

CHINA YOUZAN

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First Quarterly Report 2022

A Better Business with Youzan



中國有贊有限公司
CHINA YOUZAN LIMITED

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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

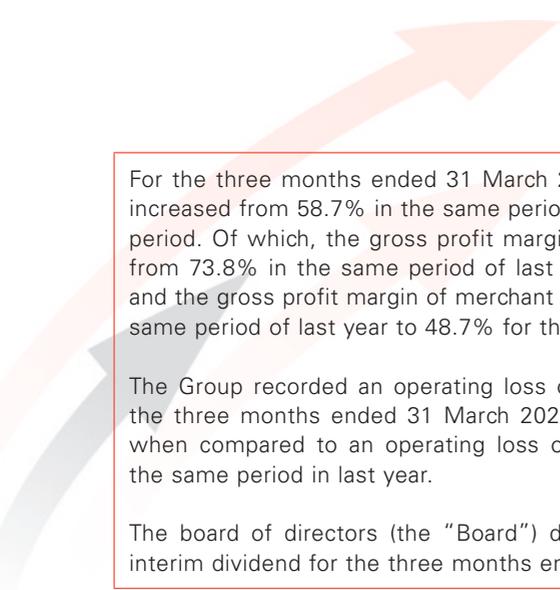
(Incorporated in Bermuda with limited liability)

(Stock Code: 8083)

HIGHLIGHTS

For the three months ended 31 March 2022, the Group recorded a revenue of approximately RMB362,802,000, representing a decrease of 13.1% compared to the same period of last year. Of which, the revenue from subscription solutions was approximately RMB219,914,000, representing a decrease of 14.4% compared to the same period of last year, and the revenue from merchant solutions was approximately RMB139,384,000, representing a decrease of 11.1% compared to the same period of last year.

For the three months ended 31 March 2022, the Group recorded a gross profit of approximately RMB220,477,000, representing a decrease of 10.1% compared to the same period of last year. Of which, the gross profit of subscription solutions was approximately RMB151,706,000, representing a decrease of 20.0% compared to the same period of last year, and the gross profit of merchant solutions was approximately RMB67,820,000, representing an increase of 23.4% compared to the same period of last year.



For the three months ended 31 March 2022, the Group's gross profit margin increased from 58.7% in the same period of last year to 60.8% for the current period. Of which, the gross profit margin of subscription solutions decreased from 73.8% in the same period of last year to 69.0% for the current period, and the gross profit margin of merchant solutions increased from 35.1% in the same period of last year to 48.7% for the current period.

The Group recorded an operating loss of approximately RMB344,007,000 for the three months ended 31 March 2022, representing an increase of 76.6% when compared to an operating loss of approximately RMB194,821,000 for the same period in last year.

The board of directors (the "Board") does not recommend the payment of interim dividend for the three months ended 31 March 2022.

FINANCIAL RESULTS

The Board of the Company is pleased to announce the unaudited condensed consolidated results of the Group for the three months ended 31 March 2022 (the “reporting period”) together with the unaudited comparative figures for the corresponding period in 2021 as set out below:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the three months ended 31 March	
		2022	2021
	<i>Notes</i>	(Unaudited) RMB'000	(Unaudited) RMB'000
Revenue	3	362,802	417,274
Cost of sales		(142,325)	(172,153)
Gross profit		220,477	245,121
Investment and other income	4	11,360	20,767
Other gains and losses, net		(209)	(153)
Selling expenses		(255,966)	(209,995)
Administrative expenses		(123,324)	(70,599)
Equity-settled share-based payments		(4,017)	(12,888)
Amortisation of intangible assets		(20,077)	(30,458)
Other operating expenses	5	(172,251)	(136,616)
Loss from operations		(344,007)	(194,821)
Finance costs		(5,459)	(5,625)
Share of losses of associates		(663)	(149)
Loss before taxation		(350,129)	(200,595)
Income tax credit	6	1,849	32,419
Loss for the period	7	(348,280)	(168,176)
Attributable to:			
Owners of the Company		(182,687)	(91,129)
Non-controlling interests		(165,593)	(77,047)
		(348,280)	(168,176)
Loss per share (express in RMB per share)	8		
basic		(0.0106)	(0.0053)
diluted		N/A	N/A

