u>(23,859)</u>

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

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 2021 (Three months and six months ended 30 June 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.

9. Loss for the period

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

	For the three months		For the six months	
	ended 30 June		ended 30 June	
	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Re-presented)		(Re-presented)
Amortisation of intangible assets	31,207	47,904	61,665	96,440
Amortisation of capitalised contract costs	59,891	55,112	121,573	103,224
Allowance for inventories	–	60	–	60
Allowance for trade receivables, net	221	–	221	–
Allowance/(reversal of allowance) for prepayments, deposit and other receivables, net	517	(19,007)	517	(19,007)
Cost of goods sold	1,571	2,811	3,037	3,795
Depreciation of property, plant and equipment	5,286	4,793	10,480	9,395
Depreciation of right-of-use assets	13,065	10,466	25,496	21,187
Net (gain)/loss on disposals of property, plant and equipment	(4)	83	(44)	66
Operating lease charges	3,482	2,040	5,148	3,842
Research and development expenditures (included in other operating expenses and equity-settled share-based payments)	165,536	105,225	303,937	211,143

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 2021 (three months and six months ended 30 June 2020: 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		For the six months ended 30 June	
	2021 (Unaudited) <i>RMB'000</i>	2020 (Unaudited) <i>RMB'000</i>	2021 (Unaudited) <i>RMB'000</i>	2020 (Unaudited) <i>RMB'000</i>
Loss				
Loss attributable to owners of the Company, used in the basic and diluted loss per share calculation	<u>(107,617)</u>	<u>(44,995)</u>	<u>(198,746)</u>	<u>(119,885)</u>
	For the three months ended 30 June		For the six months ended 30 June	
	2021 (Unaudited) '000	2020 (Unaudited) '000	2021 (Unaudited) '000	2020 (Unaudited) '000
Number of shares				
Weighted average number of ordinary shares used in basic loss per share calculation	17,113,323	16,310,027	17,106,556	15,751,271
Effect of dilutive potential ordinary shares arising from share options	<u>165,779</u>	<u>13,077</u>	<u>196,240</u>	<u>N/A</u>
Weighted average number of ordinary shares used in diluted loss per share calculation	<u>17,279,102</u>	<u>16,323,104</u>	<u>17,302,796</u>	<u>N/A</u>

For the three months ended 30 June 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.

For the six months ended 30 June 2021, there is no dilutive effect on the loss per share as the exercise of the Company's outstanding share options would result in the decrease in the loss per share.

For the 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.

12. Property, plant and equipment

During the six months ended 30 June 2021, the Group acquired property, plant and equipment of approximately RMB14,247,000 (Unaudited) (during the year ended 31 December 2020: approximately RMB23,615,000 (Audited)).

Certain lessors of the leased office premises and staff quarters had not provided the Group with valid title certificates or relevant authorisation documents evidencing their rights to lease the property to the Group. As at 30 June 2021 and 31 December 2020, the carrying amount of leasehold improvements related to these premises was amounted to RMB16,379,000 (Unaudited) and RMB9,557,000 (Audited), respectively.

13. Right-of-use assets

During the six months ended 30 June 2021, the Group additions right-of-use assets of approximately RMB15,966,000 (Unaudited) (during the year ended 31 December 2020: RMB87,204,000 (Audited)).

Certain lessors of the leased office premises and staff quarters had not provided the Group with valid title certificates or relevant authorisation documents evidencing their rights to lease the property to the Group. As at 30 June 2021 and 31 December 2020, the carrying amount of right-of-use assets related to these premises was amounted to RMB61,841,000 (Unaudited) and RMB66,106,000 (Audited), respectively.

14. Trade receivables

The aging analysis of trade receivable, based on the date of invoice and net of allowance is as follow:

	As at 30 June 2021 (Unaudited) RMB'000	As at 31 December 2020 (Audited) RMB'000
0 to 120 days	<u>2,635</u>	<u>1,821</u>

15. Restricted bank balances

	As at 30 June 2021 (Unaudited) RMB'000	As at 31 December 2020 (Audited) RMB'000
For settlement of amounts payable to employees	843	24,474
Frozen by a PRC District People's Procuratorate to facilitate legal investigation not related to the Group	–	30,436
Pledged as security of banking facilities	3,760	3,504
	<u>4,603</u>	<u>58,414</u>

All restricted bank balances were denominated in RMB.