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the three months ended 31 March	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Loss for the period	(348,280)	(168,176)
<i>Item that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	(6,841)	1,582
Other comprehensive income for the period, net of tax	(6,841)	1,582
Total comprehensive income for the period, net of tax	(355,121)	(166,594)
Attributable to:		
Owners of the Company	(188,961)	(88,280)
Non-controlling interests	(166,160)	(78,314)
	(355,121)	(166,594)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED QUARTERLY FINANCIAL STATEMENTS

1. General information and basis of presentation

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

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

The unaudited condensed financial information for the three months ended 31 March 2022 ("Financial Information") has been prepared by the directors of the Company (the "Director") in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

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

These Financial Information should be read in conjunction with the 2021 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 2021.

The Group had incurred a loss of approximately RMB348,280,000 during the three months ended 31 March 2022 and had net current liabilities as at 31 March 2022. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Management has prepared cash flow forecasts for a period of twelve months from the reporting date, having considered the Group's historical and expected future performance, and the expected development of the markets in which the Group operates, which demonstrate that the Group will have sufficient financial resources to meet its obligations as and when they fall due for the foreseeable future. The forecasts incorporate management's plans to control operating costs (such as staff costs, promotion and advertising expenses and capital expenditures etc) as well as external resources available. The directors are therefore of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

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

The accounting policies applied in the financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2021. 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 2022 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 2022 and earlier application is permitted. The Group has not early adopted any of the forthcoming new or amended standards in preparing these Financial Information.

3. Revenue

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service line for the periods is as follows:

	For the three months ended 31 March	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Subscription solutions	219,914	257,012
Merchant solutions (note (i))	139,384	156,711
Others	3,504	3,551
	362,802	417,274

Note:

- (i) Merchant Solutions include transaction fees of approximately Nil (three months ended 31 March 2021: RMB21,603,000) generated from 杭州有贊科技有限公司 ("Hangzhou Youzan"), a subsidiary of the Group, for the three months ended 31 March 2022. Hangzhou Youzan ceased its transaction service in February 2021 and no transaction fee income would be generated afterwards.

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:

	General trading		Third party payment services		Onecomm		Merchant services		Others		Total	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	(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 geographic market												
- PRC, except Hong Kong	-	-	76,003	66,472	-	-	286,128	352,784	356	1,920	362,487	423,176
- Japan	-	-	-	-	-	-	237	-	-	-	237	-
- Canada	-	-	-	-	-	-	233	-	-	-	233	-
Segment revenue	-	-	76,003	66,472	-	-	286,598	352,784	356	1,920	362,957	423,176
Intersegment revenue												
- PRC, except Hong Kong	-	-	-	(5,290)	-	-	(155)	(612)	-	-	(155)	(5,902)
Revenue from external customers	-	-	76,003	63,182	-	-	286,443	352,172	356	1,920	362,802	417,274
Timing of revenue recognition												
Products transferred at a point in time	-	-	88	14	-	-	53,885	64,943	-	-	53,973	64,957
Products and services transferred over time	-	-	75,915	63,168	-	-	232,558	287,229	356	1,920	308,829	352,317
Total	-	-	76,003	63,182	-	-	286,443	352,172	356	1,920	362,802	417,274

4. Investment and other income

	For the three months ended 31 March	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest income on:		
Bank deposits	2,064	4,432
Central Bank	2,733	3,274
Loan to others	–	275
Financial assets at FVTPL	1,423	1,209
Total interest income	6,220	9,190
Government grants	–	650
VAT super-credit	1,099	7,814
Compensation income	982	184
Others	3,059	2,929
	11,360	20,767

5. Other operating expenses

	For the three months ended 31 March	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Research and development expenditures	172,195	134,742
Others	56	1,874
	172,251	136,616

6. Income tax credit

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

	For the three months ended 31 March	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current tax		
– The PRC provision	52	16
Deferred tax	(1,901)	(32,435)
	(1,849)	(32,419)

PRC Enterprises Income Tax (“EIT”) has been provided at a rate of 25% for the three months ended 31 March 2022 (three months ended 31 March 2021: 25%).

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the three months ended 31 March 2022 (three months ended 31 March 2021: 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 renewed on 16 December 2021 and were entitled to enjoy an income tax concession at preferential rate of 15% effective from 1 January 2018 and renewed on 1 January 2021 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 and renewed on 1 January 2021.

One of the Group’s subsidiary operating in Beijing, the PRC, was recognised as a High and New Technology Enterprise (高新技術企業) on 21 October 2020 and were entitled to enjoy an income tax concession at preferential rate of 15% effective from 1 January 2020. In order to enjoy the preferential rate of 15%, the subsidiary was required to apply for renewal every three years from first year of approval. The EIT rate was changed from 25% to 15% since the year beginning 1 January 2020.

7. Loss for the period

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

	For the three months ended 31 March	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Amortisation of intangible assets	20,077	30,458
Amortisation of capitalised contract costs recognised as selling expenses related to subscription solutions	58,572	61,682
Cost of goods sold	1,573	1,466
Depreciation of property, plant and equipment	265	5,194
Depreciation of right-of-use assets	10,901	12,431
Net gain on disposals of property, plant and equipment	(565)	(40)
Operating lease charges	3,250	1,666
Research and development expenditures (included in other operating expenses and equity-settled share-based payments)	171,767	138,401

8. Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the period attributable to owners of the Company of approximately RMB182,687,000 (three months ended 31 March 2021: approximately RMB91,129,000) and the weighted average number of ordinary shares of approximately 17,164,283,000 (three months ended 31 March 2021: approximately 17,099,712,000) in issue during the period.

(b) Diluted loss per share

For the three months ended 31 March 2022 and 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.

9. Interim dividend

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2022 (three months ended 31 March 2021: Nil).

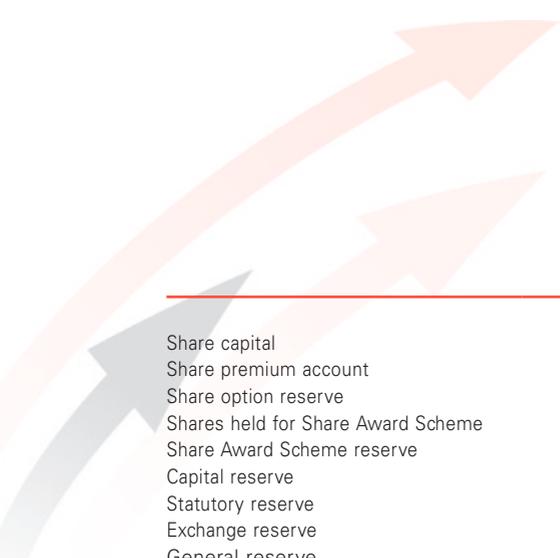
10. Share capital

The number of issued shares of the Company was 18,421,642,097 shares as at 31 March 2022.

The number of issued shares of the Company was 18,421,642,097 shares as at the date of this report.

11. Unaudited Condensed Consolidated Statement of Changes in Equity

	As at 1 January 2022 RMB'000	Movements (Unaudited) RMB'000	As at 31 March 2022 (Unaudited) RMB'000
Share capital	145,036	9,448	154,484
Share premium account	6,098,424	321,931	6,420,355
Share option reserve	45,615	(215)	45,400
Shares held for Share Award Scheme	(43,128)	(58,541)	(101,669)
Share Award Scheme reserve	57,364	(19,387)	37,977
Capital reserve	(621,565)	–	(621,565)
Statutory reserve	8,060	–	8,060
Exchange reserve	(29,456)	(6,274)	(35,730)
Financial assets at FVTOCI reserve	(102,827)	–	(102,827)
Subsidiary's treasury share reserve	(7)	–	(7)
Accumulated losses	(4,211,050)	(180,318)	(4,391,368)
Total attributable to owners of the Company	1,346,466	66,644	1,413,110
Non-controlling interests	(9,643)	(166,160)	(175,803)
Total equity	1,336,823	(99,516)	1,237,307



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

12. Convertible bonds

As at 31 March 2022 and the date of this report, there were no outstanding convertible bonds.

13. Warrants

As at 31 March 2022 and the date of this report, there were no outstanding warrants.