Conversion of the above balances from RMB into foreign currencies and from foreign currencies to RMB 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 2021, no bank balances was exclusively designated for the purpose of fulfilling the Group's settlement obligations (as at 31 December 2020: RMB99,864,000 (Audited)).

Bank and cash balances of the Group deposited with banks in the PRC are denominated in the following currencies:

	As at 30 June 2021 (Unaudited) RMB'000	As at 31 December 2020 (Audited) RMB'000
HK\$	4,931	633
RMB	368,821	658,616
US dollars ("USD")	588,963	961,703
	<u>962,715</u>	<u>1,620,952</u>

Conversion of the above balances from RMB into foreign currencies and from foreign currencies into RMB 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 aging analysis of the trade payables, based on the date of receipt of goods, is as follows:

	As at 30 June 2021 (Unaudited) RMB'000	As at 31 December 2020 (Audited) RMB'000
Current to 90 days	367	383
91 to 180 days	–	–
181 to 365 days	–	–
Over 365 days	<u>2,433</u>	<u>4,013</u>
	<u>2,800</u>	<u>4,396</u>

18. Share capital

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

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

19. Convertible bonds

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

20. Warrants

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

21. Contingent liabilities

- (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 six months ended 30 June 2021 and up to date of this announcement, 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 June 2021.

22. Capital commitments

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

	As at 30 June 2021 (Unaudited) RMB'000	As at 31 December 2020 (Audited) RMB'000
Equity investment in a company	6,787	6,787
Property, plant and equipment	<u>2,103</u>	<u>3,278</u>

Apart from disclosed above, as at 30 June 2021, the Group has committed to acquire interests of an entity subject to the financial performance of the entity for the year ending 31 December 2021. The relevant total commitment of investment is RMB16,800,000. As at 30 June 2021, earnest money of RMB2,000,000 was paid for the arrangement.

23. 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	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Advertising service fee received from a related company (exclude VAT)	–	198	–	198
Technology services fee paid to a related party	–	–	–	(189)
Revenue from a related company	1,022	1,067	2,184	2,341
Dividend income from an associate	–	–	725	2,538
Loans to a related company during the period				
– Principal borrowed during the period	–	–	–	(500)
– Repayment during the period	–	–	–	800
Commission paid to associates	(1,971)	(593)	(3,344)	(1,074)
Administrative expenses paid to a non-controlling interest	<u>(452)</u>	<u>(787)</u>	<u>(1,081)</u>	<u>(787)</u>

(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	
	2021 (Unaudited) <i>RMB'000</i>	2020 (Unaudited) <i>RMB'000</i> (Re-presented)	2021 (Unaudited) <i>RMB'000</i>	2020 (Unaudited) <i>RMB'000</i> (Re-presented)
Salaries, bonus and allowances	4,429	4,976	9,149	10,318
Equity-settled share-based payments	2,971	8,020	5,937	16,940
Retirement benefit scheme contribution	86	24	182	96
	<u>7,486</u>	<u>13,020</u>	<u>15,268</u>	<u>27,354</u>

24. Comparative figures

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

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

Our products and services are divided into five core segments: social e-commerce, new retail, beauty industry, education, and global markets. In May 2021, the new retail business of Youzan was upgraded with “Youzan New Retail” as the business brand, which created incremental value for merchants and facilitated the digital upgrading of retail business. Youzan New Retail helps merchants to strengthen their capabilities of omni-channel marketing, private domain operation, transaction conversion and organisational iteration, so as to achieve omni-channel sales growth, effective customer growth, and customer lifetime value growth through Youzan New Retail. Youzan New Retail provides industry solutions for different vertical industries, covering fashion, department store, collection stores, fast-moving consumer goods, intra-city retail and other sectors, which not only consist of system solutions including omni-channel marketing, private domain marketing, online store operation, and offline store operation, but also consist of services solutions including business consulting, operation launching consulting, operation services, data application services and data integration services. In order to enhance our capability to provide integrated solutions for large merchants, we launched the ONE strategy, and cooperated with some system service providers to provide online and offline data integration services for merchants. We provided in-depth services such as consulting, marketing, and customisation for large merchants and launched the K100 plan to accompany the development of 100 industry leaders.

The Gross Merchandise Volume (“GMV”) generated by merchants through Youzan’s solutions reached RMB48.1 billion in the first half of 2021, representing an increase by 4% as compared to the GMV in the same period of 2020.

As of 30 June 2021, the number of paying merchants was 87,457. The number of new paying merchants was 19,054 in the first half of 2021.

As of 30 June 2021, we have 4,008 employees, with 41% of sales, 36% of product and technology, 16% of service and operation and 7% of management and support.

Future Business Strategies

Our future business plan has been made based on our mission, which is to help every merchant who values products and services achieve success in commerce. To help the merchants achieve success is to help them improve business efficiency and expand the business scale by providing better solutions to satisfy their business needs. We plan to implement the following strategies to strengthen our leadership in the cloud-based commerce services industry:

Grow our merchants' sales

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

Grow our merchant base and broaden sales network

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

Continuous innovation and expansion of our solution offerings

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

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

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

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

Continue to build for the long-term

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

Financial Review

Revenue

The Group's revenue for the period was approximately RMB803,399,000 (Six months ended 30 June 2020: approximately RMB823,957,000 (Re-presented)), representing a decrease of about 2.5% 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 period indicated.

	For the six months ended 30 June		
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000 (Re-presented)	Changes %
Subscription solutions	507,808	475,378	6.8%
Merchant solutions	289,258	340,921	(15.2%)
Others	6,333	7,658	(17.3%)
Total	<u>803,399</u>	<u>823,957</u>	<u>(2.5%)</u>

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 increased by 6.8% from approximately RMB475,378,000 (Re-presented) for the six months ended 30 June 2020 to RMB507,808,000 for the reporting period, mainly attributable to the increase in subscription fees for SaaS products which was partially offset by the decrease in cloud service fees.

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 RMB289,258,000 in the reporting period (Six months ended 30 June 2020: approximately RMB340,921,000 (Re-presented)), representing a decrease of 15.2%, which was primarily due to the decrease in revenue generated from transaction services since Hangzhou Youzan ceased its transaction service in February 2021. Excluding transaction service fees, revenue from merchant solutions remained stable.

Others

Revenue from other businesses was approximately RMB6,333,000 in the reporting period (Six months ended 30 June 2020: approximately RMB7,658,000 (Re-presented)), representing a decrease of 17.3%, mainly due to the decrease in the revenue from providing catering services which were ceased since May 2021.

Cost

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

	For the six months ended 30 June		2020 (Unaudited)	Changes %	
	2021 (Unaudited)	Percentage			
	RMB'000	(%)	RMB'000 (Re-presented)	Percentage (%)	
Staff costs	84,776	26.8%	71,290	20.8%	18.9%
Server and SMS costs	55,756	17.6%	49,280	14.4%	13.1%
Transaction costs	135,418	42.9%	201,119	58.7%	(32.7%)
Costs of goods sold	3,037	1.0%	3,795	1.1%	(20.0%)
Depreciation of right-of-use assets	3,691	1.2%	2,934	0.9%	25.8%
Technology services expenses	2,609	0.8%	4,050	1.2%	(35.6%)
Contracted customer services expenses	4,906	1.6%	3,136	0.9%	56.4%
Taxes and surcharges	3,930	1.2%	2,576	0.7%	52.6%
Insurance premium costs	13,175	4.2%	–	–	N/A
Others	8,699	2.7%	4,299	1.3%	102.3%
Total	<u>315,997</u>	<u>100.0%</u>	<u>342,479</u>	<u>100.0%</u>	<u>(7.7%)</u>

The Group's costs of sales in the reporting period were approximately RMB315,997,000 (Six months ended 30 June 2020: approximately RMB342,479,000 (Re-presented)), representing a decrease of 7.7%, which was mainly because transaction costs decreased by 32.7% from approximately RMB201,119,000 in the same period of last year to approximately RMB135,418,000 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 18.9% from approximately RMB71,290,000 in the same period of last year to RMB84,776,000 in the reporting period due to the increase of personnel caused by business expansion, (ii) insurance premium costs increased by RMB13,175,000 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 13.1% from approximately RMB49,280,000 in the same period of last year to approximately RMB55,756,000 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 RMB487,402,000 (Six months ended 30 June 2020: approximately RMB481,478,000 (Re-presented)), representing an increase of 1.2%, due to the increase of gross profit from subscription solutions which was partially offset by the decrease of gross profit from merchant solutions.