14. Related party transactions

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

	For the three months ended 31 March	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Advertising service income received from a related company (exclude VAT)	10	–
Dividend income from an associate	–	725
Administrative expenses paid to a non-controlling interest of a subsidiary	(150)	(629)
Revenue from a related company	1,836	1,162
Commission paid to associates	(485)	(741)

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

	For the three months ended 31 March	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Salaries, bonus and allowances	3,659	4,720
Equity-settled share-based payments	1,475	2,966
Retirement benefit scheme contributions	73	96
	5,207	7,782



MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

Youzan provides merchants with powerful social network-based SaaS systems with multi-channel operations and integrated new retail solutions, applying PaaS cloud service to create business customization options, while providing extended services such as Youzan Worry-free Shopping, 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 their business comprehensively succeed in all aspects.

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

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

In the first quarter of 2022, we restructured the organisational structure, and facilitated business development by division to enhance organisational efficiency, clarify development strategic direction and optimise business development path. With our five core segments in mind, namely social e-commerce, new retail, beauty industry, education and global market, we established divisions including sales, merchant services and product research and development, in which they improved our products and services through emphasising on merchants' demands and enhanced sales efficiency by focusing on target customer base. Under the premise of not affecting the business development, we optimised the deployment of middle and back-ends departments, and recalibrated job duties and division of labour to optimise the collaboration process, and thus improved organisational efficiency. Through such organisational restructuring, we are keeping up our efforts and resources on creating value for merchants and secured the return of our business value. At the same time, we focused on precise expenses control, and made layout arrangements targeting on increasing per capita output, improving operating cash flow and operating results.

As of 31 March 2022, the gross merchandise volume (GMV) generated by the merchants through Youzan's solutions reached approximately RMB23.0 billion, of which the GMV from channels other than Kuaishou increased by over 25% year-on-year as compared with the same period of 2021. The GMV of store SaaS business reached approximately RMB9.0 billion, 39% of the total GMV, representing a year-on-year increase of approximately 70%.

As of the end of the first quarter of 2022, we had 89,208 paying merchants, slightly increased as compared to the number of paying merchants as of the end of 2021. Approximately 63% of the merchants were those subscribing for e-commerce SaaS; approximately 37% were those subscribing for store SaaS, including Youzan Retail, Youzan Chain, Youzan Beauty, Youzan Education and WowShop etc., representing over a doubled growth year-on-year.

In the first quarter of 2022, the number of new paying merchants was 9,621, representing a year-on-year increase of approximately 21%. The new paying merchants of store SaaS accounted for approximately 53% of the total new paying merchants, representing over a doubled growth year-on-year.

As of 31 March 2022, we had 3,833 employees, with 52% in sales, 30% in product and technology, 13% in service and operation and 5% in management and support.

Business Development Strategies

1. Reasonably investing in sales and R&D as well as strictly and precisely controlling expenses to achieve the primary business goal of 2022 to increase per capita output as well as improve operating cash flow and operation result.
2. Serving more merchants through all-industry products, providing in-depth industry solutions through vertical industry products, so as to create a more efficient sales system and acquire new paying merchants focusing on target customer base.
3. Focusing on understanding customer needs, creating more explicit value for merchants through products and services, enhancing merchant satisfaction, and optimising the structure of merchants to achieve higher-quality retained revenue.

Financial Review

Revenue

The Group's revenue for the period was approximately RMB362,802,000 (three months ended 31 March 2021: approximately RMB417,274,000), representing a decrease of approximately 13.1% compared with the same period in 2021, which was mainly attributable to the decrease in revenue from subscription solutions and merchant solutions.

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

	For the three months ended 31 March		
	2022	2021	Changes
	(Unaudited)	(Unaudited)	
	RMB'000	RMB'000	%
Subscription solutions	219,914	257,012	(14.4)%
Merchant solutions	139,384	156,711	(11.1)%
Others	3,504	3,551	(1.3)%
Total	362,802	417,274	(13.1)%

Subscription Solutions

Revenue from subscription solutions primarily include subscription fees for SaaS products and a per-transaction cloud service fee for each extra order beyond a pre-specified order number threshold that consumers made to such merchants through SaaS products. Revenue generated from subscription solutions decreased by 14.4% from approximately RMB257,012,000 for the three months ended 31 March 2021 to RMB219,914,000 for the reporting period, mainly attributable to the decrease in the number of paying merchants and the decrease in the revenue of cloud service fees to approximately RMB11,644,000 (three months ended 31 March 2021: approximately RMB31,336,000).