The Group's gross profit margin increased from 58.4% (Re-presented) in the same period of 2020 to 60.7% in the reporting period, which was mainly due to the increase in revenue from subscription solutions and the proportion of subscription solutions that have high gross profit margin. Revenue generated from subscription solutions as a percentage of total revenue increased from 57.7% in the six months ended 30 June 2020 to 63.2% in the six months ended 30 June 2021.

	For the six months ended 30 June			
	2021		2020	
	(Unaudited)		(Unaudited)	
	<i>Gross profit</i>		<i>Gross profit</i>	
	<i>margin</i>		<i>margin</i>	
	<i>RMB'000</i>	<i>(%)</i>	<i>RMB'000</i>	<i>(%)</i>
			(Re-presented)	
Subscription solutions	380,673	75.0%	358,132	75.3%
Merchant solutions	106,273	36.7%	121,289	35.6%
Others	456	7.2%	2,057	26.9%
Total	<u>487,402</u>	<u>60.7%</u>	<u>481,478</u>	<u>58.4%</u>

Subscription Solutions

The gross profit of subscription solutions for the reporting period was approximately RMB380,673,000 (Six months ended 30 June 2020: approximately RMB358,132,000 (Re-presented)), representing an increase of 6.3%. The increase in gross profit was mainly due to the increase in the revenue of subscription solutions benefitted from higher average revenue per merchant of subscription solutions. The gross profit margin was 75.0% for the reporting period (Six months ended 30 June 2020: 75.3% (Re-presented)) which remained relatively stable.

Merchant Solutions

The gross profit of merchant solutions for the reporting period was approximately RMB106,273,000 (Six months ended 30 June 2020: approximately RMB121,289,000 (Re-presented)), representing a decrease of 12.4%, 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 35.6% (Re-presented) in the six months ended 30 June 2020 to 36.7% in the six months ended 30 June 2021.

Others

Other gross profit for the reporting period was approximately RMB456,000 (Six months ended 30 June 2020: approximately RMB2,057,000 (Represented)).

Expenses and Others

The Group recorded a 29.0% increase compared with the same period in 2020 in selling expenses to approximately RMB438,549,000 (Six months ended 30 June 2020: approximately RMB339,975,000 (Re-presented)). It 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 42.4% increase compared with the same period in 2020 in administrative expenses to approximately RMB148,986,000 (Six months ended 30 June 2020: approximately RMB104,646,000 (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 46.4% increase compared with the same period in 2020 in other operating expenses to approximately RMB296,771,000 (Six months ended 30 June 2020: approximately RMB202,693,000 (Re-presented)). It was mainly due to the increase in research and development expenditure since the Group continue to invest significant resources in research and development to enhance technology capabilities.

The Group recorded a 24.2% decrease compared with the same period in 2020 in equity-settled share-based payment to approximately RMB25,087,000 (Six months ended 30 June 2020: approximately RMB33,112,000).

The Group recorded a 6.2% decrease compared with the same period in 2020 in investment and other income to approximately RMB36,817,000 (Six months ended 30 June 2020: approximately RMB39,234,000 (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.

The Group recorded other net losses of approximately RMB2,680,000 (Six months ended 30 June 2020: other net gains of approximately RMB16,199,000 (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 29.7% decrease compared with the same period in 2020 in finance costs to approximately RMB11,235,000 (Six months ended 30 June 2020: approximately RMB15,987,000 (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 RMB3,705,000 (Six months ended 30 June 2020: nil). Fair value change in financial assets at FVTPL represents fair value changes of investments in Shanghai Burgeon Software Technology Co., Ltd., Techsun Inc. and Zhengzhou Xindajiean Information Technology Co., Ltd. in the six months ended 30 June 2021.

Dividends

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

Pledge of Assets

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

Financial Resources and Liquidity

As at 30 June 2021, the Company had cash and cash equivalents of approximately RMB1,125,095,000 (As at 31 December 2020: approximately RMB1,751,530,000).