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 Worry-free Shopping, as well as Youzanke. Transaction service fee and service fees for Youzan Distribution, Youzan Worry-free Shopping and Youzanke are determined with reference to the GMV generated by merchants through solutions.

Revenue from merchant solutions was approximately RMB139,384,000 for the reporting period (three months ended 31 March 2021: approximately RMB156,711,000), representing a year-on-year decrease of 11.1%, which was primarily due to the decrease in revenue generated from transaction services to approximately RMB75,915,000 (three months ended 31 March 2021: approximately RMB84,771,000) since Hangzhou Youzan, one of the Group's subsidiary, ceased its transaction service in February 2021, and the decrease in revenue generated from YouzanKe.

Others

Revenue from other businesses was approximately RMB3,504,000 for the reporting period (three months ended 31 March 2021: approximately RMB3,551,000), representing a year-on-year decrease of 1.3%, mainly due to the decrease in the revenue from providing catering services which were ceased since May 2021.

Cost of Sales

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

	For the three months ended 31 March				Changes %
	2022		2021		
	RMB'000	Percentage %	RMB'000	Percentage %	
Staff costs	42,759	30.0%	44,578	25.9%	(4.1)%
Server and SMS costs	30,470	21.4%	27,147	15.7%	12.2%
Transaction costs	51,600	36.3%	78,160	45.3%	(34.0)%
Costs of goods sold	1,573	1.1%	1,466	0.9%	7.3%
Depreciation of right-of-use assets	1,286	0.9%	1,996	1.2%	(35.6)%
Technology services expenses	1,022	0.7%	3,202	1.8%	(68.1)%
Contracted customer services expenses	1,419	1.0%	2,359	1.4%	(39.8)%
Taxes and surcharges	1,625	1.1%	2,001	1.2%	(18.8)%
Insurance premium costs	3,052	2.2%	6,819	4.0%	(55.2)%
Others	7,519	5.3%	4,425	2.6%	69.9%
Total	142,325	100.0%	172,153	100%	(17.3)%

The Group's costs of sales for the reporting period were approximately RMB142,325,000 (three months ended 31 March 2021: approximately RMB172,153,000), representing a year-on-year decrease of 17.3%, which was mainly because transaction costs decreased by 34.0% from approximately RMB78,160,000 in the same period of last year to approximately RMB51,600,000 for 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 increase of server and SMS costs from approximately RMB27,147,000 in the same period of last year to approximately RMB30,470,000 for the reporting period, primarily attributable to the increase in usage.

Gross Profit and Gross Profit Margin

The Group recorded a gross profit for the reporting period of approximately RMB220,477,000 (three months ended 31 March 2021: approximately RMB245,121,000), representing a year-on-year decrease of 10.1%, due to the decrease of gross profit from subscription solutions.

The Group's gross profit margin increased from 58.7% in the same period of 2021 to 60.8% for the reporting period, primarily due to the increase of gross margin of merchant solutions.

	For the three months ended 31 March			
	2022		2021	
	RMB'000	Gross profit margin %	RMB'000	Gross profit margin %
Subscription solutions	151,706	69.0%	189,632	73.8%
Merchant solutions	67,820	48.7%	54,965	35.1%
Others	951	27.1%	524	14.8%
Total	220,477	60.8%	245,121	58.7%

Subscription Solutions

The gross profit of subscription solutions for the reporting period was approximately RMB151,706,000 (three months ended 31 March 2021: approximately RMB189,632,000), representing a year-on-year decrease of 20.0%. The decrease in gross profit was mainly due to the decrease in the revenue of cloud service fees.

The gross profit margin decreased from 73.8% for the three months ended 31 March 2021 to 69.0% for the reporting period, primarily due to the decrease in the revenue of subscription solutions.

Merchant Solutions

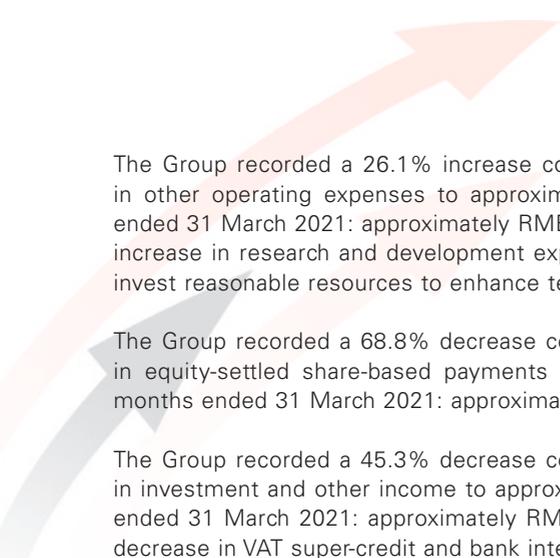
The gross profit of merchant solutions for the reporting period was approximately RMB67,820,000 (three months ended 31 March 2021: approximately RMB54,965,000), representing an increase of 23.4%, which was mainly due to the increase in the gross profit of transaction services benefited by cost structure optimization.

The gross profit margin increased from 35.1% for the three months ended 31 March 2021 to 48.7% for the three months ended 31 March 2022, mainly due to the increase in the gross margin of transaction services benefited by cost structure optimization.

Expenses and Others

The Group recorded a 21.9% increase compared with the same period in 2021 in selling expenses to approximately RMB255,966,000 (three months ended 31 March 2021: approximately RMB209,995,000). It was mainly due to the increase in sales personnel which led to the increase in sales staff costs and travelling expenses.

The Group recorded a 74.7% increase compared with the same period in 2021 in administrative expenses to approximately RMB123,324,000 (three months ended 31 March 2021: approximately RMB70,599,000). It was mainly due to the one-off severance payments of approximately RMB61,181,000 for the period, partially offsetted by the decrease in legal and professional fees.



The Group recorded a 26.1% increase compared with the same period in 2021 in other operating expenses to approximately RMB172,251,000 (three months ended 31 March 2021: approximately RMB136,616,000). It was mainly due to the increase in research and development expenditure since the Group continues to invest reasonable resources to enhance technology capabilities.

The Group recorded a 68.8% decrease compared with the same period in 2021 in equity-settled share-based payments to approximately RMB4,017,000 (three months ended 31 March 2021: approximately RMB12,888,000).

The Group recorded a 45.3% decrease compared with the same period in 2021 in investment and other income to approximately RMB11,360,000 (three months ended 31 March 2021: approximately RMB20,767,000). It was mainly due to the decrease in VAT super-credit and bank interest income.

The Group recorded a 3.0% decrease compared with the same period in 2021 in finance costs to approximately RMB5,459,000 (three months ended 31 March 2021: approximately RMB5,625,000), due to the decrease in interest expenses of lease liabilities in relation to leases of office premises.

Dividends

No dividends have been paid or proposed for the three months ended 31 March 2022, nor has any dividend been proposed since the end of the reporting period (three months ended 31 March 2021: Nil).

Pledge of Assets

As at 31 March 2022, the Group had no pledge of assets.

Financial Resources and Liquidity

As at 31 March 2022, the Group had cash and cash equivalents of approximately RMB522,649,000 (31 December 2021: approximately RMB711,527,000).

As at 31 March 2022, the Group had no bank borrowings (31 December 2021: Nil).