As at 30 June 2021, the Company had no bank borrowings (As at 31 December 2020: Nil).

Foreign Exchange Exposure

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

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

Employees

As at 30 June 2021, the Group has approximately 4,008 employees (As at 31 December 2020: 3,603). Employees are remunerated according to their performance and work experience. In addition to basic salaries and retirement scheme, staff benefits include performance bonus, share options and share awards etc.. The Directors believe that good quality of its employees is a company asset which affects growth and improves profitability. The Group recognizes the importance of staff training and thus regularly provides internal and external training for its staff to enhance their skills and knowledge.

Significant Investment and Acquisition

- (a) On 19 January 2021, Hangzhou Youzan entered into capital injection agreement and shareholders' agreement with Shanghai Burgeon Software Technology Co. Ltd. and its existing shareholders to confirm the acquisition of 15% new shares. RMB50 million earnest money paid became part of the consideration and the remaining balance of approximately RMB162 million was settled by Hangzhou Youzan on 22 January 2021.

- (b) On 26 February 2021, the Company and BetaCafe Holdings Limited (the“offeror”) issued a joint announcement for the (i) proposed distribution (“Distribution”) of the shares of Youzan Technology Inc. held by the Company to all shareholders of the Company (such shares are proposed to be listed on the Main Board of the Stock Exchange by way of introduction); and (ii) the taking private of the Company after completion of the Distribution by way of a scheme of arrangement under section 99 of the Companies Act. Details are set forth in the joint announcement (“joint announcement”) dated 26 February 2021.
- (c) On 19 May 2021, Hangzhou Youzan entered into an investment intention agreement with Company A for paying RMB50 million refundable earnest money for potential investment. The earnest money was paid on 20 May 2021.

Event After the Reporting Period

On 15 July 2021, the Company and the offeror issued a joint announcement for monthly update on (i) pre-conditional take private proposal for China Youzan Limited by the offeror by way of scheme of arrangement under section 99 of the Companies Act; (ii) proposed distribution in specie of Youzan Technology shares.

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 and 15 July 2021; and the Company’s circular dated 20 April 2021.

DIRECTORS' INTEREST IN SHARES

As at the date of this announcement, 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		
		Interest in underlying shares	Total interest in shares	% Shareholding
Mr. Guan Guisen (<i>Note 1, 2</i>)	411,592,000	–	411,592,000	2.39%
Mr. Cao Chunmeng	57,420,000	–	57,420,000	0.31%
Mr. Yan Xiaotian	21,640,000	–	21,640,000	0.13%
Dr. Fong Chi Wah	1,000,000	–	1,000,000	0.01%
Mr. Gu Jiawang	1,000,000	–	1,000,000	0.01%
Mr. Zhu Ning	1,440,601,703 (<i>Note 3</i>) 363,170,101 (<i>Note 4</i>)	100,000,000 (<i>Note 6</i>)	1,903,771,804	11.03%
Mr. Yu Tao	–	15,000,000 (<i>Note 7</i>)	15,000,000	0.09%
Mr. Cui Yusong	241,885,127 (<i>Note 5</i>)	20,000,000 (<i>Note 7</i>)	261,885,127	1.52%
Ms. Ying Hangyan	852,000	15,000,000 (<i>Note 7</i>)	15,852,000	0.09%

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

Note 2: Mr. Guan Guisen resigned as a Director with effect from 17 February 2021.

Note 3: The shares are held by Whitecrow Investment Ltd. (“Whitecrow”). Whitecrow is a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mr. Zhu Ning.

Note 4: The shares are held by Youzan Teamwork Inc. (“Youzan Teamwork”). Youzan Teamwork is a company incorporated in the British Virgin Islands with limited liability. As at 31 December 2020, Youzan Teamwork was owned as to 8% by Mr. Zhu Ning, and 18% by Whitecrow.

Note 5: The shares are held by V5.Cui Investment Ltd. (“V5.Cui”). V5.Cui is a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mr. Cui Yusong.

Note 6: The Company granted the share options under New Share Option Scheme on 9 September 2019, and was approved at the extraordinary general meeting on 14 October 2019. The share options is valid until 30 June 2024 and has an exercise price of HK\$1.00.