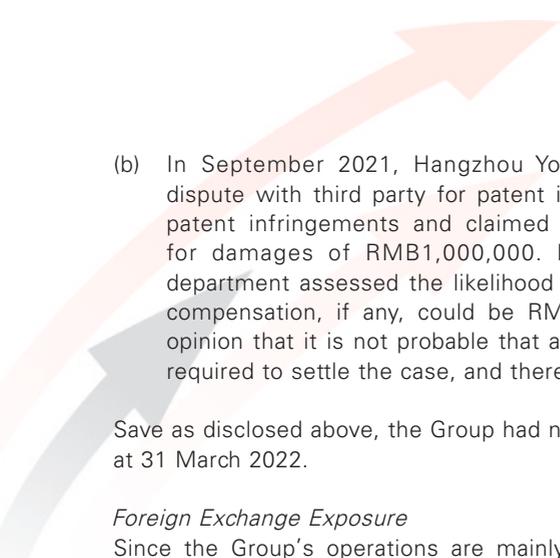
Contingent Liability

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

As advised by the Group’s Legal Advisor, transaction service in the past provided by Hangzhou Youzan (“Past Transaction Service”) might be deemed as having engaged in payment activities without licence by the relevant authority in China under Administrative Measures for the Payment Services Provided by Non-Financial Institutions (《非金融機構支付服務管理辦法》) and may give rise to the risk of being required to terminate such practice according to the relevant PRC regulations. Furthermore, according to Measures for Banning Illegal Financial Institutions and Illegal Financial Business Activities (《非法金融機構和非法金融業務活動取締辦法》) that remain in force during the three months period ended 31 March 2021, 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 three months ended 31 March 2022 and up to date of this report, Hangzhou Youzan had not been determined by the relevant regulatory authorities as engaging in payment activities without licence. In February 2021, Hangzhou Youzan has ceased providing transaction service. The Group’s PRC Legal Advisor is of the view that, based on that Hangzhou Youzan ceased providing transaction service and the consultation with the competent regulatory authority, (i) the likelihood that current business operations of Hangzhou Youzan would be penalised for having engaged in unlicensed payment activities is low, and (ii) the likelihood that Hangzhou Youzan would be retrospectively penalised for having engaged in unlicensed payment activities is low.

As a result, the Directors are of the opinion that material financial impact to the Group as a result of the Past Transaction Service is not probable.



(b) In September 2021, Hangzhou Youzan and its merchants had a legal dispute with third party for patent infringements. The third party sued for patent infringements and claimed the merchants and Hangzhou Youzan for damages of RMB1,000,000. Management and the Group's legal department assessed the likelihood of the claim as low and the maximum compensation, if any, could be RMB1,000,000. 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 31 March 2022.

Foreign Exchange Exposure

Since the Group's operations are mainly located in the PRC, its transactions, monetary assets and liabilities are primarily denominated in Renminbi. During the three months ended 31 March 2022, no hedging arrangement was made to offset the exposures to fluctuations in exchange rates. The Group monitors its foreign currency risks and will consider hedging significant currency exposures should the need arises.

Employees

As at 31 March 2022, the Group has approximately 3,833 employees (31 December 2021: 4,494). 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

There were no significant investments or material acquisitions during the three months ended 31 March 2022.

There were no significant investments or additions of capital assets authorised by the Board as the date of this report.

Event After the Reporting Period

On 27 April 2022, the Company entered into the Supplemental Loan Agreement 2022 with Youzan Technology Inc. (“Youzan Technology”), pursuant to which the parties have conditionally agreed to revise the Previous Annual Caps to HK\$900 million, HK\$900 million and HK\$900 million for each of the three years ending 31 December 2024, respectively.

On 27 April 2022, Youzan Technology, a non-wholly owned subsidiary of the Company, resolved to conditionally grant (i) approximately 84.4 million Youzan Technology Shares to Whitecrow Investment Ltd. (“Whitecrow Investment”); and (ii) approximately 91.1 million Youzan Technology Shares to the Company (which will occur on an inter-conditional basis to maintain the Company’s interest in Youzan Technology at approximately 51.90%). Upon Completion, Whitecrow Investment will hold approximately 14.23% and the Company will continue to hold approximately 51.90% of the total issued shares of Youzan Technology, which will remain as a non-wholly owned subsidiary of the Company.

The special general meeting will be convened to consider whether or not to approve the above events.

For details of the above transactions, please refer to the Company’s announcement dated 27 April 2022.