Note 7: The Company granted the share options under New Share Option Scheme on 9 September 2019, and was approved at the extraordinary general meeting on 14 October 2019. The share options is valid until 30 June 2024 and has an exercise price of HK\$0.90.

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

Long position in Shares

Name of Substantial Shareholders	Capacity	Long Position in Shares	
		Number of interest in shares	% Shareholding
Whitecrow Investment Ltd. <i>(Note 1)</i>	Beneficial owner	1,440,601,703	8.35%
Poyang Lake Investment Limited <i>(Note 2)</i>	Beneficial owner	1,036,766,038	6.01%
Tencent Holdings Limited <i>(Note 2)</i>	Interests of controlled corporation	1,036,766,038	6.01%
Ward Ferry Management (BVI) Limited	Investment manager	1,218,264,000	7.06%
UBS Group AG	Interests of controlled corporation	1,175,563,107	6.81%

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

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

SHARE OPTION SCHEME AND SHARE AWARD SCHEME

Share Options Scheme

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

Set out below are the details of movements in the outstanding options granted under the Share Option Scheme 2019 during the period ended 30 June 2021:

Share Option Scheme 2019

	Position held within the Company	Date of grant	As at 1.1.2021	Grant during the period	Lapsed during the period	Cancelled during the period	Exercise during the period	As at 30.6.2021	Exercise price HK\$	Exercisable from (Note 1)	Exercisable until (Note 1)	Percentage out of total number of issued Shares as at the date of this announcement approximately (%)
Name of Selected Directors												
Mr. Zhu Ning	Executive Director and chief executive officer	9.9.2019	100,000,000	-	-	-	-	100,000,000	HK\$1.00	1 July 2020	30 June 2024	0.58
Mr. Cui Yusong	Executive Director	9.9.2019	20,000,000	-	-	-	-	20,000,000	HK\$0.90	1 July 2020	30 June 2024	0.12
Mr. Yu Tao	Executive Director	9.9.2019	15,000,000	-	-	-	-	15,000,000	HK\$0.90	1 July 2020	30 June 2024	0.09
Ms. Ying Hangyan	Executive Director	9.9.2019	15,000,000	-	-	-	-	15,000,000	HK\$0.90	1 July 2020	30 June 2024	0.09
Subtotal		9.9.2019	<u>150,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>150,000,000</u>				0.87
Other employees (include 2 senior management of the Group)		9.9.2019	150,154,000	-	(750,000)	-	(6,600,000)	142,804,000	HK\$0.75	1 July 2020	30 June 2024	0.83
Total			<u>300,154,000</u>	<u>-</u>	<u>(750,000)</u>	<u>-</u>	<u>(6,600,000)</u>	<u>292,804,000</u>				1.70

Note 1: Vesting schedule

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

SHARE AWARD SCHEME

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

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

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

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

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

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

First Awards

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

Second Awards

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

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

Third Awards

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

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

Fourth Awards

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

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

COMPETING INTERESTS

The Directors are not aware of, as at 30 June 2021, any business or interest of each Director, management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

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

During the three months and six months ended 30 June 2021, there were no purchase, sale or redemption by the Company or any of its subsidiaries of the Company’s listed securities.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a Code of Practice for Securities Transactions by Directors and Designated Employees on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company has also made specific enquiry of all Directors who have confirmed their compliance with required standard set out in the Securities Code during the three months and six months ended 30 June 2021.

BOARD PRACTICES AND PROCEDURES

The Company has complied throughout the three months and six months ended 30 June 2021 the board practices and procedures as set out in Chapter 5 of the GEM Listing Rules.

CORPORATE GOVERNANCE AND COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

As at 30 June 2021, the Company has been in compliance with the code provisions set out in the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 15 of the GEM Listing Rules.

AUDIT COMMITTEE

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

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

The Committee is of the opinion that the preparation of the unaudited results for the three months and six months ended 30 June 2021 has complied with applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosures had been made. The Committee has reviewed the Company’s unaudited results for the three months and six months ended 30 June 2021 and the draft of this announcement, and has provided advice and comments thereon.

By Order of the Board
China Youzan Limited
Zhu Ning
Chairman

Hong Kong, 11 August 2021

As at the date of this announcement, 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 announcement 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.