Impact of COVID-19 Pandemic

The outbreak of COVID-19 pandemic has significantly disrupted the business operations of many industries and caused drastic slowdown of the economy worldwide. There were still impacts of COVID-19 pandemic on the Group’s business at the date of this quarterly report. The Company will continue to observe and develop suitable strategies to cope with the situation.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 March 2022, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (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	Interest in underlying shares	Total interest in shares	% Shareholding
Mr. Zhu Ning	28,000,000 1,440,601,703 (Note 1) 363,170,101 (Note 2)	100,000,000 (Note 4)	1,931,771,804	10.49%
Mr. Cui Yusong	3,200,000 241,885,127 (Note 3)	20,000,000 (Note 5)	265,085,127	1.44%
Mr. Yu Tao	13,848,000	15,000,000 (Note 5)	28,848,000	0.16%
Ms. Ying Hangyan	852,000	15,000,000 (Note 5)	15,852,000	0.09%
Dr. Fong Chi Wah	1,000,000	–	1,000,000	0.01%
Mr. Li Shaojie	1,000,000	–	1,000,000	0.01%

Notes:

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

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

Note 3: The shares are held by V5.Cui Investment Ltd. (“V5.Cui”). V5.Cui is a company incorporated in the British Virgin Islands with limited liability and is 100% beneficially owned by Mr. Cui Yusong.

Note 4: The Company granted the share options under New Share Option Scheme on 9 September 2019, and was approved at the extraordinary general meeting on 14 October 2019. The share options is valid until 30 June 2024 and has an exercise price of HK\$1.00.

Note 5: The Company granted the share options under New Share Option Scheme on 9 September 2019, and was approved at the extraordinary general meeting on 14 October 2019. The share options is valid until 30 June 2024 and has an exercise price of HK\$0.90.

Save as disclosed above, as at 31 March 2022, none of the Directors nor chief executives 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY

Save as disclosed below, as at 31 March 2022, 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	Number of interest in shares	% Shareholding
Whitecrow Investment (Note 2)	Beneficial owner	1,440,601,703 (L)	7.82%
Double Peace Limited	Interests of controlled corporation	1,440,601,703 (L)	7.82%
Tricor Equity Trustee Limited	Trustee	1,440,601,703 (L)	7.82%
Poyang Lake Investment Limited (Note 3)	Beneficial owner	1,036,766,038 (L)	5.63%
Tencent Holdings Limited (Note 3)	Interests of controlled corporation	1,036,766,038 (L)	5.63%
UBS Group AG	Interests of controlled corporation	1,255,484,938 (L) 276,566,320 (S)	6.82% 1.50%

Notes:

Note 1: (L): long position; (S): short position.

Note 2: Whitecrow Investment is a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Double Peace Limited. Mr. Zhu Ning is the settlor of a discretionary trust which holds the entire issued share capital of Double Peace Limited. Tricor Equity Trustee Limited holds the entire issued share capital of Double Peace Limited as trustee of the discretionary trust.

Note 3: 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.

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

As at 31 March 2022, there were no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTOR

The Company has adopted the required standard of dealings set out in rules 5.46 to 5.68 of the GEM Listing Rules as the code of conduct regarding directors' securities transactions in securities of the Company. Having made specific enquiries by the Company, each director had confirmed that they had fully complied with the required standard of dealings and there was no event of non-compliance during the period ended 31 March 2022.

BOARD PRACTICES AND PROCEDURES

The Company has complied throughout the three months ended 31 March 2022 the board practices and procedures as set out in Rule 5.34 of the GEM Listing Rules.

CORPORATE GOVERNANCE AND COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions of Corporate Governance Code (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules throughout the three months ended 31 March 2022.

AUDIT COMMITTEE

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



The Audit Committee has reviewed the unaudited condensed consolidated financial results of the Company for the three months ended 31 March 2022 and is of the opinion that such results have complied with the applicable accounting standards and the requirements under the GEM Listing Rules.

By Order of the Board
China Youzan Limited
Zhu Ning
Chairman

Hong Kong, 11 May 2022

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

Executive Directors

Mr. Zhu Ning
Mr. Cui Yusong
Mr. Yu Tao
Ms. Ying Hangyan

Independent Non-executive Directors

Dr. Fong Chi Wah
Mr. Deng Tao
Mr. Li Shaojie

This report will remain on the “Latest Listed Company Information” page on the GEM’s website at www.hkgem.com for at least 7 days from the day of its publication. This report will also be published on the website of the Company at www.chinayouzan.com.